CHAPTER I

INTRODUCTION

In the post-independence era, India has assumed a big responsibility of minimising the imbalances in her economy which were caused in the pre-independence era. One of the most pronounced imbalances which has political overtones is the concentration of economic power in a few hands and places. A major step taken in this regard is the spread of small scale entrepreneurship in the communities and places which remained industrially underdeveloped. Many developing countries such as Tanzania, Nigeria, Zambia, Bangladesh, etc., have emulated her endeavours in organising entrepreneurship development programmes (SIDO Report, 1980-81). Such programmes in India have shown encouraging results too. For instance, during the period 1976-79 the number of registered small scale industries has risen from 264,159 to 385,636. The production in the small scale sector went up from Rs. 6,700 crore to Rs. 19,060 crore and the export from this sector has gone from Rs. 766 crore to Rs. 1,050 crore in the same period (SIDO Report, 1980-81).

A number of research studies, however, indicate that the government programmes have not been as successful as they should have been. Therefore, it is worthwhile, before stating the objectives of the proposed study, to examine the pattern of entrepreneurial growth in India.
1. Entrepreneurial Growth Before Independence

The Indian economy was characterised as non-industrial and non-entrepreneurial before 1850. It is true that Indian artisanship was best known for its excellence through silk bordered work, brass mental and copper wares of Benaras, chikan embroidery of Lucknow, Dhoti and Dupatta of Ahmedabad, woollen shawls of Kashmir, artistic enamelled jewellery of Rajputana, etc. But unfortunately the Indian artisanship continuously declined due to lack of support from colonial powers and there was almost no factories except some indigo industries (Gadgil, 1971).

Some scholars consider the arrival of the East India Company as an important factor in economic transition of India which introduced new form of industry especially in Western India through collaboration with a few Indian communities (Medhora, 1965). Parsis were the first to establish close contacts with it. In the process, they imbibed the ideas of trade, commerce and manufacturing entrepreneurship and became leading brokers and suppliers of commodities. Lowjee-Nushirvan and Manjee Dhanjee were the most important of them who set up shipbuilding and gun powder factories in Bombay in the sixteenth century (Sharma, K.N., 1967 and Pavlov, 1964). Also, Gujaratis started setting up large scale industries through collaboration with British people as their partners or shareholders and as commercial agents.
The modern factory system was introduced in the eighteen fifties. Two separate trends in the development of entrepreneurship became noticeable during this period. Jute, tea and coal factories were set up in eastern India with the finance and entrepreneurial ability of the Agency Houses, while in western India textile mills were set up by the Indian entrepreneurs with their own resources. The first two cotton mills were set up in Bombay by two Parsis - Cowasjee Davar and Maneckjee Petit. They also gave lead in iron and steel. The first Hindu entrepreneur to set up a cotton textile mill in Ahmedabad was a Brahmin - Ranchhodlal Chhotalal. The first entry of Indian entrepreneur in eastern India was by the Marwari community.

The two World Wars gave further impetus to the process of entrepreneurial growth and its spread to other castes and communities. The First World War gave a temporary set-back to cotton and coal industries, but augmented cement and sugar industries. Very soon, the cotton industries again had a rapid growth due to the rise in prices of cloth which fetched high profits (Gadgil, 1971). Another notable change was that Gujaratis and Marwaris stole a lead over Parsis in initiating and spreading manufacturing. However, it may be noted that in western Indian some Brahmins also entered manufacturing. The Marwari business community played a major role in the development of manufacturing entrepreneurship almost all over India. They started setting up cotton mills in such
inland parts where they had no competition with others. They migrated to North India and enlarged their industrial activities in Kanpur. Their caste solidarity helped them in becoming industrial business leaders (Sharma, K.N., 1967). During the Second World War, the increased demand for commodities and high level of profit accelerated the entrepreneurial growth. The Swadeshi Movement was the first movement to support indigenous industrial development in India which created new favourable conditions for entrepreneurial growth (Gadgil, 1971).

The historical description brings out that before independence entrepreneurial and industrial growth had four main features: (i) almost all entrepreneurs entered large manufacturing directly, (ii) the growth of manufacturing entrepreneurship was extremely slow, (iii) industrial growth was localised in few big cities like Calcutta, Bombay and Kanpur, and (iv) the economic power and manufacturing entrepreneurship was concentrated in the hands of few groups of business strata.

A little initiative was taken in the pre-independence era by the Central Government on the recommendations of the Indian Industrial Commission for industrial development of the country. In 1945 a policy was announced in which the State accepted the responsibility for developing basic social overheads and making investments in basic industries where private firms did not venture. But the efforts were not sufficient to eliminate the above mentioned imbalances of
Indian economy. Greater attention was drawn to these problems in the post-independence era.

2. **Entrepreneurial Growth After Independence**

A planned development of industrial growth within a socialist frame was adopted by the Government of India in the post-independence era. It was spearheaded by regional dispersal of industries and growth of manufacturing entrepreneurship in small scale sector with a view to restrain the monopoly of economic power and reduce unemployment. The Industrial Policy Resolutions of 1948 and 1956, and the successive Five Year Plans realised that proper incentives and economic and technical assistance were necessary to help the people having no business and managerial background to establish small scale industries. However, the actual commencement of various organisations for development of entrepreneurship took place as a result of the recommendations made by the Ford Foundation Team in 1953-54. The Government of India established Small Industries Development Organisation (SIDO) in 1954 to identify and develop entrepreneurship in small scale sector. National Small industries Corporation (NSIC) and Small Industries Extension Training Institute (SIET) were also set up which provide different types of assistance to small entrepreneurs. At state level, Directorate of Industries (DI) carries out the development programmes through State Financial Corporation (SFC), Small Industries Corporation (SIC) and many other state level organisations. At district level, District
Industries Centres (DICs) are established under the direct control of Directorate of Industries to provide integrated assistance to small entrepreneurs under one roof. Besides, these organisations render their services to small entrepreneurs to solve the problems of finance, marketing, management, training and infra-structure at state and district levels (Chart I, Appx. I).

As a result of such incentives, this sector has shown a rapid progress (Table 1, Appx. I). During the period of eight years 241.7 per cent and 109.9 per cent increase in the number and production of small units respectively is a significant achievement. However, investment and employment have not increased so rapidly. In the international market also, small scale sector has good prospects.

These organisations claim their success on the basis of targets achieved by them in supplying all necessary inputs including training to small entrepreneurs. But contradictory reports are presented by the surveys and researches conducted by scholars like Subramaniam (1975), Rao (1976), K.L. Sharma (1980) and others. They highlight that the government programmes are partly successful in achieving the objective of reducing economic imbalances by spreading entrepreneurship in small scale sector. They also point out that still the business background is the dominant factor in the development of entrepreneurship. A critical evaluation of major government organisations and programmes will be made afterwards. But the
issue - why it has happened - may be examined here in the light of theoretical perspectives.

3. Theoretical Perspectives on Entrepreneurship

Early economic theories considered the factors like land, capital and labour as the major resources of economic and industrial development. The concept of entrepreneur was identified very late by French economists in the eighteenth century. They used this concept for adventurers, contractors, cultivators and architects. Among economists, Joseph Schumpeter (1934) was, perhaps, the first scholar who emphasized innovativeness of entrepreneur to build a very general theory of economic development. To him, entrepreneur is a dynamic agent of change or the catalyst who transforms increasingly physical, natural and human resources into corresponding productive possibilities. Later, Leibenstein (1968) followed Schumpeter's functional approach. He accepted entrepreneur as a scarce source of economic development and laid stress on two major entrepreneurial functions, i.e., "gap-filling" and "input-completing" which include entrepreneurial leadership, motivation and decision-making.

Among sociologists, Max Weber (1930) was the first to analyse entrepreneurship. His theory is based upon relationship between protestant ethic and spirit of capitalism. In his view, certain materialistic teachings and attitudes of Protestantism played a crucial role in the origin of capitalism. He argued that entrepreneurial characteristics generated by the religious
belief of a community produce accumulation of productive assets. According to him, society or community structure is the major factor in the economic development, since it shapes the personality of individuals as entrepreneurs. Social scientists like Yale (1954) and Robert Kennedy (1965) supported his theory.

In the Indian context, Weber (1960) held that Jains could not develop industrial capitalism because of their values. He believed that 'the protestant ethic' was absent in the religious belief systems of Hinduism, Buddhism and Islam. This interpretation of facts has been disputed. Morris (1967) pointed out that Weberian view of caste restriction on people of non-business strata to enter manufacturing could not be accepted because several people of non-trading castes entered manufacturing. Recently, Weberian theory has been challenged by Fox (1973) and Mines (1973) through their micro-level studies of traditional Indian merchants. They found that not the religious belief or value system but the economic and political factors restrained the merchants from expansion of their business. In his study of Filipino entrepreneurship, Carroll (1965) suggested that economic development in its early stage may be aided by religious values of the people but present economic development, being an autonomous technical process, cannot be supposed to be dependent upon ethical value system totally.
In more recent times, several social scientists have emphasised the personality factor as an important ingredient of entrepreneurship development. McClelland (1961) has linked this personality variable with innovative activity. He explained the concept of entrepreneurship in psychological terms, i.e., need for achievement motivation (n/Ach) which includes calculated risk, innovation, decision-making, desire for excellence, etc. He considered internal factors like human values and motives that lead man to take advantage of opportunities as well of favourable trade conditions as the key factors in economic development. According to him, existence or non-existence of achievement motivation among the members of the community determines the economic growth. Similarly, Hagen (1962) characterised entrepreneur by "creative" and "innovative" personality which is an important factor of entrepreneurship development. His "creative personality" is an individual characterised by high need for achievement, need for order and need for autonomy. Economic development is seen by him as a process of technological change which is brought about by the technological creativity of individual in the society.

Later, in respect of emergence and development of entrepreneurial personality, it was realised that personality itself is a product of community structure. McClelland and Winter (1969) pointed out a causal relationship between personality and entrepreneurship, and laid stress on the importance of child rearing practices and socialisation as
major determinants in generating need for achievement motivation (n/Ach). Hagen (1971), in his theory of "Minority Group", accepted creative personality as a powerful source of entrepreneurship which is generated by minority morale. To him, withdrawal of respect is one of the variables which originates changes in personality formation. He quoted the example of Japan's feudal groups Tokugawa, Spanish of Colombia and old Beliwen of Russia who were the victims of withdrawal of status respect and became prominent leaders in economic development. In Indian context, McClelland (1971) supported Hagen's theory of minority group and pleaded that Jains could emerge as a more commercialised and superior group because of their consciousness of minority status which generated high need for achievement in them. Hafsiger (1971), in his study of entrepreneurship development in Southern India, suggested that Brahmins have been more inclined to become entrepreneurs than previously as a result of the erosion of their status.

Thus, the theories of Weber, McClelland and Hagen identified close links between the individual's values, attitudes and personality, and the socio-cultural environment. McClelland assumed motivation, generated by child rearing and socialisation, as the direct cause of entrepreneurship while Hagen and Weber emphasised only those social and community factors which are sources for the generation of the need for achievement motivation (n/Ach).
Recently, Kunkel (1971) and Cochran (1971) also accepted the socio-cultural environment as the key variable for entrepreneurship development. Kunkel elaborated a behaviouristic model theory reducing the importance of values, attitudes and personalities in determining the behavioural pattern. He supposes entrepreneurial behaviour as a function of the surrounding social structure. Appropriate alterations in the social environment is suggested by him to influence individual's behaviour more in the entrepreneurial manner. Cochran in his role theory refers to attitudes towards the occupation, the role expectation held by sanctioned group and the operational requirements of the job as major factors for entrepreneurial success. He conceives motivation, personality or cultural orientation as the intervening variable between factors, like economic and political change and consequent behaviour resulting in industrial and economic growth. Economic and political change may create new operational needs, but the entrepreneurial responses to these needs depend on variables of values, socialisation and motivation. Ashish Handey (1973) also observes that business success requires a favourable socio-cultural environment rather than high need for achievement motivation in McClelland's sense, though entry and survival in business might depend on such need.

Further, some new thoughts brought forth the fact that motivation or innovation may not itself guarantee the success in an entrepreneurial venture. Other social scientists
introduced some new entrepreneurial function such as formation of resource network which help in capturing economic opportunities and promotion of sales. For instance, K.N. Sharma (1969) identified resource network as an important factor in the development of entrepreneurship. He also accepted community structure as the foundation of this entrepreneurial function. While analysing the Indian social system he explained that in the beginning Parsis could become leading brokers and suppliers because their value system did not restrain them from developing contacts with the East India Company. Later, Parsis, Gujaratis and Marwaris became leaders in trade and business because of their resource network. The study of Panini (1977) also indicates the powerful network as the key factor for entrepreneurial success.

Simultaneously, other social scientists considered the importance of situational and political ingredients in entrepreneurial growth. Boulding (cited in Yale, 1954), Hoselitz (1955), Spengler (1957) and others viewed political structure as a source to provide economic and social security and incentives for entrepreneurial development. Lockwood (1954) and Bert Hoselitz (1960) in the study of Japan industries confirm that sudden and rapid economic growth of Japan was very much accounted by change in the power structure and least by alteration in the social structure. About Japanese entrepreneurship Vepa (1967) pinpointed their political system which properly integrated the industrial and agricultural economy and developed labour and capital intensive technology and non-
existence of colonial disruption. Analysing entrepreneurial growth in India some scholars blamed the non-conducive political system. Medhora (1965) and Tripathi (1971) concluded that the late inception of entrepreneurial growth in India was due to the non-commitment of political structure. P.D. Malkavkar and P. Jayachandra (1972) observed that the socio-political system and related factors are often impediments to the development of entrepreneurship.

From the above theoretical discussion, it seems that community structure is identified as the major or rather the key factor in the development of entrepreneurship. Even psychologists, while they talk of the emergence and development of entrepreneurial characteristics, take community as the source of creative or innovative personalities. These theories have three assumptions (Sharma, K.L., 1984 b). One, for entrepreneurial role people require a psyche involving creativity, innovativeness, calculativeness, achievement motivation etc. Second, such a psyche is generated by community structure like ethical values, socialisation practices, minority character and status deprivation. Thirdly, certain communities which had generated proper psyche and supplied entrepreneurs will continue to support their people to assume entrepreneurial role and perform it successfully.

Consequently, it develops a traditional and static model of economic development. Emergence of entrepreneurs on community basis perpetuates monopoly of economic power in the hands of a few business groups and concentration of
industries in big cities which ultimately cause an imbalanced economy. Such community psyche model is unable to bring a breakthrough in the entrepreneurship which can help in developing a balanced economy and equitable distribution of wealth. As indicated by a study of applied implication of such theories (Sharma, K.L., 1980), it is rather impossible to change the community structure to generate new pattern of entrepreneurial growth. Such theories, therefore, are unable to meet the aspiration of socialist economy which emphasises minimisation or elimination of concentration of economic power.

Since the transformation of community structure is not an easy process, a formal institutional support model was suggested by American scholars who assumed that entrepreneurial characteristics could be generated in individuals through formal training and channels of communication. McClelland (1969) advocated this assumption and launched an entrepreneurial development programme for motivational training in Kakinada and Vellore in South India. Unfortunately, this programme could not give positive results. McClelland himself concluded that it is rather impossible to develop motivational characteristics in adults. It would be efficacious to provide such training right from the childhood. No doubt, it is a long process but may bring desired results. Secondly, in this model political support system was supposed to be the most relevant factor for supplying many essential pre-requisites. Staley and Morse (1971) and Kilby (1971)
emphasise creating adequate formal or political support system through favourable policies and positive programmes including training and developmental facilities to induce individuals towards manufacturing entrepreneurship.

M.C. Misra (1966) pointed out that favourable political environment encourages entrepreneurs to take risks in the field of manufacturing resulting in economic growth.

Supporting the sociological approach of entrepreneurship development, Mohamed Hashim Awad (1971) concluded that to increase the supply of indigenous entrepreneurs the social structure of the developing countries must be changed by stipulating political support to reduce the risks. It was thus accepted that such a formal institutional support model could help in reducing the monopoly of economic power as it gives motivation and opportunities to the people of non-business strata. It could give a breakthrough to new patterns of entrepreneurial development.

In this chain a new contingent model is developed by K.L. Sharma (1978, 1980) who concluded that community factor plays an important role in motivating people towards entrepreneurship at the initial stage of entrepreneurial growth, and political support and need for achievement motivation become necessary for stability and expansion of business at subsequent stages. Further, greater failure of formal support systems in supply of entrepreneurs suggests a new environment model of development of entrepreneurship. It is a recent approach and
received attention in some studies conducted to evaluate the performance of entrepreneurship development programmes like Akhouri 1977, Habibur Rehman 1979 and Lim Chee Peng 1979. These scholars emphasise the internal environment, highlighting coordination within agency and between agencies, balances in the different types of services and motivational climate of the aid giving agency to make the support programmes effective. While Sharma, K.L. (1980, 1984) lays stress upon the external environmental problems generated through interactions of various sectors like public and private, large and small, agricultural and industrial.

One may conclude the above review of the literature on entrepreneurship by saying that many social scientists identified community structure as a powerful source in shaping entrepreneurial personality, supply of inputs and network which developed a static and traditional pattern of economic growth. For a balanced economic growth necessity was felt to boost up entrepreneurship development in small sector. Currently, much emphasis is laid on the development of efficient formal support systems to cater the needs of small industries. The present study sets forth its major objective to evaluate such formal support programmes.

The study is divided into six chapters. This first chapter has presented a brief historical sketch of entrepreneurship growth in India and theoretical perspectives of analysis of entrepreneurial growth. The second chapter explains the design of the study, i.e., specific objectives
and universe of the study, brief introduction of selected industries, sampling procedure and method of analysis. The third chapter presents the pattern of entrepreneurial growth. Chapter fourth examines major problems faced by small entrepreneurs and efficacy of government support programmes in solving their problems while the environmental factors making government programmes ineffective are explored in chapter fifth. Finally, chapter sixth integrates the findings of the study.