CHAPTER I
DEFINITION, HISTORY AND THEORIES OF ENTREPRENEURSHIP
# CHAPTER I

## DEFINITION, HISTORY AND THEORIES OF ENTREPRENEURSHIP

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"Imparting greater vitality and growth impetus to the Micro, Small and Medium Enterprises (MSMEs) in terms of output, employment and exports and instilling a competitive background based on delicate technology consciousness”

Ministry of Micro, Small and Medium Scale Enterprises (MSMEs)

The First chapter deals with introduction, origin, concept and different theories of Entrepreneurship. The new definitions of enterprises i.e. Micro, Small and Medium scale enterprises (MSMEs) are pointed out in this chapter.

1.1 INTRODUCTION.

In the last century rapid development in the field of industrialization can be seen throughout the world. The Micro and Small scale Enterprises play their vital role in the process of industrialization, mostly in the developing counties like India. These Enterprises provide immediate huge opportunities of self-employment and employment for others. These Enterprises surely play dominant role to eradicate economic backwardness of the nation, to lessen regional disparities and to achieve self reliance. They assist to the large Enterprises and help to arrange designed process of the developmental activities. These Enterprises create many Entrepreneurs who, in future, may play super role in the process of economic growth. The Micro and Small Enterprises are able to make the proper use of local resources to improve the output of the agro based Enterprises and related services. The approx rising up of the Gross National Product (GNP) of the country is possible with the help of Micro and Small Enterprises.

In the developing nation like India, Micro and Small scale Enterprises definitely play a key position in the attainment of national economical aims i.e. an increase in supply of produced goods, promotion to the capital formation process, development of domestic enterprises and generation of huge employment possibilities.
1.2 ORIGIN OF ‘ENTREPRENEUR’.

The word Entrepreneur is derived from the French word “entrepredre” it means, “to undertake”. In the 16th century, the Frenchmen who organized and led military expeditions were referred to as “Entrepreneur”. In the words of “Cotillion”, an Entrepreneur is a special type of man who is engaged in production process and made certain payments to owners of production Enterprises in expectation of uncertain receipts and bearing non-insurable risks (Aitken, 1965). As per the study of “Haggen” (cited in Desai, 1991) an Entrepreneur is an economic man who tries to develop his profits by new thoughts. A pioneering idea involves problem solving techniques and the Entrepreneur gets contentment from using his capabilities by attacking on problems. The Modern Encyclopedia of Britannica depicts an Entrepreneur as “an individual who takes the risk of operating a business in the face of uncertainty about future conditions”.

1.3 DEFINITIONS OF ENTREPRENEURSHIP.

The Entrepreneurship can be defined as a productive and innovative response to the environment. Such responses can take place in any field of social endeavor, industry, business, agriculture, social work, education etc. So doing new activity, innovative practice, doing things that are already being done in a modern way is the simple concept of Entrepreneurship. In the words of “Hartman” (1959) “Entrepreneurship is the process whereby people, money, markets, production facilities and information are collected together to create a commercial enterprise”. As per the opinion of Schumpeter, Entrepreneurship is essentially a creative and innovative activity. These concepts have been used in many studies to study the features and significance of those persons who have started business enterprises. However, the contribution, innovation, practices of these to understand the concept of Entrepreneurship is not enough because they have not taken efforts to focus on the critical function of the Entrepreneur. So, the concept of Entrepreneurship remains inclusive.
1.4 HISTORY OF ENTREPRENEURSHIP IN INDIA.

After independence socialistic system comes into existence in India. By its very nature such an economical system could not appropriately focus on Entrepreneurship as a catalyst of economic advancement. The Entrepreneurial system in India changed in the eighties with LPG policy and concept of ‘open economy’ after 1991. The new Industrial Policy of 1991 encouraged and further developed the Small scale sector thereby, creating a positive environment for development of Entrepreneurship in this sector. A wide range of empirical inquiry on Entrepreneurship advancement has given theoretical interpretation in terms of the nature, internal dynamics of the activities of Entrepreneurship that further focus understanding of Entrepreneurship in our country.

1.5 DIFFERENT THEORIES OF ENTREPRENEURSHIP.

- ECONOMIC THEORIES OF ENTREPRENEURSHIP.

The economic studies of Entrepreneurship have been analyses in early economical history as well as within the existing classical framework. Entrepreneurship as a concept entered the economic literature mainly through the contribution of Richard Cantillon (1680 – 1734), who gave the concept an analytical prominence and assigning the Entrepreneurship an economic action.

- CLASSICAL AND NEO-CLASSICAL ECONOMIC THEORIES.

In the 18th century modern forms of production, social relations, governance and social thought began to come. In the economic branch, this phase marks the rise of classicism. I.B says that the Entrepreneur is an organizer. As per his study, the Entrepreneur is an economic middleman who collects all means of production and produces a socially valuable product for the society. To get success, the Entrepreneur must have ability to assess future demand to determine the appropriate amount of goods and their timings to calculate probable production price and selling price and to possess the skill of management.
• **THE PSYCHOLOGICAL THEORIES OF ENTREPRENEURSHIP.**

Despite conductive economic circumstances, social networking, support system, Entrepreneurial teams, finance, marketing and government policy, enterprise, sometimes cannot be created. It needs a person, who can gather all these factors in a productive manner, who believes in innovation or Meta Innovation and who has the motivation to accomplish the goals. For a person and his process to be successful definite psychological perspectives are essential. Flood (cited in Priyadarshni, 2007) explains an Entrepreneur as a person who initiates and manage new business. The theorists who have emphasis the contribution of psychological factors to Entrepreneurship are Schumpeter (1934), McClelland (1961), Hagen (1962) Kunkel (1965). Schumpeter’s Theory, Joseph Schumpeter’s (1934) theory provides the most thorough analysis of the Entrepreneurial function.

• **THE SOCIOLOGICAL THEORIES OF ENTREPRENEURSHIP.**

The sociological impact and research provide essential and distinctive contributions to the understanding of Entrepreneurship in different ways. Sociologists assume the Entrepreneur as an act performer corresponding to the role expected by the nation. Multiple societies are featured by number of customs, rewards and restraints ethnic values, nationalistic attitude and patriotisms.

### 1.6 MICRO, SMALL AND MEDIUM SCALE ENTREPRISES (MSMEs).

The role played by the business enterprises in the economic activity of developed countries like Japan, Germany, Great Britain and the US of America is very important. Many countries, both developed as well as developing exteriorized that the business enterprises is a useful engine of growth, in the later for the creation of new employment opportunities on a wide scale in the shortest possible time. Micro, Small and Medium scale enterprises account for more than 80 % of the private sector industrial workers and hence occupy an important position in the industrial pattern of Japan. The employment generating capacity of the Micro, Small and Medium enterprises in Japan has been seen to be larger than in Germany or United States. Thus, Micro, Small and Medium scale
enterprises play very significant role as muscles for overall economic development in the various countries. In the first half of the sixties the Micro, Small and Medium scale enterprises accounted for more than 50 % of Japanese exports. Such business was mostly labour oriented and not dependent on imports of raw materials and hence, its net share to foreign exchange was very high.

Prof. K.T. Shah was the first Indian economist, who recognized the significance of Small scale Enterprises in India; he tried to give an appropriate definition of these Enterprises. He stated that “A Small scale or cottage industry may be termed as an enterprise carried on by a workman skilled in the craft on his responsibility, the finished product of which, he markets himself”. He works in his home with his own equipments, tools and materials and provides his own labour. With the advent of planned economy in 1951 and the subsequent industrial policy implemented by the Government of India, both the planners and the government announced a special contribution for the MSMEs in the Indian economy. The last half a century has seen rapid developments in the industrial field. It is MSMEs which plays a key role in the industrialization, especially in a developing country like India. In India MSMEs always represented the model of socio-economic policies of Indian government which emphasized rational use of foreign exchange for the import of capital goods and inputs; labour oriented mode of production; employment generation; no concentration of economic power in the hands of a few business enterprises; discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-oriented operations.

1.7 DEFINITION OF MSMEs.

The several definitions of the term Micro Small and Medium scale enterprises (MSMEs) are varying from country to country and varying between the sources reporting the MSMEs statistics. The commonly used criteria at the international level to define MSMEs are the number of employees, total net assets, sales and investment level. If employment is the criterion to define, then there exists variation in defining the upper and lower size limit of MSMEs. The European Union makes a general distinction between self-employment and MSMEs based on the following criteria.
### Table No 1.1

Number of employees and nature of business

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Number of Employees</th>
<th>Size of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>Self-employed</td>
</tr>
<tr>
<td>2</td>
<td>2-9</td>
<td>Micro business</td>
</tr>
<tr>
<td>3</td>
<td>10-49</td>
<td>Small business</td>
</tr>
<tr>
<td>4</td>
<td>50-249</td>
<td>Medium-size business</td>
</tr>
<tr>
<td>5</td>
<td>Above 250</td>
<td>Large scale business</td>
</tr>
</tbody>
</table>

(Source: Publications of European Union, 2012)

- **Micro, Small and Medium Scale Enterprises (MSMEs) in India.**

  According to the Ministry of Micro, Small and Medium Enterprises, Govt. of India, recent ceilings on investment for enterprises to be classified as Micro, Small and Medium enterprises are as follows:-

### Table No. 1.2

**Micro, Small and Medium Scale Enterprises in India**

(MSMEs Act-2006)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category</th>
<th>Manufacturing Enterprises</th>
<th>Service Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro Enterprises</td>
<td>Rs. 2.5 million/</td>
<td>Rs. 1 million/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Rs. 25 Lakh (US$ 50,000)</td>
<td>**Rs. 10 Lakh</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$ 20,000)</td>
</tr>
<tr>
<td>2</td>
<td>Small Enterprises</td>
<td>Rs. 50 million/</td>
<td>Rs. 20 million/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Rs. 5 Crore (US$ 1 million)</td>
<td>**Rs. 2 Crore</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$ 40,00,000)</td>
</tr>
<tr>
<td>3</td>
<td>Medium Enterprises</td>
<td>Rs. 100 million/</td>
<td>Rs. 50 million/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Rs. 10 Crore (US$ 2 million)</td>
<td>**Rs. 5 Crore</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$ 1 million)</td>
</tr>
</tbody>
</table>

* *Investment limit in Plant & Machinery**  **Investment limit in equipments**  ***Rs 50 = 1 USD***

(Source: Ministry of MSMEs, MSMEs act 2006, Govt. of India, 2006)
• **DEFINITION OF MSMEs IN SOME SELECTED COUNTRIES**

• **CHINA**
  
  In China, the concept of the SMEs is less quantified and varies with the product. These Enterprises are designed to mobilize the local raw materials, local skills, local finance and the local markets. Investment ceiling is 30 Million Yuan.

• **THAILAND**
  
  In Thailand a Small and Medium enterprise is defined as an enterprise the fixed deposit on which does not exceed Baht2 million (approximately Rs. 12 Lakhs). Industrial enterprises are grouped under four categories, namely the manufacturing, the servicing, the handicraft and the cottage Enterprises.

• **ITALY**
  
  Units having a capital investment of not more than 1,500 Million Lira and are employing not more than 500 workers are considered to be SMEs.

• **UK**
  
  There is no demarcation between Small and large Enterprises. However, in books and treatises on industrial subjects, units employing less than 500 workers are generally referred to as Small units; but this cannot be considered as a criterion of universal applicability.

• **USA**
  
  In the USA, the manufacturing firm is officially a Small business for Government procurement purpose, if it is not dominant in its field of operations and if it has fewer than 500 employees, or if it is certified as Small by the Small Business Administration.

• **CHARACTERISTICS OF GOOD ENTREPRENEUR.**
  
  ✓ Self confidence and optimism
  ✓ Extra ordinary energy and diligence
  ✓ Ability to take risk
  ✓ Strong urge for achievement
  ✓ Positive attitude
  ✓ Leadership qualities
1.8 **ORGANIZATIONS ASSOCIATED WITH MSMEs.**

It is important to mention some of the organizations that are time to time associated with Small-scale Enterprises/ MSMEs:

- Micro and Small Enterprises Development Organization (SIDO)
- Small Scale Enterprises Board (SSIB)
- National Micro and Small Enterprises Corporation Ltd. (NSIC)
- Associated Chamber of Commerce and Industry of India (ASSOCHAM)
- World Association for Small and Medium Enterprises (WAMSME)
- Federation of Associations of Micro and Small Enterprises of India (FASII)
- Laghu Udyog Bharti (LUB)
- National Institute for Entrepreneurship and Small Business Development (NIESBUD)
- Micro and Small Enterprises Development Bank of India (SIDBI) etc.

1.9 **FEATURES OF THE MSMEs.**

- Location wise mobility
- Low intensive imports
- Capacities to develop appropriate local technology
- Import substitution
- Contribution towards defense production
- Technology – intensive Enterprises
- Competitiveness in home and export markets
- High contribution to domestic production

1.10 **LIMITATIONS OF THE MSMEs.**

- Inadequate exposure to international environment
- Inability to face impact of WTO regime
- Inadequate contribution towards R & D
- Lack of professionalism
- Low Capital base
In spite of these limitations, the MSMEs have made significant contributions towards technological development and exports. MSMEs have been established in almost all-major sectors in the Indian industry.

1.11 **MSMEs OCCUPIED SECTOR IN INDIA.**

- Bio-engineering
- Sports goods
- Plastics products
- Agricultural Inputs
- Chemicals and Pharmaceuticals
- Engineering; Electrical; Electronics
- Computer Software, etc.
- Food Processing
- Electro-medical equipment
- Textiles and Garments
- Leather and leather goods

**Steps involved in formation of MSMEs**

Chart No.1.1

Steps involved in formation of MSMEs

1. Analysis of opportunities
2. Selection of suitable field
3. Collection of technical and financial data
4. Selection of product
5. Preparation of project report
6. Registration of unit
7. Raising capital
8. Purchase of Fixed assets/ Current assets and Raw material
9. Starting of Plant
10. Production and Distribution
1.12 MSMEs INDIAN SCENARIO.

As per the report of fourth all India census of MSMEs, Ministry of MSMEs, Govt. of India the foremost States in our country in terms of MSMEs are Uttar Pradesh (44.03 Lakh), West Bengal (36.64 Lakh), Tamil Nadu (33.13 Lakh), Maharashtra (30.63 Lakh), Andhra Pradesh (25.96 Lakh), Kerala (22.13 Lakh), Gujarat (21.78 Lakh), Karnataka (20.19 Lakh), Madhya Pradesh (19.33 Lakh) and Rajasthan (16.64 Lakh). The foremost States, in terms of employment generation in India through MSMEs, are Uttar Pradesh (92.36 Lakh), West Bengal (85.78 Lakh), Tamil Nadu (80.98 Lakh), Andhra Pradesh (70.69 Lakh), Maharashtra (70.04 Lakh), Kerala (49.62 Lakh), Gujarat (47.73 Lakh), Karnataka (46.72 Lakh), Madhya Pradesh (33.66 Lakh) and Odisha (33.24 Lakh). Thus MSMEs in engine of growth for the economies like India.

Table No.1.3
Fourth All India Census of MSMEs

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Registered Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Size of Sector (in Lakh)</td>
<td>15.64</td>
</tr>
<tr>
<td>2</td>
<td>No. of rural units (in Lakh)</td>
<td>7.07 (45.20%)</td>
</tr>
<tr>
<td>3</td>
<td>No. of Women Enterprises (in Lakh)</td>
<td>2.15 (13.72%)</td>
</tr>
<tr>
<td>4</td>
<td>Total Employment (in Lakh)</td>
<td>93.09</td>
</tr>
<tr>
<td>5</td>
<td>Per Unit Employment</td>
<td>5.95</td>
</tr>
<tr>
<td>6</td>
<td>Total original value of Plant &amp; Machinery (` in Lakh)</td>
<td>10502461</td>
</tr>
<tr>
<td>7</td>
<td>Per unit original value of Plant &amp; Machinery (` in Lakh)</td>
<td>6.72</td>
</tr>
<tr>
<td>8</td>
<td>Total fixed investment (` in Lakh)</td>
<td>44913840</td>
</tr>
<tr>
<td>9</td>
<td>Per Unit fixed investment (` in Lakh)</td>
<td>28.72</td>
</tr>
<tr>
<td>10</td>
<td>Total Gross Output (` in Lakh)</td>
<td>70751027</td>
</tr>
</tbody>
</table>

(Source: MSMEs Report, Ministry of MSMEs, Govt. of India, 2014-15)
1.13 FACTORS AFFECTING ON PROGRESS OF MSMEs.

Some of the key constraints that are being faced by the Indian MSMEs are:

- Accessing adequate and timely financing on competitive terms, particularly longer tenure loans.
- Accessing credit on easy terms has become difficult in the backdrop of current global financial crisis and the resultant liquidity constraints in the Indian financial sector, which has held back the growth of MSMEs and impeded overall growth and development.
- It has become difficult for lenders to be able to assess risk premiums properly, creating differences in the perceived versus real risk profiles of MSMEs.

1.14 CONCLUSION.

Entrepreneurship plays very significant role in industrial development. The industrially developed countries like U.S.A., Germany and Japan bear the evidence that an economy is an effect for which Entrepreneurship is the cause. Entrepreneurship can be defined as a process of giving birth to a new enterprise. MSMEs i.e. Micro, Small and Medium enterprises, including Khadi, Village and Rural Enterprises, play a significant role in the overall industrial development of the nation.

Chart 1.2
Progress of Nation through Entrepreneurship
The Marathwada Region is industrially backward Region. The Jalna and Latur Districts were come in to existence on the same day i.e. on 1st of May 1982. These two Districts are industrially developing Districts. Thus, researcher has selected the comparative study of enterprises between the Jalna and Latur Districts, to understand growth, investment, employment and entrepreneurship related factors for Entrepreneurship Development in both the Districts.

1.15 REFERENCES.

3. Fourth All India Census Report of MSMEs, Ministry of MSMEs, Govt. of India, 2014-15.