CHAPTER 1

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CHAPTER 1

INTRODUCTION

PRELUDE

The economic development of any nation is dependent upon the purposeful human activity i.e., entrepreneurial function. Therefore, entrepreneur is sometimes referred to as the fourth factor of production. The crucial role played by the entrepreneur in the process of economic development through industrialisation has been acknowledged by many economists. Meier and Baldwin 1 described the entrepreneur as a catalyst or agent whose activity results in development. According to Spengler 2 "an economy's rate of growth depends to a large extent upon its capacity to give rise to innovators and their imitators, to individuals who continually channel new know-how from the laboratory and engineering sectors of the economy to the fields of production and marketing".

History is full of instances of individual entrepreneurs whose creativity has led to the industrialisation of many nations. Entrepreneurs like Bolton in the eighteenth century, Henry Ford and Emil Ratheneau in the twentieth were responsible for the industrialisation of their countries. 3 It has been hoped that industrialisation would bring social transformation through social equality in higher levels of employment, more equitable distribution of income and well-balanced regional development.

Since industrialisation has better potentiality to bring technological revolution through innovation to attain higher rate of return on social investment and to generate dynamism in social and political life, the developing countries have gone for quick
industrial development. The industrial revolution that took place in England was able to give fruitful results to England, as Philip Wernette observed, because of the existence of entrepreneurs who were capable of commercially exploiting the opportunities presented by the great inventions of the time. The subsequent dethroning of Britain from its position as the greatest industrial power of the world, according to Wernette, was largely due to the decline in the spirit of enterprise among its people, particularly the business and industrial leaders.

STATEMENT OF THE PROBLEM

The industrial growth and economic development of the developing countries is deterred by the lack of efficient entrepreneurs, lack of industrial environment, lack of incentives for private initiatives, lack of technical knowledge, lack of resources, unhealthy competition and absence of domestic market. In fact, the presence of entrepreneurs who act as change agents heralding the growth of industries is of great importance. The slow growth of industries in the developing countries as the United Nations Economic Commission for Latin America has noted is “due to the absence of qualified entrepreneurial class prepared to take initiatives and assume risks and to an inadequate economic policy on the part of the Government”. Berna has mentioned that these countries do not necessarily require innovative entrepreneurs of the Schumpeterian type. Imitating entrepreneurs who are capable of adapting the innovations of others are sufficient to accelerate the pace of industrialisation of these countries. Therefore, for a nation like India, which aims to achieve a rapid and regionally balanced economic growth through industrialisation, the emergence of large number of entrepreneurs is a vital necessity. In the face of the massive
unemployment, poverty and backwardness in the country, the small entrepreneurs have a special role to play.

People suffer the most in the underdeveloped countries. Their involvement in economic activities is marked by excessive concentration in unorganised sector (i.e., agriculture) of the economy and that too in low skill jobs. Their literacy rate, which itself is the cause for their low economic status, creates a vicious circle of low social and economic status. The inadequate economic policy on the part of government, as United Nations Economic Commission for Latin America has noted, also affected the emergence of entrepreneurial class in these countries. It is in this specific context that the emergence of entrepreneurs is to be viewed as a socio-economic emancipation of the people belonging to under developed countries.

The status of people in some areas of India is an illustration of a paradox. At the policy level or in the eyes of policy they are equal. The five year plans and industrial policy resolutions passed since independence have given added thrust to the entrepreneurship development. However, over the years, the position of people in those areas is downgraded. Such parts of India, even now lack with adequate number of entrepreneurs. For instance, for many a years 'Bidar' district in Karnataka State was declared as 'No Industry District'. The post independence history of Karnataka State reveals that large number of big and medium industries (both in the public and private sector) were concentrated in and around Bangalore, Tumkur, Mysore, Kolar and Mandya. The continued negligence in all the fronts (i.e. industry, education, rural development programmes, irrigation etc.,) by the governments' ruled the state of Karnataka since independence is resulting in demand for separate North Karnataka State. At the national level, after the enactment of State Financial Corporations Act in
1951, there was no state level financial corporation for financing the entrepreneurs in the states of Nagaland, Manipur, Tripura and Meghalaya. The entrepreneurs of Tripura and Manipur were to get financial assistance from Assam Financial Corporation. The people of these areas are the least beneficiaries of the schemes and programmes of the government and financial institutions. The example of not availing the concessions and subsidies of the government, which is available to small entrepreneurs, is available in this country. The reason may be lack of awareness, red-tapism and buck-passing / undue delay in the concerned offices, dis-satisfaction with the bureaucratic style of government departments and financial institutions. Besides this, in 51 years of independence, an emphasis on the socialistic pattern of the society and the role assigned to the public sector limited the scope for the growth of private entrepreneurship. The first four decades of the post independent period is described as the decade of state sector/public sector. The liberalisation policy of the Government, which received boost after 1991 (when Dr. Manmohan Singh became the Finance Minister of India), has thrown open for a vast area of the country for private entrepreneurship. Under such circumstances, the need for entrepreneurship development is more keenly felt.

CONCEPT OF ENTREPRENEUR

The meaning of the term entrepreneur has changed considerably from last four centuries, because of variety of opinions among economists and social scientists about the character and role of entrepreneurs in economic development. Much of the confusion arises due to variety of definitions at different stages of development.

The word “entrepreneur” is derived from the French verb entreprendre. It means to “undertake”. In the early 16th century, the Frenchmen who organised and
led military expeditions were referred to as "entrepreneurs". Around 1700 AD, the term was used for architects and contractors of public works. The entrepreneur and his unique risk bearing function was first identified in the early 18th century by Richard Cantillon, an Irishman living in France, who defined an entrepreneur as a person who buys factor services at certain prices with a view to sell its products at uncertain prices in the future, thereby bearing a non-insurable risk. J.B. say expanded the Cantillon's ideas. According to him, the entrepreneur is a person endowed with the qualities of judgement, perseverance and knowledge of the world as well as of business.

Peter F Drucker defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. He has aptly observed that "Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation".

To E.E. Haggen, an entrepreneur is an economic man who tries to maximise his profits by innovations. Innovations involve problem solving and the entrepreneur gets satisfaction from using his capabilities in attacking problems.

According to Frank Knight, the entrepreneur is a bearer of uncertainty or risk for which he receives the reward. There are two types of risks: Insurable and non-insurable. Insurable risk can be calculated statistically and precautionary measures can be taken, while the non-insurable risk cannot be calculated and
therefore no precautionary measures can be taken. Entrepreneur in such an uncertain situation has to play the role of a special functionary and the success or failure depends on the foresight and judgement of the entrepreneur.

Leading economists of all schools, including Karl Marx, have emphasised the contribution of the entrepreneurs to the development of economies, but Joseph A Schumpeter, who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economists.

His definition on entrepreneur is as below\textsuperscript{12}

"The entrepreneur in an advanced economy is an individual who introduces something new in the economy - a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like". He further states that entrepreneur's function is to "reform or revolutionise the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity".

Thus, it could be understood by the above definitions that the entrepreneur had been defined in various ways – an innovator, a risk taker, a resource assembler, an organisation builder, bearer of uncertainty and so on. An entrepreneur is all of the above combined into one. He identifies opportunities available in his own environment, exploits it/them to his best advantage, introduces new ideas, carries new activities, innovates, co-ordinates the factors of production and efficiently manages the business. Hence, an entrepreneur can safely be defined as a person who identifies
the opportunities in his environment and responds to it in innovative ways so as to make economic surplus by engaging himself in efficiently exploiting the environment and opportunities it offers.

During the period when sole proprietorship form of business organisation was the norm, the entrepreneur was identified in the owner/manager of the enterprise. In the present day industrial scenario, entrepreneurs can no longer be identified among the 'captains of industry' of yester year. With the emergence of joint stock companies "the individual entrepreneur has been increasingly replaced by a body of decision makers whom Galbraith calls technocrats". 13

With the changes in the perception of entrepreneurs, attempts were made to identify the entrepreneurs within the large corporations.

Lewis, however, maintained that entrepreneurial function does not change just because it is performed within the framework of a corporation instead of within a sole proprietorship concern. The entrepreneur according to Lewis 14 "is the final/ultimate agent of production, co-ordinates with the labourer and capitalist of the traditional economic theory". The entrepreneur can be identified by the fact that he bears uncertainties of the enterprise which are different from the uncertainties borne by others in the sense that the entrepreneur is not promised a fixed return on his investment by any functional agent. In a corporation, the entrepreneur is located in those persons whose functional income is contingent and residual in the sense that no claim for income arises until all other functional incomes are discharged. Typically, thus the corporate entrepreneur is located in the common stock holders or also in the preferred stockholders provided, the holders of these securities meet the specifications mentioned above15.
Harbison has questioned the assumption that the entrepreneur is an individual. According to him, the entrepreneur is in essence an organisation, which comprises all the people/group, required to perform entrepreneurial functions. Such functions include,

a) The undertaking or managing of risk and handling of economic uncertainty.

b) Planning and innovation.

c) Co-ordination, administration and control, and

d) Routine supervision.

Harbison has emphasised that the ability to build an organisation is the most crucial among all entrepreneurial skills.

Similarly, Stauss also has proposed a theory that the "firm is the entrepreneur". According to Stauss the traditional assumption was that an entrepreneur exercised his responsibility through the medium of the firm. This caused the firm to be assigned a secondary role. Stauss shifted the frame of reference to the firm, an entity operating through the medium of various functionaries having heterogeneous responsibilities and relationships to it. Stauss proposed the theory that the firm centered on its decision making organisation, operates as the functionary in undertaking the entrepreneurial role through the medium of individuals having relations with it.

Evans distinguished between three types of entrepreneurs. According to him within every private business concern, one or more or all the following three types of entrepreneurs are found:

1) Those who carry out more or less routine aspects of management.
2) Innovating, dynamic entrepreneurs-whose function is to “combine means of production in new ways”.

3) Controlling entrepreneurs whose function is to control or direct.

In a small concern all the three types of entrepreneurs can be found in the same individual, the separation of types is generally observable only in large corporations.

**REVIEW OF LITERATURE**

The study of entrepreneurship in India has attracted the attention of a large number of researchers. A special mention has to be made of the works by D.R. Gadgil, Pavlov, Medhora, Bagchi, Brimmer, Acharya, Spoadek, Bhatia, Gaikwad and Tripati, James Berna, Pandit, Dwijendra Tripati, Pathak, Baldwin, Vasanth Desai, M.U. Deshapande, R.A. Sharma, S.G. Bhanushali, Lakhanpal and few others. The literature surveyed for this work includes the studies, which have examined entrepreneurship in the pre-independence period, post-independence period and studies on women entrepreneurship.

It is in the continuation of these works, a review of available literatures on factors affecting the entrepreneurship, the role of government, financial and other institutions in the development of entrepreneurship and other aspects of entrepreneurship has been made and presented.

Pandit 20 maintains that caste and religion are not an explanation for the emergence of entrepreneurs. Rather, the process has to be viewed from a regional approach. She contends that among Gujaratis, entrepreneurs have emerged from all castes and religions. The Gujarti-setting put a prestige value on business, which no other region did. This led to a greater occupational mobility among the people in
these areas. This factor has made them innovators in the field of modern methods of trade, banking and industry. Further, she proves that the culturally homogeneous Gujarati community responded differently to the different settings of Ahmedabad and Mumbai.

Hemalatha Acharya has disputed the contentions of Pandit. She maintains that the regional analysis is lopsided because it does not take into account other variables like geographical environment, religion, economic activities, political conditions, ethics etc. According to her occupational mobility of caste hierarchy was not exclusive to Gujarat but existed in other regions as well. Also, exceptions apart, businessmen and entrepreneurs have sprung from certain castes who have a tradition of business in their families.

V.R. Gaikwad and R.N. Tripathi (1970) studied the small entrepreneurs of Tanuku region of West Godavari District in Andrapradesh. It is an attempt to bring out the pre-requisites for successful entrepreneurship. According to them bold, dashing and pragmatic personality, managerial competence, high motivation, dominant socio-economic power enjoyed by the family and contacts at higher social and governmental level lead to entrepreneurial development.

H.N. Pathak studied 12 units from industrial estates enjoying almost identical overhead facilities and is engaged in different lines of manufacture. He studied their problems at inception, operational and expansion/diversification stage and delineates the requirements of entrepreneurial/managerial abilities at different stages. He finds that factors like contacts, education, finance, favourable and timely policies of the government and quick adaptability by the enterprises are responsible for all-round growth of entrepreneurial talent.
Heggade has suggested that entrepreneurship among women could be developed through encouraging self-employment and by organising women’s cooperatives. He recommended that educational system should be modified to create increasingly diversified skills among women folk and that a separate policy should be formulated for promoting entrepreneurship among women.

Gudi has listed out the type of assistance provided by the Karnataka State Social Welfare Board for women entrepreneurs. She has recommended the establishment of a Marketing Advisory Centre for women entrepreneurs which would provide information regarding marketing trends, consultancy services and also organise trade fairs to market their products. She has also called for the establishment of a separate Industrial Estate/Complex for women entrepreneurs which would include servicing centres, training facilities, testing facilities for quality control, Research and Development support and marketing and counselling centres.

Saravanavel identified the problems faced by women entrepreneurs. According to him attitude of the society towards women and the constraints in which they have to live and work keep women away from entrepreneurship. Women also faced difficulties in obtaining finance and due to lengthy procedures of obtaining bank loans. The delay and the running around involved deter many women from venturing into entrepreneurship. He recommends that in order to ensure adequate credit flow to women entrepreneurs a sub-goal may be fixed under the priority sector advances by banks. Also, banks and financial institutions can waive the insistence for provision of collateral security.
V. Lakshman Rao (1986) studied 51 entrepreneurs in a district of Andra Pradesh. The main aim of the study was to find out the impact of the government programmes and policies for promoting industrial entrepreneurship. He was of the view that the government schemes have certainly boosted the entrepreneurship in Andra Pradesh.

Pillai has maintained that the emergence of women entrepreneurs in Kerala State was facilitated by the financial and marketing assistance provided by the state government and also by the training provided by the training centres. The loans, grants and subsidies provided by the Nationalised Banks, State Financial Corporations, Kerala State Handloom Development Board and District Industries Centre helped the small business community from getting out of the clutches of money lenders and enabled women to get securely established in their business. According to him the problems encountered by women entrepreneurs include, inadequate financial resources and working capital, insufficient arrangements for marketing, shortage of raw materials and other inputs, heavy competition and high cost of production.

Sharadadevi maintained that the active encouragement of government and the emergence of different official and non-official agencies at central and state level coupled with new schemes, departments and institutions have greatly facilitated the emergence of women entrepreneurs. She recommends that efforts should be directed towards encouraging women entrepreneurs in rural areas.

Oamen (1972) examined the emerging pattern of entrepreneurship in small-scale sector of Kerala. His study focused attention on origin and growth of firms in light engineering industry and impact of government programmes on
entrepreneurship. The study of 45 units revealed that single largest group of entrepreneurs consisted of engineers and technicians and most of them were Muslims.

Bhatia investigated into the history and present situation of 50 manufacturing firms having less than 50 workers functioning in Punjab. He studied the socio-economic background of entrepreneurs, their attitudes towards industry, the ways in which they have made the transition to industry and the problems encountered by them. He did not find any relationship between the growth of the firms and the socio-economic background of the entrepreneurs. However, he notes that the firms which continuously expanded, had gradual growth and were started with a relatively favourable capital base and most of them were established by merchants. The entrepreneurs showed the tendency to diversity instead of expanding after a particular point since they lacked vital information about wider markets.

The Management Development Institute, in its study on the assessment of institutional assistance in the states of Uttar Pradesh, Punjab and Himachal Pradesh, found that the facility of institutional finance had a nominal impact in Himachal Pradesh but was quite significant in Uttar Pradesh. The study team also found that about 98 percent of entrepreneurs did not receive any training in Punjab and yet most of them were successful mainly due to the natural entrepreneurial skill of the Punjabi community. But in Uttar Pradesh and Himachal Pradesh there seemed to be greater need for expanding training programmes to generate entrepreneurial motivation.

Deshapande conducted a study of 90 entrepreneurs in Marathwada region of Maharashtra. He comes to the conclusion that emergence of entrepreneurship is conditioned by the political system and government policy. He found that people with little industrial or commercial background immersed into entrepreneurship when
suitable conditions were created. Financial help from family and father’s occupational status were significantly related to entry. However, the institutional agencies created by the government to help prospective entrepreneurs were not successful in developing entrepreneurs from all castes in the region.

Sharma R.A. \(^{34}\) evaluated the performance of 316 joint stock companies incorporated after April 1947. In the familiar spheres the entrepreneurship was dispersed among various communities and in other spheres it was thinly spread among socially well known communities. Analysing the factors affecting entrepreneurship, he found that strong desire to do something independent in life, technical knowledge and/or manufacturing experience, financial assistance from institutional sources, business experience in the same or related lines and accommodation in industrial estates are induced the new and small entrepreneurial class. He concludes that financial and developmental of institutions have made a significant contribution to the growth of new entrepreneurship.

Sadhak \(^{35}\) found that entrepreneurs have emerged from different socio-economic backgrounds. He found that entrepreneurs who were formerly traders had better access to financial resources and were less dependent on institutional finance than technocrat/professional entrepreneurs. Entrepreneurs under study were self-motivated rather than motivated by development and training programmes of institutions. However, financial institutions played a very crucial role in inducing the potential entrepreneurs. The availability of concessional finance and various incentives significantly influenced the location decision of the units, particularly in the backward areas.
Anil Kumar Sarma studied the growth of entrepreneurship in the period up to the first world war, first world war to independence and thereafter. During the first period, entrepreneurial talent emerged mostly from a few communities like Parsis and Gujaratis. The second period witnessed a change in the governmental attitude towards industrialisation and entrepreneurial growth was rapid and diversified. However, it was profit oriented and without planning or co-ordination. The emergence of state entrepreneurship is an important feature of the third period. He discusses the emergence of state as an entrepreneur and the institutions it has created for fostering new entrepreneurship. He feels that small entrepreneurship has grown and suggests that these entrepreneurs should have new socialist outlook.

K.C. Chopra has added the motivational concept in the entrepreneurial development. He felt that one of the most essential pre-requisites for the entrepreneurial development among non-traditional businessmen is the identification of “man”. He was of the view that motivational training helps in changing the response of an individual so that he may react with confidence to the existing economic situation. He further felt that an entrepreneurship-oriented education at the gross root level is a must to motivate the prospective entrepreneurs. The prospective entrepreneurs must be guided and training must be given to them.

Sharma and Singh envisaged that entrepreneurial growth comprised of four stages viz.; entry into manufacturing, expansion of business, perception to business stability and commitment to expand units and examined the effects of political, social and psychological factors at each stage. They found that caste background (along with family background) of the entrepreneurs had significant influence on the entrepreneurs entry into manufacturing the expansion of business and perception of
business stability. The political milieu was an effective determinant of commitment to expansion of business. They also found that government facilities are availed of largely by people with business background.

In a study of 125 entrepreneurs in Kolhapur Bhanushali S.G. 39 found that caste, education and parental occupation had greater impact on attaining higher degree of entrepreneurial success.

Ajay Lakhanral 40 examined the performance of the network of institutions in entrepreneurial development in Himachal Pradesh. He categorised the institutions into three broad groups, viz., financing institutions, promotional institutions and training institutions. He studied 58 enterprises in Solan district to evaluate the influence of infrastructure on entrepreneurship. He stressed the need to make certain adjustments in the institutional framework and recommended the creation of a state level Single Window Industrial Support System (SWISS).

Gangadhar and Reddy 41 evaluated the women Entrepreneurs scheme of the Andrapradesh State Financial Corporation. The study revealed significant gap between the loans sanctioned and disbursed in terms of number as well as the amount. Nearly 65 percent of the amount sanctioned was not disbursed by the end of 1988-89 accounting year. Also there was a slight decline in the number of entrepreneurs financed in the said year as compared to the previous year, whereas the amount of loan sanctioned increased substantially.

Birendra Narian Singh 42 conducted a study of 25 firms of small size operating in the light engineering industry in Agra. He examined the socio-economic background of these entrepreneurs and the factors induced them to become
entrepreneurs. He found that engineering industry is dominated by Agarwal community and merchant groups and profit motive is the main force which induced the entrepreneurs. He also found that there was no relationship between the traditional business and the present manufacturing activity. None of the firms had borrowed funds from the financial agencies, private as well as public or had they received government aid for their initial financing are some of his other important findings.

Mishra and Bisht 43 had studied 100 entrepreneurs in Nainital district of Uttarpradesh. They found that entrepreneurs have emerged mainly from the traditional enterprising communities/trade background. However, entrepreneurs from service background have also made sizeable inroads into the entrepreneurial field. Availability of funds from the family members and friends is the most important motivational factor induced the entrepreneurs to take up the entrepreneurial venture. The entrepreneurs felt that not only procedural lacuna existed in the process of establishing units, but also intentional malafide took a heavy toll of upcoming entrepreneurial instincts.

Dr. N. Gangadhar Rao 44 studied 81 entrepreneurs operating in 13 industrial estates of coastal Andrapradesh. The object of the study was to measure the impact of industrial estates on entrepreneurship. He came to the conclusion that the impact of industrial estates on the emergence of entrepreneurship is found to be marginal.

V. Sarveshwar Rao and E.W. Nafzinger 45 conducted a study of entrepreneurs operating in Vishakpatna (Andrapradesh State) to find out the factors determining the supply and success of industrial entrepreneurship. They found that socio-cultural features of the traditional Indian society are no longer standing in the way of
development of modern entrepreneurship. The study underlined the importance of education, training and work experience for successful development of modern entrepreneurship.

James J. Berna (1960) studied the entrepreneurs engaged in various kinds of light engineering production in and around Madras/Chennai and Coimbatore. He investigated into the background and origin of entrepreneurs and found that the initial entry into industry was open to persons of very different social standing and economic position. Surprisingly, he finds that the entrepreneurs have grown from small beginnings. Interestingly, the largest single group of entrepreneurs (exceeding 23%) is composed of graduate engineers, most of them young and nearly half of them possessing foreign engineering degrees. Moreover, he states that the growth of enterprises have been achieved in the face of formidable obstacles. He feels that the performance of the entrepreneurs could be improved and their contribution to industrial progress can be increased, if certain help in techniques of production and management is provided to them. Dr. Berna points out that medium scale enterprises are neglected by the government as the developmental efforts are more focussed on small scale industries. He maintains that medium scale enterprises also should receive intensive help as such they have already demonstrated their capacity to grow and their capability to speed up industrialisation.

Vasanth Desai in his study on the role of EDP in accelerating industrialisation, suggested the agencies involved in the task to work with determination, zeal and a sense of dedication and commitment. He also recommended the redesigning of the education system to identify the area of entrepreneurship and to motivate young people to start their own ventures. In his
study on the Entrepreneurs in selected countries, he recommended the governments' concerned to take industrial promotion measures to create what is usually called the industrial climate.

From the review of literature reported above, it appears that financial functions and need of institutional support for entrepreneurship development have received some attention of the researchers. Some studies have focussed on factors affecting the entrepreneurial growth, some of them have studied the impact of government programmes and role of financial and other institutions and EDPs in the entrepreneurship development and offered their own suggestions. A few studies are witnessed on the link with caste/religion/education/region/family background and entrepreneurship. Some scholars have thrown light exclusively on women entrepreneurs and problems faced by them in starting/running their units/activities. Some researchers have endeavored to bring out the relationship between caste/family background and source of finance/financial institutions. The studies have also thrown light on the growth of entrepreneurship in different stages in India and factors motivated the entrepreneurs to bring into this field. Some researchers underlined the need for changing the education system so as to create the spirit of entrepreneurship among young blood. The importance of finance/capital also attracted the attention of the studies.

However, a comprehensive study on the role of Karnataka State Financial Corporation in promoting and developing entrepreneurship in Shimoga district, has not been documented. Since the planning exercise was taken up in independent India through the financial institutions to facilitate private investment, a systematic investigation into the role of KSFC in encouraging entrepreneurship, needs to be
taken up. The present study is an attempt to fill this gap with particular reference to Shimoga District in Karnataka State.

JUSTIFICATION OF THE STUDY

The study of the entrepreneurial history before independence reveals that as no effective state assistance was available to the Indian entrepreneurs and no industrial framework existed at that time, entrepreneurship became a close preserve of few wealthy families and in the hands of a few communities and also the growth was imbalanced.

After independence the whole approach to the problem has undergone a complete change. With the setting up of the planning commission, a systematic formulation of plans and policies has been attempted. The Industrial Policy Resolutions of 1948 and 1956 have given to the State an important direct entrepreneurial role, to make up for the lack of private initiative in certain key areas. Emergence of broad-based entrepreneurship and balanced regional development have become important goals of national development plan. To cater to the needs of small, medium and big entrepreneurs a network of specialised financial and developmental institutions like IFCI, ICICI, IDBI, SISIs, SFCs etc., has been promoted. In order to create a positive environment for private industrial investment, a policy of support and incentives directed towards industrial growth has been introduced. Special concessions and privileges are offered for attracting industries to backward areas. New and small entrepreneurs, especially the technicians are encouraged to undertake industrial investment through provision of machinery on hire purchase, accommodation in industrial estates, factoring services, leasing finance, finance on
liberal terms, free service facilities, entrepreneurship awareness and development programmes, successful entrepreneurs meet, PRC and PMC holders meeting etc.

As it can be observed from the review of literature that some of them have studied the role of government and financial institutions in entrepreneurial development and a few studies are concentrated on the impact of government programmes on entrepreneurship development several studies also observed that the fruits of industrial progress is even today bagged by entrepreneurs from trade and industrial background. Few studies concluded that caste, education and family background causes entrepreneurship and this was contradicted by some studies also. The researchers also offered suggestions for development of entrepreneurship in the country/their study area. However, a comprehensive study on the role of Karnataka State Financial Corporation in promoting and developing entrepreneurship, has not been documented. The present study is an attempt to fill this gap with particular reference to Shimoga District of Karnataka State.

OBJECTIVES OF THE STUDY

The following objectives have been identified for the purpose of carrying out the study with reference to the Role of Karnataka State Financial Corporation in promoting and developing entrepreneurship in Karnataka State - A case study of Shimoga District.

1. To examine the purpose of establishing KSFC and various types of financial assistance, incentives and concessions being offered and to evaluate the impact of these on the entrepreneurs.

2. To study the various non-financial measures taken by the KSFC to develop and promote the entrepreneurship and their effect.
3. To identify the problems being faced by the assisted entrepreneurs in getting the assistance from KSFC and in setting up their projects.

4. To study the entrepreneurial setting in Shimoga District. It includes:
   a) The study of emerging entrepreneurial class and to bring out its social, economic, educational and family backgrounds.
   b) To scrutinise environmental factors affecting entrepreneurship and find out the factors motivated the new entrepreneurs.

5. To offer suggestions for improving the role of KSFC in financing and promoting the entrepreneurship in study area.

HYPOTHESES OF THE STUDY

In order to achieve the above objectives, the following hypotheses have been set for the study.

1. Ambition factor rather than compulsion and encouragement factor is motivating the entrepreneurs in the study area.

2. The coverage of EDP is not adequate and ineffective also.

3. The corporation played a major role in attracting more number of service entrepreneurs than industrial entrepreneurs.

4. The entrepreneurs have opted for small sized units.

5. The corporation played a major role in the development of local entrepreneurship.

6. Women entrepreneurs play only a surrogate role in their units.

7. The corporation has failed to achieve balanced growth in the state of Karnataka as well as case study area.
8. Category, education and family background have its own impact on the entrepreneurial performance.

9. VISHWA scheme has failed to generate the entrepreneurs.

**METHODOLOGY AND SAMPLE DESIGN**

To test the above hypotheses, the data is collected from both the primary and secondary sources. Secondary data for study was collected from the annual reports, operational statistics, booklets, scheme wise brochures and other publications of KSFC. The names and addresses of the entrepreneurs to whom the financial assistance is given in Shimoga District, purpose of assistance and such other details are collected from the Annual Sanctions Register maintained by branch office of KSFC in Shimoga. The materials have also been collected from DIC and Lead Bank of Shimoga District, Small Industries Service Institute, Bangalore and Department of Mines and Geology, Government of Karnataka, Bangalore and Directorate of Economics and Statistics, Bangalore.

The impact of the promotional programmes and the commitment of KSFC to provide finance can be judged from the extent to which the entrepreneurs in the study area have utilised the benefits of such facilities. To test this, primary data was collected through the administration of an interview schedule to a randomly selected sample of entrepreneurs and EDP participants in Shimoga district. The interview schedule was pre-tested on a few entrepreneurs in Sagar Taluk and modified to suit the objectives of the study. The questions framed covered almost all the main aspects of role of KSFC in entrepreneurial development. The information was collected through personal interview method. A copy of the interview schedule is provided in Appendix I. With the help of the above, 280 entrepreneurs to whom the financial
assistance was given by KSFC (excluding VISHWA beneficiaries) were selected in Shimoga District. Samples are drawn on the basis of stratified random sampling method and using the following criteria.

1. Representative samples from all the three sectors (i.e., SSIs, transport operators and other sector) and category of entrepreneurs.
2. Representative samples from different forms of organisation.
3. Representative samples from all the nine taluks in Shimoga district. Proportional representation was given to each taluk while selecting the sample.
4. Representative samples from different educational backgrounds and family backgrounds.

The taluk-wise distribution of sample entrepreneurs/units is shown in the following Table 1.1

TABLE 1.1

TALUK-WISE DISTRIBUTION OF THE SAMPLE UNITS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Taluk</th>
<th>Sample Entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shimoga</td>
<td>110</td>
</tr>
<tr>
<td>2.</td>
<td>Sagar</td>
<td>50</td>
</tr>
<tr>
<td>3.</td>
<td>Bhadravati</td>
<td>30</td>
</tr>
<tr>
<td>4.</td>
<td>Shikaripur</td>
<td>30</td>
</tr>
<tr>
<td>5.</td>
<td>Honnali</td>
<td>15</td>
</tr>
<tr>
<td>6.</td>
<td>Channagiri</td>
<td>15</td>
</tr>
<tr>
<td>7.</td>
<td>Soraba</td>
<td>10</td>
</tr>
<tr>
<td>8.</td>
<td>Thirthahalli</td>
<td>10</td>
</tr>
<tr>
<td>9.</td>
<td>Hosanagara</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>280</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data
A profile of the sample entrepreneurs is given in the fifth chapter titled, ‘Entrepreneurial setting in Shimoga District’.

The group survey of the VISHWA entrepreneurs was conducted in 4 villages of the study area which is not included in the above Table 1.1.

ANALYSIS OF DATA

In order to get the inferences, prove or nullify the hypotheses, the data collected were analysed with the help of statistical techniques like percentages, ratios, averages, growth rate, time series, correlation, ranking method and merit points method.

SCOPE OF THE STUDY

In order to test the above hypotheses, Shimoga District in Karnataka State has been chosen. This study is confined to only Shimoga District as the researcher hails from the same district and more over, the problem can be better perceived.

YEAR OF REFERENCE

The study is spread over a period of eight years commencing from 1990-91 to 1997-98. For the purpose of analysis, the financial assistance offered by KSFC from 1st April 1990 to 31st March 1998 were only taken. However, latest information is included wherever required and available.

DEFINITION OF CONCEPTS/TERMS

The definition of the terms used in the thesis are as follows:
Small Scale Industry - Small scale industry is one in which the investment in plant and machinery is less than 60 lakhs; for an ancillary or 100% export oriented units, the limit is Rs. 75 lakhs. The small scale units which undertake to export at least 30% of annual production by the third year, will be permitted to step up their investment in plant and machinery to Rs. 75 lakhs.

Tiny Units - Tiny unit is one in which the investment in plant and machinery is less than Rs. 5 lakhs and the unit is located in areas where the population is less than 50,000 as per 1991 census.

Term Loan - Term loan means the loan, which is provided by the KSFC for a period exceeding one year for entrepreneurship development.

Working Capital - Capital required to meet the day-to-day expenses of the projects set up by the entrepreneurs.

Working Capital Loan - Loan granted for a period of less than one year to meet the working capital requirements of the entrepreneurs.

LIMITATIONS OF THE STUDY

The study has certain limitations. The entrepreneurs may not maintain proper accounts relating to their annual turnover, actual production per annum in terms of quantity and value of output. For measuring the size of the unit and growth of entrepreneurial activities, the investment made, annual turnover and number of employees/labourers employed as given by the entrepreneurs are taken as the basis. However, the actual figures may be different. This is because, it is generally believed that small entrepreneurs do not maintain proper books of accounts and do not have
proper records. It is also believed that some entrepreneurs deliberately avoid to furnish correct information due to various known and unknown reasons, say for tax reasons.

The study is based on the personal interviews with the entrepreneurs who are assisted by KSFC and those who have participated in the EDP conducted by KSFC and other agencies. It could have been a more meaningful study, had it been based on personal interviews with the officials of KSFC at various levels. But this was not possible because of time and resource constraint on the part of the researcher and busy schedules of KSFC officials. The non-availability of EDP/EAP participants who have not started the entrepreneurial activity after the programme has also affected the study.

It was noted that many women entrepreneurs assisted by KSFC did not actually participate in the management of such units. Such units are actually managed by the male family members. This has affected the researcher's goal of studying the role of KSFC in the development of women entrepreneurship.

Lack of knowledge about the importance of research among the respondents has also affected the interview. Secondary data is obtained from KSFC through published reports and annual sanctions register. All calculations and analysis are based only upon the above said data. Further, because of time and financial constraints, this study is confined only to Shimoga District of Karnataka State.

DIMENSIONS OF THE STUDY: CHAPTER PLANNING

The study is divided into eight chapters.
Chapter 1 (the present one) deals with the statement of the problem, the importance of entrepreneur to the process of economic development, definitions of the term entrepreneur, a review of literatures relating to entrepreneurship, the objectives, hypotheses, justification, scope and limitations of the study, methodology used and sampling design, year of reference, definitions of concepts/terms used and the chapter planning.

Chapter 2 makes a study of the concept of entrepreneurship development, brief study of the various theories of entrepreneurial supply, entrepreneurial supply in pre-independent and post-independent period, need for entrepreneurship development in India and the process of entrepreneurship development.

In chapter 3 the profile of KSFC is given. It includes the origin of KSFC, objectives of KSFC, organisation structure, terms and conditions of finance, various schemes for entrepreneurs and promotional and developmental efforts of KSFC.

Chapter 4 presents the profile of the Karnataka State and the case study area i.e., Shimoga District.

Chapter 5 draws a profile of sample entrepreneurs in Shimoga District. The profile is drawn taking into account the following factors:

1. The characteristic features of sample entrepreneurs such as age, marital status, education level, family background, community-wise distribution, entrepreneurial activity undertaken and the factors motivating them to establish units.
2. The type of units promoted by the entrepreneurs.
3. Performance of entrepreneurs and
4. Problems faced by the entrepreneurs.

The chapter also makes the study of relationship among various characteristic features of entrepreneurs.

Chapter 6 assesses the financial role of KSFC in developing the entrepreneurship in Karnataka State as well as Shimoga District.

Chapter 7 assesses the effectiveness of the promotional activities undertaken by KSFC in promoting the growth of entrepreneurs. Assessment is made on the basis of data obtained from the sample with regard to the extent of dependence on and the usefulness of entrepreneurship development programmes.

Chapter 8 provides a summary of findings, suggestions and conclusion.
REFERENCES


15. Ibid., p.537.


18. Ibid., p.120.


35. Sadhak H., op.cit.


40. Ajay Lakhanpal, op.cit.


46. James J. Bema., op.cit.

47. Vasanth Desai., op.cit., p.301.

48. Ibid., p.370.