Chapter II

Statement of the Problem.
Chapter II

The Problem Explained: Context

The nature of the Problem

Like other developing countries India considered industrialization as the basis for creating a better economic order for its citizens. For a variety of reasons, industrial policies followed by successive governments were such that the desired impact was either not there or was only visible for fleeting movement. A study of the human factor in industrialization is therefore called for. The central figure in this study is the entrepreneur and its role efficacy.

Informal aspects such as centrality, integration, proactivity, creativity, inter-role linkage, helping relationship, personal growth, confrontation, have been studied and argued into existing knowledge.

The entrepreneur is a very contentious subject in economics as well as psychology. Nowadays it has become the subject of multidisciplinary. Few scholars have agreed on the place that should be given to the entrepreneur in formal economic logic. Everyone, though is agreed that... by ignoring the entrepreneur, we are prevented from accounting fully for a substantial portion of our historic growth... and... our body of theory as it has developed offers us no promise of being able to deal with a description and analysis of entrepreneurial function. (1) Penrose reinforces this by stating that 'Enterprise or Entrepreneurship, as it is
sometimes called, is a slippery concept, not easy to work in formal economic analysis, because it is so closely connected with the temperament or personal qualities of individuals. (2)

Penrose this indicates the complexity of the subject by indicating the overlap between economics and the other disciplines such as sociology and psychology. The research student must therefore study these other disciplines and to decide whether the methodology utilised elsewhere can help in determining aspects of the entrepreneur hitherto unknown. Recent ideological and religious trends need to be taken into account, if only to determine their impact on entrepreneurial performance. In a given social milieu, cultural factors are difficult to ignore. Entrepreneurs given the complexity of human beings, have managed to defy any kind of quantification. Scholars have failed to arrive at consensus on their attributes or activities.

During the last three decades, the concept of entrepreneurship has assumed prime importance both in research and in action for accelerating economic growth in the developing countries. Attempts are being made to inculcate the spirit of entrepreneurship among people who are likely to turn into manufacturers, or are likely manufacturers, and to facilitate the activation of
entrepreneurship through the organization of support system such as capital assistance, technical know-how, marketing of goods, management and many other infrastructural facilities. The economic development of a nation is sparked largely by its enterprising spirit. The characteristic emerges from the interplay of behaviour and activity of a special segment of the population known as entrepreneurs. If the nation's economy is not to stagnate under the ministrations of professionals, it must be continuously revitalized by the infusion of new energy, new ideas and nucleus for economic growth. The greater emphasis is still on the development of entrepreneurship in small manufacturing units in the expectation that it will multiply employment opportunities, minimize inter-sectoral and inter-regional imbalances, and had to a more equitable distribution of income among the people of varied social strata. The building of modern nations depends upon the development of people and the organization of human activity. Capital, natural resources, foreign aid international trade, of course, placing important roles in economic growth, but none is more important than manpower. The academicians - economists, psychologists, sociologists, social psychologists, anthropologists, political scientists and historians alike and also the stage, have gradually recognised the importance of entrepreneurship as a major determinant of the rate of economic growth. A fact that industrial
enterprise and economic growth are correlated and the activity of an entrepreneur is necessary for launching an industrial enterprise has now become obvious to all. The findings of social science research should be of great significance in designing programmes of action for developing entrepreneurship. However, because of diverse findings regarding the factors that contribute to entrepreneurship, there is no consensus among social scientists about the strategy to be adopted for its development. Theories indicate that entrepreneurship is the result of jointly of ethical value systems, need for achievement motivation, socialization process, community character and industrial and political milieu. The use of these findings in designing action programmes for developing entrepreneurship raises many issues, such as: Is it feasible to change ethical values and motivation? How much time may it take to change them? Whether a change in them could necessarily generate entrepreneurship? How much cost does it involve? Can a society afford to bear such cost? It is really difficult to change the ethical values, the community structure and the achievement motivation of people. There have been some efforts on part of planners and researchers to inject entrepreneurial motivation and managerial skill into entrepreneurs, both potential and actual, but the results have not been very encouraging.

One of the reasons for the partial failure of action
programmes was that the theories of entrepreneurship were not understood in their proper context. Most of the theories, which are taken as the basis for designing action programmes, were developed in a historical and macro-level situation. They did not consider the individual entrepreneur in the micro-level situation of the manufacturing unit. These theories no doubt provide deep insights into the historical process and macro-level cross sectional comparative analysis of entrepreneurial growth, but they lack in comprehensive understanding of entrepreneurship and its functions and correlates at the unit level. Of late, efforts are being made to analyse entrepreneurship and its correlates in an organizational setting. Such endeavour would provide deep insights for designing action programmes and the present study has been conducted in this hope. Assuming that the action programmes may be guided by the theoretical knowledge that was available, it was decided to explore existing research on entrepreneurship and its implications for action programmes in order to identify the gap between research and action for developing entrepreneurship in an organizational situation and to suggest research and action these objectives; a contingent model has been developed in this study.

The 'Entrepreneur'

The affluence of a nation may be judged by its ability
to produce useful goods and services and to distribute them widely throughout the population. The question arises, what factors undergird the process of building economic wealth? Some countries, notably several in western civilization, have built a wealth economy while others, even though they have comparable climates and resources in raw materials, have not achieved similar success. Historians and economists have not always toward national wealth. One consistent theme appears in the literature on the wealth of nations, however, it points to a special class of individuals who have been the initiators of economic growth. These persons are known as entrepreneurs. The natural habitat of entrepreneurs is small business. They are rarely found in giant industries. When a company grows beyond some critical size, its increasing complexity forces it to replace its venturesome founders with professional managers who are not usually noted for their inventive, risk-taking behavior. They are rather the guardians and conservators of the status quo.

Entrepreneurs, in the modern sense, are the selfstarters and doers who have organized and built successful enterprises since the Industrial Revolution. Those who wish to start their own business can benefit from studying the characteristics of entrepreneurship.
Understanding the psychological profile of the entrepreneur, they can judge whether they fit the pattern and have a reasonable chance for success in starting a business of their own.

Kilby has likened the entrepreneur with a rather large and very important animal called 'Heffalump' hunted by many individuals, but all unable to capture him. All claim to have seen him and have variously described him, but wide disagreements still among them on his particularities. Thus the term 'entrepreneur' has a plethora of definitions, but no consensus has to date emerged on what skills and abilities a person should possess to become an entrepreneur, how can entrepreneurial class can be developed, or how the supply of entrepreneurs in a particular society can be increased. It may appear a little surprising that despite the subject of entrepreneurship have been under discussion for more than two centuries, the concept still remains a little clouded.

Entrepreneurs, on the other hand, are quick to see possibilities for achievement. They are not blinded, as managers in large, staid organizations often are, by the ingrained culture in which they are embedded. Entrepreneurs do not suffer from the trained incapacity often professional, to use Thorstein Veblen's tronic
term. All definitions of entrepreneur are in terms of his function. From Cantillon who coined the entrepreneur in the early 18th century to the social scientists of today, the emphasis in varying degrees has been on one function or the other of the entrepreneur.

Hoselity points out that these definitions have, at one time or another, been associated with:

(i) Uncertainty-bearing
(ii) Coordination of productive resources;
(iii) Introduction of innovations; and
(iv) The provision of capital\(^{(4)}\)

Richard Cantillon, an Irishman living in France, called entrepreneur as one who buys factor services of certain prices and sells his product at uncertain prices, thereby bearing a non-insurable risk. J.B. Say expanded the term, and bringing together of the factors of production, provision of continuing management as well as risk-bearing were included in entrepreneurial function.

Adam Smith treated him as provider of capital, but not playing a leading role.

The first major work on entrepreneurship came from Schumpeter. It was published for the first time, in German, in the fall of 1911 and an English Version
thereof appeared in 1934. He put the human agent at the centre of the process of economic development and regarded an entrepreneur as one who, through new combinations of means of production, carries out the introduction of a new good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw materials or half-manufactured goods, and the carrying out of the new organization of any industry. (5)

It is this definition which received the widest comments and has been a subject of considerable debate, the academicians swinging either pro or anti-Schumpeterian. (6)

A spate of contributions on entrepreneurship appeared from Research Centre in Entrepreneurial History at Harvard. But no unanimity could still emerge either on entrepreneurial functions or conditions governing supply of entrepreneurs. Various definitions of 'entrepreneur' came from the academicians of the developed nations and at a time when the problems of the Third world had not received so much attention. And therefore, the theoreticians took a very restricted view of entrepreneurial functions. They never thought that the entrepreneurial functions would change for time and place. They could not conceive of an entrepreneur who would have perform multiple functions in an underdeveloped economy, an economy where virtually any kind of activity
A clearer view of entrepreneurial functions started emerging only when some of the social scientists dabbled in economic history and some others undertook explorations in some economics. Recognising the problem, Hosality remarked that in an underdeveloped economy, not to speak of the Schumpetarian innovations, even initiators entrepreneurs had a distinct role to play. They provide, he feels, a fillip to the process of economic growth, sometimes having as strong or perhaps even stronger an impact on economic growth as real or alleged innovations. Even the multiplicity of entrepreneurs, lacking in creative genius of inventors, but possessing all other characteristics of successful entrepreneurs, is desirable for underdeveloped economics. The term 'entrepreneur' still remained vague and was being identified with the firm. It was still a matter of controversy, whether entrepreneur was a group or an individual. Most theorists did not envisage an entrepreneurial group. As an entrepreneur was treated to be an individual, it was presumed that one who launched an enterprise, would continue to associate oneself. Therefore, launching of the enterprise and not the ongoing organization received their comments.

The controversy was further accentuated with the emergence of large corporation in which ownership and control
allegedly became distinctly separate functions and the identifications of the entrepreneur got blurred. (90)

Another dimension was added to it by the organization theorists who, in order to explain whose objectives an organization represents, treated it as an entrepreneur or a single strategist or a coalition composed of a large number of participation with widely varying preference orderings ultimately resulting into a joint preference ordering through bargaining and side payments. (11)

In modern times, organizational part thus come into sharp focus. The term has gained such a wide currency that any one-routinised act is regarded as entrepreneurial act in the same way as every discipline is being called science and every systematic activity, an industry.

An extensive sketch of the potential scope of the entrepreneurial task in an underdeveloped economy has, however, been recently provided by Kilby. He envisages that the entrepreneur himself might have to perform the following kinds of activities for the successful operation of his enterprise.

(1) Perception of market opportunities (novel or initiative)
(2) Gaining command over scarce resources
(3) Purchasing inputs
(4) Marketing of the product and responding to
(5) Dealing with the public bureaucracy (concessions, licences, taxes)

(6) Management of human relations with the firm

(7) Management of customer and supplier relations

(8) Financial Management

(9) Production Management (control by written records, supervision, coordinating input flows with orders, maintenance)

(10) Acquiring and overseeing assembly of the factory

(11) Industrial engineering (minimising inputs with a given production process)

(12) Upgrading, processes and product quality

(13) Introduction of new production techniques and products.

Some of the activities in Kilby's list are such as can be parceled out to competent lieutenants, but that will depend upon the scale of production, the degree of development of the high-level manpower market, social factors governing the amount of responsibility with which hired personnel will perform and the entrepreneurs' comparative efficiency in utilizing high-cost managerial employees. It is a known fact that a vast majority of firms, in underdeveloped countries, are of small and medium-size, and factor input markets are also underdeveloped.
Therefore, the demands placed upon the entrepreneurial unit are considerably more extensive in low income as compared to high-income economics. (12)

Thus, the entrepreneurial roles may encompass all activities from the perception of economic opportunity to the external advancement of the firm in all its aspects. Certain tasks demand the entrepreneur's critical attention, whereas others call for little, and can be safely delegated to subordinates. Hence, different settings may warrant markedly varied entrepreneurial personalities.

The views of Early Economists

Despite its interdisciplinary nature, it is in the field of economics that the entrepreneur has been the subject of much study. As early as the eighteenth century, Cantillon defined the entrepreneur as one 'who buys factor services at certain prices, with a view to selling their products at prices, with an uncertain price in the future, and as such becomes a bearer of an uninsurable risk' (13). He went on to agree that, as risk-acceptors, 'all entrepreneurs seek to secure all they can in their state' (14) (and hence maximise income). Cantillon excluded princes and landlords from his studies and divided the rest between entrepreneurs (which included farmers and merchants).
and hired labour. Put simply, then, entrepreneurs were to carry on the production and exchange of goods. It was when the demand for goods was depressed, bringing the danger of bankruptcy, that the risk factor appeared.

3. Say developed this argument and provided a key role for the entrepreneur. To him, the entrepreneur may have provided capital but it is his functions that makes him different from the capitalist. For Say, the applications attributed to the entrepreneur were the application of acquired knowledge to the production of a good for human consumption. In order to be successful, Say maintained, the entrepreneur must have the ability to assess future demand (a factor of judgement), to determine the appropriate quantity of goods and their timing (market research and analysis), to calculate probable production costs and selling prices and to possess the art of administration (management) (15). In terms of giving functions to a skeletal form, Say was definitely a forerunner of modern economists, although he completely missed the concept of innovation when he said '.... the adventures (the entrepreneur were a kind of brokers between the vendors and the purchasers, who engage a quantum of productive agency upon a particular product proportionate to the demands of the product'. Say added the concept of management in a form with which modern industry is all too familiar.
Walras probably gave the most exalted position to the entrepreneurs by calling them the 'fourth factor of production'. The role and functions assigned to them consisted principally of hiring others. In this capacity they were buyers of productive services from the market and sellers of the goods produced. This was compatible with the General Theory of Equilibrium propounded by Walras whereby under free competition, the entrepreneurs as profit-maximisers ensured that free markets move towards equilibrium. Walras thus provided a blending of the French school of thought, which had until then considered the entrepreneurs as workers charged with the special task of managing firms, with that of the English economists, who equated entrepreneurs with capitalists (16).

Although Walras had managed to bridge a significant gap between the English and French economists, few English economists have written on the concept of entrepreneurship. The classical economists did not distinguish between interest and profits, and therefore did not differentiate the capitalist from the entrepreneur. The belief of the classical school that economic relationships were dependent on natural laws may well have been responsible for this attitude and lack of identification of the entrepreneur as an acceptable concept (17). Although this may be so, the influence of these economists was profound. The belief of Adam Smith that, by furthering their own selfish ends, individuals would unwittingly and inevitably be adding to the wealth and welfare
of the nation, freed industrialists from the stigma of exploitation and instead presented them as agents for social improvement. However, despite Adam Smith's powerful influence on economic thought, the general failure to differentiate between profits and interests remained.

With the growing division of labour, Alfred Marshall (18) introduced a fourth factor, which he called 'organisation'. The concept was vague and the functions attributed to entrepreneurs very diverse, ranging from the co-ordination of capital and labour to superintending minor details. These 'organisers' (entrepreneurs) introduced improved methods, thus increasing their earnings, only to have these earnings reduced when competitors entered the markets. The concept of improved methods was to be forerunner to the Schumpeterian idea of innovators and which has had such an impact on the study of entrepreneurs.

In the Schumpeterian system (19) the entrepreneur engineers change and is a special type of co-ordinator in that he provides new services notably (1) introducing new goods or an improvement in their quality, (2) discovering new methods of production, (3) finding new ways of marketing goods, (4) discovering new sources of raw-materials supply and (5) reorganising production methods.

Accordingly, economic leaders were individuals motivated by a will to found a kingdom and to conquer with the
joy of creating. Only with the motivational condition, 'a will to found a kingdom', does Schumpeter consider the profit motive to be important. This has the added advantage of providing a quantitative measure of success and was used as a criterion of success in the many research studies that followed.

Of the early economists, F.H. Knight projected Cantillon's concept of risk further by stating that entrepreneurs bear the responsibility and consequences of making decisions under conditions of uncertainty. Knight's entrepreneurs specifically commit their capital and bear the resultant uncertainty and risk. The control and decision-making lie with the entrepreneurs and, although in the modern corporate state risk can be covered through institutional insurance and decisions may lie with management, Knight felt that uncertainty defined definition, as every uncertain condition was unique and depended on a number of imponderables in the marketplace. The subject was not pursued further as economists became preoccupied with the Depression and the Second World War, but it was raised again in the late 1940s and early 1950s culminating in the setting up of the Entrepreneurial Research Centre at Harvard University through the efforts of H. Coase, who had continuously advocated that 'to study the entrepreneur is to study the central figure in modern economics'.
But it was Kilby (21) who, in attempting to study the entrepreneur in greater detail, gave a comprehensive list of activities critical to an entrepreneur's success.

**Exchange relationships**

1. Perception of market opportunities
2. Obtaining control of scarce resources
3. Purchasing inputs.
4. Marketing the product and responding to competition.

**Political administration**

5. Dealing with bureaucracies (concessions/licenses, etc).
6. Management of human relationships within the firm.
8. Financial management
9. Production management (control by written records).

**Technology**

10. Acquiring and overseeing assembly of the factory
11. Industrial engineering, minimising inputs with a given production process.
12. Upgrading product and product quality
13. Introduction of new production techniques and products.

In an effort to be all-encompassing, Kilby generalised for the modern corporate sector, not for the humbler entrepreneur of Serna or the 'New Vaiyas' of Owan and Nandy.
Current Empirical Studies

These studies have indicated different motives for the entry and development of entrepreneurship. All assert the importance of different factors at different points in time for increasing the supply of entrepreneurs. As the supply of such people is critical for less developed countries it is important to determine the kind of entrepreneur that responds to the economic environment created by governments. Is it the entrepreneur with commercial motives, looking at the short term, making a quick turnover and investing a minimum savings, or is it the entrepreneur with a long-term plan, investing a major part of savings and having other long-term objectives? The impact on the development of a less developed economy would be dependent on such attitudes.

Sayigh's study (22) of 207 Lebanese entrepreneurs was designed to test Schumpeter's theory of innovation. In doing so, Sayigh broadened the innovative base by including advances in technology, derivation or adaption. He concluded that occupational and social mobility was significant, and found indications of the concentration of economic power in Lebanon.
The performance of a person working in an Entrepreneurial organization depends on his own potential effectiveness as a person, his technical competence, his managerial experience, etc., as well as the way the role which he performs in the organization is designed. It is the integration of the two (the person and the role) that ensures the person's effectiveness in the organization. Unless the person has the requisite knowledge, technical competence, and the skills required for the role, he cannot be effective. But equally important is how the role which he occupies in the organization is designed. If the role does not allow him to use his competence, and if he constantly feels frustrated in the role, his effectiveness is likely to be low. The integration of the person and the role comes about when the role is able to fulfill the needs of the individual, and when the individual is able to contribute to the evolution of the expectations by various other persons to role making (taking initiative in designing the role more creatively in a way that the various expectations from others as well as of the role occupant are integrated), the more the role is likely to be effective.

Effectiveness of a person-in-a-role-in-an organization,
therefore, may depend on his own potential effectiveness, the potential effectiveness of the role, infrastructure, locus of control, participation, entrepreneurial climate and social structural on indicators.

The potential effectiveness can be called efficiency. Personal efficacy would mean potential effectiveness of a person in personal and inter-personal situations. Role efficacy would mean the potential effectiveness of an individual occupying a particular role in an organization. Role efficacy can be seen as the psychological factor underlying role effectiveness of a role.

Purpose of the Study:

An organization is formed on the basis of certain goals it should achieve. The individual similarly has his own needs (need to compete others, need to help others, need to influence others, need to learn and grow, need to be recognised etc.) When the individual joins an organization, the goals of the organization and his needs converge- the degree of convergence may vary from one situation to the other. Such convergence (or integration of the individual with the organization) occurs through the goals. Therefore, the concept of role is the key concept in understanding the integration of the individual with the organization.

The present study is intended to evaluate entrepreneurial organization and performance and see whether any significant differences are discernible in
the accomplishments of various types of entrepreneurs. The intention is to set the behaviour and measure and managing its role efficacy (effectiveness) of the new entrepreneurial class with a view to reflect upon their strength of need achievement and weakness. Role efficacy has several dimensions. The more these dimensions are present in a role, the higher the efficacy of the role is likely to be each of the dimensions (variables stated in the study) contributes to the role efficacy.

The purpose of the present investigation was to study the intercorrelations among the following interpersonal perception variables.

**Independent variables**

1. Age
2. Tenure
3. Entrepreneurial
4. Participation
5. Locus of control
6. Infrastructure
7. Socio-structural indicators.

Each variable was measured through psychological instruments. Since the present study was an exploratory one at least in the Indian contexts.

**Hypotheses**

Keeping in view of the above objectives the following specific hypotheses are formulated,
The following hypotheses are formulated in relation to the determinants of entrepreneurial growth at the four given stages. These hypotheses are based on the findings of various studies reviewed earlier.

Stage:

I. Entry Period

Between caste and family background, the later has a more effective role for one's entry into manufacturing.

(i) Entrepreneurs with family background and need achievement have more role efficacy than other factors like religion, region to ensure the person's effectiveness in the organization. Unless the person has the requisite knowledge, technical competence, and the skills required for the role, he cannot be effective.

(ii) Government facilities made available for helping people to enter into manufacturing are availed of more by people hailing from business castes or families than others.

(iii) If the role of entrepreneur does not allow him to use his competence, and if he constantly feels frustrated in the role, his effectiveness is likely to be low.
II Expansion of the Unit

Industrial Backgrounds of family caste and achievement

(i) Liberal Government policies and achievement motivation are more effective in relative expansion of a unit any other factors like family, caste, occupation, religion and region.

(ii) The integration of the person and the role comes about when the individual is able to contribute to the evaluation of the role. The more we move from role taking (responding to the expectation by various other persons) to role making (taking initiative in designing the role more creatively in a way that the various expectations from others as well as the role occupant are integrated), the more the role of an entrepreneur is likely to be effective.

(iii) Role efficacy has several dimensions like centrality, integration, proactivity, innovative ability (creativity), inter-role linkage, helping-relationship, superordination, influence, personal growth, confrontation, desire to achieve. The more these dimensions are present in a role, the higher the efficacy of that role is likely to be. They are more dependent upon the absolute expansion of the unit than any other factor.
III Stability in Business:

(i) Role performance (entrepreneurs) depends, amongst other factors, on the balance between conformity and creativity on the part of the role occupant. The former (conformity) can be called role taking, and the later (creativity) can be termed role making. Without role making the individual may not be able to make unique and original contribution. The general the higher the role is in the organisation the more is the need for role making.

(ii) Role efficacy and occupation varies in the socio-economic background of entrepreneurs in terms of caste, religion, family occupation. (Socio-Psychological Characteristics of Entrepreneurs).

State:

IV Future Oriented:

Entrepreneurs are future oriented:

(i) Role provides the individual an opportunity to grow and develop. If a person feels that he is stagnating in the role does not get any opportunity to grow is likely to have low role efficacy. Institutes which are able to plan the growth of such people in the roles are able to have higher efficacy and a great deal of contribution from them.
(ii) Businessmen, project leaders provided with achievement motivation training will not necessarily display the potential effectiveness of the role and the organizational climate. The potential effectiveness can be called efficacy. Role efficacy can be seen as the psychological factor underlying role effectiveness.

(iii) Businessmen or project leaders who perceive reinforcement control to be largely 'internal' will display more entrepreneurial activity (role efficacy) than persons who consider reinforcement control to be largely 'external' to themselves.

(iv) Widely accepted theories of Weber, Hagen and McClelland, which attributed entrepreneurship to ethical values, community background and the need for achievement motivation respectively are not able to explain the contemporary entrepreneurial problems in India and guide developmental programmes.
Notes and References


10. This frequent assumption that the individual entrepreneur or family that holds on to the controlling interest and actively manages the affairs of a big company is a rare exception, is not substantiated by facts even in the United States. The fact that 30% of the 500 largest industrials (when the incidence of controlling ownership is least prevalent among the very largest companies, dispersion of stock tends to increase with company size),
on the basis of 10\% votes held and sufficient to control the affairs, are clearly controlled by identifiable individuals or family groups is something to ponder and suggests that the demise of the traditional American proprietor has been slightly exaggerated. See Robert Sheehan, "Proprietors in the World of Big Business", Fortune, June 15, 1967, pp. 178-183; 242. Recently, Maurice Zeitlin has also raised doubts and holds that the absence of control by proprietary interests in the largest corporations is by no means an "unquestioned", "incontrovertible", "singular", or "critical" social "fact". On the contrary, the "separation of ownership and control" may well be one of those rather critical, widely accepted, pseudofacts, with which all sciences occasionally have found themselves burdened and bedevilled. See Maurice Zeitlin, "Corporate Ownership and Control: The Large Corporation and the Capitalist Class", American Journal of Sociology, Vol. 79, No. 5, March 1974, pp. 1073-1119.


14. Ibid.


22. Sayigh, 'Entrepreneurs of Lebanon'.