CHAPTER 1

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1.1. Introduction

Small and Medium Enterprises (SMEs) are very important in the development of any country particularly developing countries to which India is not an exception. Scholars (e.g., Zaidi, 2013) believe that SMEs play an essential role and are the backbone of the national economy.

Entrepreneurship has been focused on by the researchers in many countries where it is growingly considered as a paramount engine in economic development, economic growth, productivity, employment, and innovation. It has also been recognized as a key concept in economic dynamism around the globe.

Emphasizing the impact of entrepreneurship on the countries’ development, it is seen as one of the important contribution in the economic development of countries. The business report reveals that entrepreneurship is only a newcomer in the field (Vesper & McMullan, 1987).

Entrepreneurship is the process through which entrepreneurs create and grow enterprise. Entrepreneurship plays an important role in the economic development of a nation. It is the process of exploring and discovering opportunities, providing value in different cultural, social, and economic areas and is also seen as a basic foundation for a comprehensive and a sustainable development in countries.

Consequently, in the governmental and public sectors, entrepreneurship development is regarded to have an influential role in the global market, developing products, sustainable employment, dealing with competitors, solving problems and reducing poverty in societies.
Entrepreneurship as a crucial foundation in human development and advancement has various definitions in different contexts social, psychological, and management as well as economic scientists' accordingly presents different meaning for entrepreneurs.

There are two different definition of entrepreneurship. The first definition is that who is an entrepreneur. Entrepreneurship must be based on the findings identified.

The second definition is related behaviour, hence the people who are involved in entrepreneurship (Yaghoubi, 2010). An entrepreneur is a person who sees a market opportunity, gather the needed resources (finance and people) and execute to seize it (Cohort, 2006).

Scholars believe that an entrepreneur is person who evaluates market opportunities, collects the required resources and then decides to make a decision in taking a business. According to the Merriam-Webster’s online dictionary “an entrepreneur is someone who organizes, manages and assumes the risks of a business or enterprise”. Sobel (2008) sees an entrepreneur as an agent of change. On the other hand, Shepherd and Wingham (2007) assert that in entrepreneurship one brings the labour, resources, materials and another brings assets into combinations which cause their value to increase and while others introduce innovations, changes, new order, etc.

From the various definitions of entrepreneurship, entrepreneurs are considered as the drivers of the economic development who help to replace the old inefficient methods leading to modern and more efficient methods. Feili et al in 2011 claim that entrepreneurship is a momentous component of development. They added that, fostering and promoting entrepreneurship is seen as one of the
fundamental measures which are carried out to accelerate social and economic development.

Undoubtedly, the economic development trends in developed countries verify this reality that economy is actually influenced by entrepreneurship due to the central role of entrepreneurs in economic development. Fundamental changes are provided by the global economy for the industries and organizations all over the world. These changes need commercial companies to carefully explore their goals and to cautiously select and follow strategies leading to an increase in the level of activities.

Mostafavi, Abraham, DeLaurentis and Sinfield (2011) state that for rapid changes in their internal and external environments, a great number of established companies employed a new foundation for their operation structure.

As the matter of fact, in the present century companies have placed much emphasis on entrepreneurship. The emphasis on entrepreneurship has been started in 1980s (Histrich et al 2005). It was since then, that it’s fundamental role has been considered as a key factor in countries economic success.

1.2. Significance of Entrepreneurship

Entrepreneurship is seen as a very imperative movement in each country’s growth and competitiveness and is considered as a major source of social mobility. Regarding their contribution to new job creation, Birch (1979) asserts that new ventures have become a vital aspect of economic development in countries.

Different scholars maintain that the function of entrepreneurship in job creation, not all researchers agree on the real impact of entrepreneurship on a country’s competitiveness and economic development.
Entrepreneurship processes can be very crucial in gaining competitive advantages as it fosters’ the innovational processes in industrial sectors. Amorós, et al (2012) states that “the new entrepreneurial businesses may serve new segments or try new methods that their rivals who have been on the scene longer failed to identify or respond to for lack of flexibility” (p. 252).

1.3. Definitions of Entrepreneurship

Among the various types of definitions and conceptualizations on entrepreneurship available, the definition presented by Schumpeter (1934 as cited in Morris & Sexton, 1996) is the widely accepted one.

Morris and Sexton explain that Schumpeter defines entrepreneurship as an “introduction of new goods or new quality of goods, introduction of new methods of production, opening of a new market, exploration and utilization of new sources of raw materials and carrying out new organizational forms” (p. 6).

According to this definition, entrepreneurship involves creation of new economic activities or in simple words, any activities which bring changes in the market which are seen as ‘entrepreneurship’. Davidsson (2003) noted that new activities can range from new firm to internal activities which are new to the firm.

Firm growth in this definition is also considered as ‘entrepreneurship’ because growth can itself cause changes both in the internal and external environments. Entrepreneurship is generally considered as an organizational and personal phenomenon. It is not often easy to study entrepreneurship at the individual level because there are possibilities that can influence the success of individual entrepreneurs.

Covin, and Slevin (1990) claim that although it is difficult to do, studying entrepreneurship regarding firm behavior would be beneficial. In 1991, they also
stated that by bringing changes in the economic environment, the same as individuals, organizations can also establish value for society.

Murray (1984) believes that conceptualizing and investigating entrepreneurship as an organizational behavior would be a better approach than studying it as an individual act. Furthermore, authors (e.g., Covin & Slevin, 1991; Wiklund, 1998) theorize that although entrepreneurship as an organizational behavior is mostly related to large established enterprises, it can also be used for smaller organizations.

According to Hisrich and Peters (1998) entrepreneurship is a dynamic practice of new venture creation and encompasses the rewards and risks of the new ventures.

Timmons and Spinelli (1999) suggest that entrepreneurial behavior and attitudes take account of: taking ownership and being accountable; the inspiration to achieve and compete; new ideas, practices, being able to tolerate ambiguity and uncertainty, problem-solving and decision making, creative and flexible thinking, the ability to capture opportunities, and the ability to manage and finally reduce risks.

Entrepreneurship as a field of study is rather young (Cooper et al 1997). Thornton (1999) stated that the definition of entrepreneurship evolved from two approaches regarding the concept of the term ‘entrepreneur’ and the ‘demand side’ which refers to “the influence of firms and markets on how, where, and why new enterprises are founded” (p. 19).

A literature review, on entrepreneurship and development indicates that scholars see entrepreneurship as creating new economic activities (e.g., Low & McMillan, 1988; Shane & Venkataraman, 2000) which can lead to creating new organizations (e.g., Reynolds et al 2005; Schumpeter, 1934) or the pursuit of
innovations (e.g., Davidsson et al 2002; Schumpeter, 1934; Wennekers & Thurik, 1999).

Leading scholars, namely Schumpeter (1934), Baumol (2002) and others such as Acs, and Audretsch (1988) also Wennekers and Thurik (1999) declare that entrepreneurship seems to be a vital mechanism in economic development through innovation, employment, and welfare effects.

Autio (2007) stated that the orientation of entrepreneurial activities varies across countries. Autio believes that the dynamics of entrepreneurship can highly rely on the level of economic development and institutional context.

Entrepreneurial activities are believed to be a very significant contributing factor in the economic vitality of a country (Kent, 1984; Schumpeter, 1934). These activities are in association with new ventures, individuals, innovations, and risk-taking (Jennings & Lumpkin, 1989; Lumpkin & Dess, 1996). It is also in close link with job creation and growth. Therefore, it is remarkably essential for emerging economies in industrial countries.

Entrepreneurship is regarded to have a very decisive impact on countries’ social and economic development (Reynolds et al 2005). However, substantial and out of study on entrepreneurship is limited to small business and new business enterprises with no focal point on its international roles.

Some other scholars see entrepreneurship as self-employment activities of any kind. Entrepreneurs are mostly experiencing uncertainty and bearing risks while pursuing opportunities and involving creative and innovative actions.

While running their business, either compulsorily or voluntarily, entrepreneurs are always facing challenges of uncertainties, social, or potential
financial losses. They are risk-takers and it is this risk-taking that prompt’s those to highly focus their actions and attention to the exploration of profit realization.

Regardless of the contribution to development, entrepreneurship is seen as a momentous issue to guarantee the success of firms (Knight, 2000; Luo, 1999; Zahra & Neubaum, 1998). Consequently, investigating how entrepreneurship enables the firms to achieve superior performances in business.

Entrepreneurship has a key role in growth, personal fulfillment, and employment and is defined as “an individual’s ability to turn ideas into action” (“European Commission, 2013, para. 1”), but besides these, in order to transform these ideas into action you need to be able to use a set of competence, namely creativity, self-confidence, risk-taking, and innovation. As a matter of fact, they are the mindset, personal abilities, and behavioral or social attitudes which are necessary to be taken into account. According to Hisrich (2007) the central core in presented definitions of entrepreneurship by the scholars is regarding the kind of behavior that includes: a. initiative taking, b. organizing and reorganizing the economic and social mechanisms in order to turn the situations and resources to practical account, and c. risk and failure acceptance.

1.4. Entrepreneurship Activity in India

Entrepreneurship is seen as a very imperative activity in every country’s growth and competitiveness and is considered as a major source of social mobility. Regarding their contribution to new job creation, Birch (1979) asserts that new ventures have become a vital aspect of economic development in countries.

Entrepreneurship processes can be very crucial in gaining competitive advantages as it fermentation innovational processes in industrial sectors. Amorós, Fernández, and Tapia (2012) states that “the new entrepreneurial businesses may
serve new segments or try new methods that their rivals who have been on the scene longer failed to identify or respond to for lack of flexibility” (p. 252).

According to Draker (2006), entrepreneurship strategy is a set of personal knowledge to which is in the form of a guide or a plan to change the opportunities into values that may result in personal, massive, and social benefits. The SMEs in India continue to have a growth route since last decade. It increased noticeably from 261.12 in 2006-2007 to 311.52 in 2010-2013 which is a considerable rise in the number of MSMEs or SMEs (Zaidi, 2013).

Based on the World Bank report, Zaidi (2013, p. 413) adds that SMEs contributes for 50 % of the GDP and emphasizes the functions of small and medium enterprises in providing 70 per cent of the employment.

In India, SMEs had an undeniable contribution to the economy. SMEs is contributes for 40 % of the country’s domestic production, 50 per cent of total exports and 45 % of industrial employment in India.

Ace (2003) reported on a number of scholars having provided explanations regarding the impact of entrepreneurship on economic development. The different factors (e.g., law, cultural, institutional, social, etc.), the function of entrepreneurship has been different in different countries.

As countries are different in how they provide and regulate an environment for enterprises, India is a good case due to its distinguished open economy and because it has got fairly liberal economic policy and capability to promote speedy economic growth during the past 20 years. Consequently, we need to fully understand and analyze SMEs’ contribution to economic development during the past two decades in India and also to study the formation of new enterprises as a significant indicator of entrepreneurial activities in this country. We also need to analyze the major constraints impeding the emergence of new businesses in India. It
is also required to discover new proper policy measures which can support entrepreneurship development in the country.

1.5. Concept of Entrepreneurship

Entrepreneurship the heart of present business and a power behind innovative businesses characterizes the modern economy. Kuratko and Hodgetts (1998) describe it as a vibrant process to generate incremental wealth by people who assume great risk regarding equity, time or career commitment to create value for products and services.

For various reasons, entrepreneurship is regarded as a crucial component of economic development and growth. Shane and Venkataraman (2000) believe that it is a mechanism in which business and technological ideas are converted into products and services by the society. Schumpeter (1934, as cited in Maes, 2004, p. 1) states that “this type of entrepreneurially driven innovation in products or services and processes is a crucial engine driving the change process in a capitalist society”. According to Shane and Venkataraman (2000, as cited in Maes, 2004) “Entrepreneurship discovers and mitigates not only technological, but also temporal and spatial inefficiencies in an economy” (p. 1). This definition holds that the study of entrepreneurship is in close relationship with the study of business. Rothwell and Zegveld (1982) argue that entrepreneurship has long been regarded as synonymous for creating new SMEs and as an appropriate means for entrepreneurship endeavor.

Considerable research indicates that entrepreneurship is a process rather than a static phenomenon. Pirich, Knuckey and Campbell (2001) claim that entrepreneurship is not just an economic factor “Entrepreneurship has to-do with change and is also commonly associated with choice-related issues” (Ibiyemi and Adenipekun, 2013, p.1).

1.6. Economic Development
Economic development refers to a long-term process of change in order to reach to sustainable development, community prosperity, income, and community health. Economic development bestows improvement in the quality of life. This goal can be achieved by making net gain of money flow into the community, by adding to the standard of living of its people.

Economic development process comprises establishing goals and measurable objects, developing and implementing policy, and setting of detailed action plans. A variety of instruments can be applied to measure, evaluate, and monitor success. Baselines of community economic health indicators and life quality are formed against which change is assessed.

Economic development refers to a long-term multi-directional process of growth associated with change. Here, the term growth indicates quantitative changes in the level of income, output, investment, saving, and population etc. On the other hand, the qualitative changes refer to changes in institutions structure, finance, administration and the quality of human life. Growth and change together as a concept implies movement of an economy from one state to another higher state of equilibrium. Such a movement as a continuous process can improve the quality or life in the community. This process is known as economic process. All said; economic development implies the sustained action of policy makers and communities which promote higher living standards in a specified area.

1.7. Entrepreneurship and Economic Development

Entrepreneurship development refers to the infrastructure of public and private policies and practices that foster and support entrepreneurship. Entrepreneurship is an essential condition for the process of economic development. In fact, the need and importance of entrepreneurship in the context of a developing economy; hardly need any explanation. It is a basis of prosperity creative thinking,
social innovations. It is an important system of developing an enterprising society. According to Schumpeter, "Everyone is an entrepreneur when he actually carries out new combinations". Finding new combinations of factors of production is a process of entrepreneurial discovery that has become the engine that drives economic development.

The present day business and economic world cannot survive without entrepreneurial competence. This has become essential for rapid change and innovation, social development and industrialization. It promotes thinking and creativity in business for adopting new production techniques, modern technological changes and discovering new sources of raw material, new markets, and innovative products. The rapid economic growth can be achieved with the help of entrepreneurial spirits and creative attitudes and achievement vision of the persons. It can be pointed out that entrepreneurship is a key factor for rapid and balanced economic development, optimum utilization of resources, creation of employment opportunities, promotion of capital formation and establishment of a developed self sufficient society.

True development means the development in the three categories of a human. These are individual, social, and economic development. Individual development means increased skills and capability, greater freedom, creativity, self-discipline, responsibility and material well being. Increasing capacity connotes social development, while economic development is determined by the increased capacity of the members of a society in dealing with their environment. This emphasis means that development at the individual stage subsumed both the social and economic categories of development. Development is dynamic and therefore assumes a continuous transformation process and a movement towards better and improved conditions, locally and internationally.
1.8. Entrepreneurship Development Process

There are three schools of theoreticians about entrepreneurship. They have explained the entrepreneurship process. The first is the German tradition of von Thunen, Schumpeter and Baumol. The second is the neoclassical tradition of Marshall, Knight and Schultz and the third the Austrian tradition of Menger, Von Mises, and Kirzner (Wennekers and Thurik, 1999: 31). In this section, we focus on four entrepreneurial roles, emphasized by Schumpeter, Baumol, Knight, and Kirzner respectively.

The first use of the term entrepreneur in an economic context is attributed to Richard Cantillon in 1755. He refers to the entrepreneur as any individual who works under conditions where expenditures are known and certain, but incomes are unknown and uncertain. The uncertainty of income arises as future market demand is not perfectly forecast (Binks and Vale, 1990: 9-10).

The Schumpeterian entrepreneur is an innovator who introduces new technological process or products. The Schumpeterian entrepreneur alters technological possibilities and alters convention through innovative activity, and lifts up production constraints. According to Schumpeter, the main driving force behind the economic growth is the introduction of new combination of resources and services, not the creation of new possibilities:

“Whatever the type, everyone is an entrepreneur only when he actually carries out new combinations and loses that character as soon as he has built up his businesses, when he settles down to running it as other people run their businesses” (Schumpeter, 1934: 78).

“They have not accumulated any kind of goods; they have created no original means of production, but have employed existing means of production differently, more appropriately, more advantageously. They have
carried out new combinations. They are the entrepreneurs. And their profit, the surplus to which no liability corresponds, is the entrepreneurial profit” (Schumpeter, 1934: 132).

According to Schumpeter, the carrying out of new combinations can be classified into five groups: 1) the introduction of a new good, 2) the introduction of new methods of production, 3) the opening of a new market, 4) the invention of a new source of supply of raw materials or half-manufactured goods, and 5) the carrying out of new organization of any industry, like the creation of a monopoly position.

Baumol (1990: 893-921) stated there are several types of entrepreneurs among societies and overall environment plays an extremely significant role in the determination of each type of entrepreneurship. Baumol’s basic hypothesis is that, “While the total supply of entrepreneurs varies among societies, the productive contribution of the society’s entrepreneurial activities vary much more because of their allocation between productive activities such as innovation and largely unproductive activities such as seeking rent or organized crime” (Baumol, 1990: 893). To him, entrepreneurship will be allocated in productive or unproductive directions depending on the relative payoffs to different entrepreneurial activities, which can significantly affect the strength of the economy’s productivity growth.

The productive entrepreneurship is fostered “by incentives for entrepreneurs to devote themselves to productive innovation rather than to innovative rent-seeking (the non-productive pursuit of economic profit such as occurs in inter-business lawsuits), or event to destructive occupations, such as criminal activities” (Baumol, 2002: 5). Baumol stated that the entrepreneur is an innovator and this idea is motivated by Schumpeter’s work.
According to Knight (1921), the entrepreneur is a risk taker whose reward-profit is the return for bearing uncertainty and is an uninsurable risk. The opportunity for profit arises out of uncertainty that develops because of change. The entrepreneur is someone who is prepared to take on risk in an uncertain world. Knight made a significant difference between risk and uncertainty. Risk exists when we have uncertain results but those results can be forecasted with a certain degree of probability. Uncertainty occurs when the probability of results cannot be computed. The entrepreneur is someone who is willing to accept the remaining risk that cannot be moved through insurance.

For Kirzner (1973: 16-17), the entrepreneur is someone who is alert to cost-effective opportunities for trade. Recognizing the possibilities for trade allows the entrepreneur to take advantage by behaving, as a ‘middleman’ who facilitates the trade. Entrepreneur can identify suppliers and customers and act as the intermediary. Also, there is no need to own resources and profit arises out of the intermediary’s role. The role of knowledge in the market place is significant for the Kirznerian entrepreneur. Market exchange itself is an entrepreneurial process, but people can benefit from exchange due to information gaps in the market. In this view, the entrepreneur may be seen as little more than a market trader, gaining advantage of opportunities to trade; for Kirzner, the entrepreneur is someone who is still creative. The possession of additional information provides opportunities for creative discoveries. How-ever, in contrast to the Schumpeterian sight, anyone could potentially have the additional information and be alert to opportunities for exchange and trade.

According to the survey, there are three basic entrepreneurial roles: the first is the role of innovator (Schupeter’s innovating entrepreneurship). The second is the role of perceiving profit opportunities (Kirzeznrian entrepreneurship). The third role is that of assuming the risk associated with uncertainty (Knightian
entrepreneurship). A lack of entrepreneurial activity in the economy is related to low rates of innovation, to unseen 'profit opportunities' and to risk-averse attitudes which would cause lack of economic development.

1.9. Schumpeterian Entrepreneurship

Numerous visions have been articulated about the role of the entrepreneur in a capitalist economy. Perhaps the best known is Joseph Schumpeter’s view of the entrepreneur in the Theory of Economic Development. Schumpeter’s entrepreneur is an agent of change that is the source of his famous creative destruction. He introduces a new good or a new method of production, opens a new market or discovers a new source of supply, or carries out a new organization of an industry. He upsets the conventional way of doing things. When successful, he elicits widespread imitation. Such success “presupposes a great surplus force over the everyday demand and is something peculiar and by its nature rare” (Schumpeter [1949]).

What is the impetus for this kind of Schumpeterian entrepreneurship? Popular theories of entrepreneurship feature the role of risk taking (Kihlstrom and Laffont (1979)), managerial ability (Lucas [1978]), wealth (Evans and Jovanovic [1989]), and preferences for the control, flexibility and other job attributes that come with being one’s own boss (Hamilton [2000]) as the primary motivations for entrepreneurship. While all receive support from empirical investigations of the self employed and business owners, none maps into entrepreneurship with the singular impact envisioned by Schumpeter.

Entrepreneurial profit is the direct result of the activity of innovation and from this perspective this type of activity could be considered a temporarily productive factor. As we have already seen, the entrepreneurial leader is the person capable of initiating these actions and his or her role is indispensable in the
economic process, or as Schumpeter puts it “in most cases... the means of production are replaceable, but not the leader”. This contextualization of entrepreneurial activity and its recompenses allows for the fact that entrepreneurs’ profit is different of rent, wage or return on capital.

1.10. Contribution of Entrepreneurship to Economic Development

The OECD strongly emphasizes the significance of entrepreneurial activity as one of the main factors in economic growth because entrepreneurship provides new ideas, and innovation, both of which are positive sources of economic growth and development. The OECD defines the entrepreneurship “is the ability to marshal resources to seize new business opportunities. Entrepreneurship defined in this broad sense, is central to economic growth” (OECD, 1998: 41). The increasing role of entrepreneurs in economic growth encourages governments to promote entrepreneurship via reducing the financial constraints that entrepreneurs face; either through preferential loans to new businesses, or preferential tax treatment for new or small businesses. Among other polices, the OECD (2003) recommends stable economy, deregulation of monopoly sectors, establishing property rights and political stability, better education, investment in human capital, efficient capital and financial markets, avoiding excessive red tape.

Wennekers and Thurik’s (1999: 30-35) stated that we need this framework because there is no direct link between entrepreneurship and economic growth. The definition of the entrepreneurship has not been an easy task. Therefore, various intermediate variables or linkages (innovation, competition) are needed to explain how entrepreneurship affects economic growth. According to the framework, personal characteristics are important conditions for entrepreneurship. Cultural (open-mindedness towards other cultures, acceptance of risk, determination, valuation of wealth and savings, competitiveness) and institutional (incentives, competition rules, property right, possibilities for trade and specialization)
conditions stimulating entrepreneurial characters and behaviour, as well as influencing the intermediate linkages. Entrepreneurship has two major roles regarding the linking entrepreneurship to economic growth. The first is related to ‘new entry’. New entry can be accomplished by entering new business and a firm start-up is a major form of new entry. The second is related to innovation role of entrepreneurs. An innovative could be accomplished by a firm start-up. Start-ups and innovations as well as competition are the most relevant factors linking entrepreneurship to economic growth.

1.11. Contribution of SMEs and Economic Development

SMEs are the backbone of industrial development in India. It has a share of 40 percent in the industrial production and 35 percent of the total manufactured exports of the country. In terms of employment generated, this sector is next not only to agriculture, employing approximately 14 million people. Overall, the small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification.

The definition of small and medium enterprises varies from country to country. In general, the industries all over the world are defined in terms of number of employees or capital investment or both. Definition of the employment potential criterion was dropped from Small and Medium Enterprises in India due to the following reasons:

- Employment scene changes seasonally and hence it is difficult to follow this criterion of an employment limit acts as an incentive to limit employment to remain within Small and Medium Enterprises.

- Discrimination between labor intensive and technology sophistication.
The role of small and medium enterprises in economic development of a country can be explained with relevant parameters like increase in the number, production, employment, and exports over a period of time etc.

SMEs have a crucial role in the Indian manufacturing sector and have become engine of economic growth in India. Today, small and medium industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. The small scale industry accounts for 40% of gross industrial value addition and 50% of total manufacturing exports. More than 3.2 million units are spread all over the country producing about 8000 items, from very basic to highly sophisticated products. The SMEs are the biggest employment-providing sectors after agriculture, providing employment to 29.4 million people. SMEs account for almost 90 percent of industrial units in India and 40 percent of value addition in the manufacturing sector. Small industry has been one of the major planks of India’s economic development strategy since Independence. The small scale segment is a manifestation of India’s socio-economic development model and has met with the country’s long-term expectations in terms of contribution to GDP, industrial base, employment and exports. This segment forms a major part of India’s industrial base. Small enterprises in India have come up in an unplanned, uncontrolled and haphazard manner. They have emerged anywhere and everywhere –closer to the location of resources as well as markets, in clusters as well as in a dispersed manner, in industrial, commercial and residential areas.

SMEs are important to almost all economies in the world, but especially to those in developing countries, they provide major source of employment and income. SMEs contribute to economic development in various ways - they create employment opportunities for rural and urban people, they provide goods and
services at affordable price, offer innovative solutions and sustainable development to the economy as a whole.

Indian SMEs have also played major role in economic development. SMEs occupy a position of strategic importance in Indian economy structure due to its significant contribution in terms of output, export and employment. SMEs form the backbone of the Indian manufacturing sector and have become engine of economic growth. Major SMEs are in Agricultural inputs; Food processing; Meat products; Engineering; Electrical; Electronics; Plastic; Chemicals; Pharmaceuticals; Garments / textiles; Lather goods; Bio-engineering; Computer software / hardware; Sports goods etc. SMEs have the following impact on Indian economy as below:

- There are around 13 million SMEs.
- SMEs contribute nearly 45 percent share of manufactured output.
- Accounting for $100 billion or 40 percent in overall exports of the country primarily from engineering, gems and jewelers, agricultural, readymade garments and cotton yarn etc.
- Providing employment to about 32 million people. It is biggest employment provider after agriculture sector.
- SMEs are the foremost employment generating sector i.e. creates 1.3 million jobs every year. 12 million persons are expected to join the workforce in the next 3 years.
- More than 3.2 million units spread across India producing about 8000 items from basic to highly sophisticated products for the Indian and International markets.
- Contributing 45 percent of industrial output.
- SME’s contribution towards GDP in 2009 was 17 percent it is expected to increase to 23 percent by 2015.
• In service sector 35 percent of SMEs are registered and 70 percent are unregistered.

• SMEs have grown at 23 percent per annum and outstripped by 15 percent growth per annum of the industrial sector of India. Even after the GDP plummeting to 4.5 percent, the SMEs prevented rampant unemployment.

• The SMEs sector accounts for 40 percent of India’s Gross Industrial values and 50 percent of total manufacturing export.

• More than 55 percent of the SMEs are located in 6 major states: Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka.

• The development of SMEs speeded up, and enterprises with ten or fewer employees came to account for over 90 percent of all enterprises. Most of these enterprises are producing for the domestic market. The percentage of enterprises with ten or fewer employees fell to 70 percent, while the percentage of medium-sized enterprises rose to over 25 percent. Large enterprises accounted for around 5 percent of the total.

The following facts are related to SMEs in India:

• Only 4 percent of SMEs avail benefits from government schemes;

• 51 percent of SMEs products are exports to European countries, 12 percent to US and only 3.4 percent to African nations;

• 62 percent are with less than 50 crore turnover;

• 44 percent of technology upgrades are from USA, Japan, China, and United Kingdom etc;

• There are 61 SMEs listed on Bombay Stock Exchange (BSE).
1.12. Small and Medium Enterprises (SMEs)

Over the last few years, SMEs and MSMEs sectors have emerged to be highly vibrant and dynamic sectors in the Indian economy. MSMEs have a momentous role in not only providing employment opportunities at comparatively lower capital cost compared to large industries but also helping the rural areas to move towards industrialization, which in turn reduces regional imbalances and causes equitable distribution of national wealth and income. According to the Union Ministry of Small and Medium Enterprises (2012-2013), MSMEs are complementary to large industries as additional units which can contribute greatly to the socio-economic development of the country.

Development of SMEs is to a great extent dependent on the presence of supportive environment. Programs ranging from applying receptive regulatory environments to providing access to finance and technology are the inevitable components for SMEs development. However, all the Asian countries focused specifically on ‘entrepreneurship’ and its importance as an independent factor in promoting competitiveness. Needless to mention that government in every country has a crucial role in enhancing entrepreneurial culture. In countries like India, the Philippines and Malaysia the private-sector enterprises have also made attempts in this regard.

1.13. Scope of the Study

The scope of this study includes investigating the entrepreneurship economic effects in active SMEs in Mysore (Karnataka) and also assessing the influence of LPG polices on entrepreneurship.

The present study is confined to:

1. Mysore: (study area)

2. Small and Medium Enterprises (SMEs): (study units)
1.14. Need for Study

The importance of entrepreneurship pervades all sectors of the economy and all types of organizations, but industry and individual businesses, especially small ones, are particularly the places where entrepreneurship is crucial for productivity gains, job creation and economic growth. The contribution of entrepreneurs in industry is also essential for economic growth (Ahmad & Hoffmann, 2008).

A detailed study on the relationship between entrepreneurship and economic development would be useful to the comprehension of structure and behavior of SMEs in India. The results of such investigation are used by managers, investors, decision makers, planners, and other economy related participants.

1.15. The Research Questions

The research questions posed in this research are as follows:

Q1. Is the employment creation potential of entrepreneurship among SMEs significant and positive?

Q2. Is there a positive influence of LPG policies on the performance of entrepreneurship among SMEs?

Q3. Is the positive relation between entrepreneurship and performance of SMEs?

Q4. Is there a significant relationship between performance of SMEs’ and exports of SMEs?

Q5. Is there a difference between producers, commercial, and services, variants of SMEs in their exports and employment creation?
1.16. Objectives of the Study

The main objective of this study is to investigate the economic impact of entrepreneurship with special reference to small and medium enterprises in and around Mysore city.

Specifically, the objectives of this study are as follows:

1. To examine the significance of entrepreneurship to the economy, with specific reference to small and medium enterprises performances (SMEs).
2. To focus on policies and program relating to small and medium enterprises’ in India with special consideration on liberalization, privatization and globalization policies.
3. To analyze the relationship between entrepreneurship characteristics and performance of SMEs.
4. To investigate the relationship between performances of SMEs and their exports and employment.
5. To compare the performances of producer, service and commercial SMEs.
6. To elicit problems, perspectives and causal factors in the performance of entrepreneurship in SMEs through a case study in Mysore city.

1.17. Hypotheses for the Study

Hypotheses are formulated to investigate the relationships among the selected variables. Based on the objectives of the study the following hypotheses can be considered:

**H1.** The employment creation potential of entrepreneurship among SMEs’ is significant and positive.

**H2.** There is a positive influence of LPG policies on the performance of entrepreneurship among SMEs.
H3. There is a positive relationship between entrepreneurship and performance of SMEs.

H4. There is a significant relationship between the performance of SMEs and exports of SMEs.

H5. There is a difference between producers, commercial and services SMEs, in their export and employment creation.

1.18. Methodology

Entrepreneurship research needs to be conducted at different levels of analysis. However, in order to qualify entrepreneurship research, the study has to take new ventures on into explicit consideration. In empirical entrepreneurship research, the focus should not be reduced to an assumption. Regardless of the level of analysis chosen, it is important that it be properly matched with the theory.

This chapter discusses in general the research methodology that has been adopted in this study on the economic impact of entrepreneurship regarding SMEs in Mysore, Karnataka, India. The method that has been adopted in this research was carefully designed as to go well with the area of inquiry.

1.19. Research Design

Research design is the backbone of the entire research process. Since the research problem was well defined and all the variables related to the study were well established, the research fits well to both descriptive and analytical research design. The study attempts to confine its framework to the economic impact of entrepreneurship on SMEs in Mysore and analyzes the economic factors that influence entrepreneurship with special reference to the SMEs.
1.20. Secondary Data

Although the nucleus of the present work is dependent on primary data, this study like any other research work uses some secondary data as well for better understanding of the study area. As for the secondary information, the data on the historical background of the entrepreneurship development were included. Secondary data were collected from databases such as Reserve Bank of India, Directorate of Economics and statistics, Ministry of Industry and Commerce, Ministry of Finance, the World Bank website, specialized journals, and Industrial zone of Mysore.

1.21. Primary Data

A questionnaire was specifically designed and developed to collect the required data for analysis in this research. The questionnaire comprised classified questions on different aspects of entrepreneurship covered in the following sections.

Basic statistical as well as advanced analytical tools have been employed to evaluate respondents’ opinions about the economic impact of entrepreneurship on SMEs. The literature reviews have assisted the researcher to focus on the type of research methodology that was most suitable for this study.

1.21.1. Section I

A. Personal Information

This section requests respondents, to provide demographic information such as name, designation, gender, age, level of education, field of education, level of computer literacy, familiarity with use of the internet, personal e-mail and years of experience.
B. Enterprise Information

Under the category, name and address of the enterprise, phone No., Fax No., number of employees working, website address, year of establishment, type of activity, type of enterprise and E-mail address are also elicited.

1.21.2. Section II

SMEs entrepreneurial indicators

This section contains items regarding entrepreneurial indicators’ in the firm. Likert scale of 1 to 5 was used to select the best choice for the given statement. The numbers represent:


The entrepreneurial variables (Independent Variables) covered for response is:

A. Innovativeness
B. Risk -Taking
C. Pro- activeness
D. Autonomy and
E. Competitive Aggressiveness

1.21.3. Section III

This section includes variables on SMEs performance like:

1) Sales Growth
2) Customer Satisfaction
3) Market Share and
4) Profitability
1.21.4. Section IV

This section is on Economic Indicators namely,

a) Export Performance

b) Employment and

c) Impact of LPG (Liberalization Privatization and Globalization)policies

1.22. Methods and Tools of Data Analysis

For analysis of the data both descriptive and inferential methods have been used, besides using descriptive analyses consisting of mean and standard deviation. Inferential analysis namely, one sample t-test, Pearson’s correlation, simple linear regression, regression analysis, (stepwise multiple), ANOVA, one-way and Scheffe’s Post hoc test methods were used.

1.23. Plan of the Thesis

For analytical convenience, the present study is organized into six chapters. A short overview of each chapter is presented in the following:

**Chapter One:** This chapter presents the concepts of entrepreneurship in SMEs performance and economic development indicators. It also presents the background of the study, significance of the study, purpose of the study, objectives and hypotheses. It’s also throws light on methodology of the research, scope, limitations of research, and also the chapter scheme of the thesis.

**Chapter Two:** This chapter covers the review of literature on entrepreneurship in SMEs and economic development indicators, both at global and regional level. It also reviews certain topics related to the research and research variables used in the present study.

**Chapter Three:** This chapter provides description of the research methodology and research variables as well as the tools of data analysis used in this study. In this
chapter, the researcher describes questions in the questionnaire by frequency, relative frequency, figures and so on.

**Chapter Four:** This chapter provides information on Micro, Small and Medium enterprises (MSMEs) in India.

**Chapter Five:** This chapter is on the impact of entrepreneurship in SMEs in Mysore. It presents findings of data analysis. In analyzing the data, the researcher has used certain statistical tools and Statistical Software Package SPSS, Amour and Excel Software of MS office.

**Chapter Six:** This chapter gives a summary of the findings of the study. It also presents conclusion and suggestions based on the findings of the research.