Edited by

Shivganesh Bhargava

Developmental Aspects of Entrepreneurship

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In loving memory of my mother,
Srimati Dhurpati Devi Bhargava

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Foreword

All nations are putting in sustainable efforts towards attaining their developmental goals of complete literacy, reducing unemployment, eradicating poverty, maintaining health and improving the quality of life. Some are successful and many are still struggling. Entrepreneurship development of a nation will facilitate the process of attaining such goals. It is only possible if a nation adopts policies and strategies as per the demands of the time, implements an effective public expenditure management system and gets leadership rooted around national ownership, trust, co-ordination and partnership.

Entrepreneurship is the process of identifying and utilizing available resources and opportunities to convert (deliver) an idea into the form of a product to market. Entrepreneurship development, thus, represents changes in a society. Economic transformation, across the globe, is a reality today. Therefore, entrepreneurs should develop skills to see and understand future, convert ideas into actions, have the determination to create something new, and utilize all kinds of resources effectively. Talent (people), business, socio-political environment, and the government will play key roles in the entrepreneurship development of any nation. Therefore, recapturing entrepreneurial spirit, maintaining a positive attitude and fostering entrepreneurial capitalism will force the state to develop a healthy transparent governance system that is people-friendly, encourages technology, and invites financial investments. Combining these will lead to the strengthening of a society, allowing it become an entrepreneurial society and utilize the advantage of technological advancement, open economy and competitive market.

Edited by Prof. S. Bhargava, *Developmental Aspects of Entrepreneurship* deals with an important area of economic growth. It identifies the broad challenges that an entrepreneurial society and nation have to confront en route to entrepreneurship development. I am certain that this book, consisting of papers with diverse approaches and methodologies, will be of great help to students of

developmental studies, social sciences and management. Furthermore, it will invite reflection on the global access to opportunities for entrepreneurship. It will serve as an action-oriented approach to professionals and a source of additional information to researchers.

M.R. Rao
Dean
Indian School of Business, Hyderabad

Preface

A nation cannot aspire to become a developed one without having a sound economy and sustainable economic growth. It is possible to achieve this through a continuous supply of innovative, creative and enterprising people. Entrepreneurship development and entrepreneurial environment have a significant role to play in this process. Therefore, there is an urgent need to see and analyze the trend of the process of development over the years, availability, generation and utilization of resources, the base and type of economy and continuous sources of earnings. The role of entrepreneurship in any nation is clearly visible and possible through the people's and government's efforts to involve them in this process.

Everyone has the potential to excel, but some are able to do so while many cannot. This leads to many socio-economic problems such as poverty, illiteracy and unemployment. Creating an environment of entrepreneurship (a process of transforming passions or ideas into business reality), self-employment and enterprise creation could provide the solution to these serious problems and face the most serious social disease of unemployment that blocks sustainable economic growth of any nation.

It is also not correct to assume that only individuals from a few nations or communities or castes could turn out to be the entrepreneurs as this thesis has been challenged today. We now have convincing evidence that it is possible to inculcate entrepreneurial competencies in anyone. The time has now come for all to realize the need for creating and developing an entrepreneurial organization, where business starts with ideas of people incubated to define products or services and matching them to market realities through effective implementation. This is possible through an enterprising attitude of people, where the family, society, social institutions, government and leadership all play their role enabling individuals as well as small or medium enterprises, a very vital segment of economy, to gear up their business operations professionally for rebuilding nations.

This volume on *Developmental Aspects of Entrepreneurship* is a compilation of 11 papers on such issues, written by management gurus, faculty and research scholars of management and behavioural sciences, managers, consultants and administrators, who contributed their research findings, thoughts and experiences.

The opening chapter by Shivganesh Bhargava titled 'Towards Entrepre-neurship Development in the 21st century' focuses on the need of the entrepreneurial society to face contemporary challenges of the economy, markets and the environment. Based on literature and other secondary data, it envisions a bright future for the Indian economy and puts forward an agenda for the governments of developing nations like India to undertake. The chapter also highlights the role of the individual in taking up entrepreneurship as a career, where the general environment of family, culture, society, educational institutions and support systems is not predisposed towards encouraging self-employment and an entrepreneurial career over salaried employment. The chapter concludes that the entrepreneurship development process requires the attention of planners and policy makers.

The next chapter, 'Towards Developing Entrepreneurship and Building Entrepreneurial Organizations' by Ishwar Dayal, is an in-depth analysis of the concept of entrepreneurship for emerging organizations. Through historical and contemporary illustrations, he emphasizes the need for an interdisciplinary framework involving economists, historians, social and behavioural scientists for understanding this better. The important consideration is that societal structures that function on freedom, choice of individuals and consent are needed to contribute towards entrepreneurial activation. Behavioural training based on the McClelland model of achievement motivation, which has been successful in developing entrepreneurial behaviour among participants, has also been discussed. The author strongly believes that the most significant contribution to entrepreneurial development will be when corporate management promotes an intrapreneurial structure in their business practices and that such a development is going to take place in the next decade.

The chapter on 'The Evolution of the Concept of Entrepreneurship' by L.M. Bhole discusses, through a historical analysis, the meaning, role, functions and nature of entrepreneurship and has reflected on how the trend will evolve in the coming decades. The chapter indicates

that entrepreneurship is essentially a capitalistic concept, which has interdisciplinary roots, and that an entrepreneur belongs to the elitist class. To some extent, the concept of entrepreneur as an innovator, risk-taker and creative destructor has given way to entrepreneur–manager and constructive imitator. He puts forward a direction that the entrepreneur of the 21st century will have to be a 'Sociopreneur' and 'Entrepreneur-trustee'.

The chapter on 'Entrepreneurship: An Effective Means to Promote Employment' by S.R. Subba Rao and Ch. S. Durga Prasad addresses issues and provides directions on how to create more employment opportunities. The authors have argued that despite the government's efforts, unemployment is increasing at an alarming rate and poverty is not declining as expected. They posit entrepreneurship as an effective means of generating employment.

The next chapter is by Pramod Pathak and Saumya Singh on 'Entrepreneurship and Economic Growth: The Indian Perspective'. They have argued that the Indian youth is sanguine about his future and therefore his ambitions and expectations must be translated into results through systematic efforts. Contrary to popular belief, entrepreneurship as a means of economic growth and wealth creation was recognized in India in the past as well. The authors have traced references to *Udyamita* (translated as entrepreneurship) in ancient Indian literature dating back to as early as the 6th century BC in the *Jataka Tales*, a popular literature of those times. This chapter tries to answer why this concept of *Udyamita* or entrepreneurship in India is not picking up at the pace that is required today.

In the chapter 'Capital Structure Dynamics: Are Young and Small Firms Different', Prashanth Mahagaonkar and K. Narayanan discuss the issue of capital structures that deal with a mix of financing resources for a firm and its various linkages. They have argued that the literature on capital structure has typically dealt with a mix of debt and equity but the high-risk nature of equity and the interest expense of debt are a matter of concern. The proposition that the value of a firm is unaffected by any mix of debt and equity when there are frictionless markets and no taxation was considered a new insight for the markets. They found that the most important factor determining leverage and hence the capital structure is firm size. That leverage decreases with an increase in the effective tax rate was another observation made.

The article recommends conducting an analysis of the dynamics of capital structure on a larger dataset and formalizing a methodology for small and young firms.

India is a diverse nation and regional analysis helps in understanding the process of development more effectively. The chapter by Satyajit Majumdar, 'Growth Strategy in Small Manufacturing Organizations: A Study on Madhya Pradesh and Maharashtra', addresses questions like what are the factors important for the growth of small manufacturing organizations in India and whether each factor is of equal importance. In this chapter, growth has been assessed by applying performance parameters of a firm, with some amount of benchmarking in terms of the performance of that particular industrial sector, and strategies, which differentiate growth-oriented small organizations from others, were separated out. The findings showed that business growth aspects and performance were correlated in small manufacturing organizations. An entrepreneur's style influenced the growth of small businesses significantly. The hypothesis that organizations need more resources for growth could not be established, as these organizations did not consider the need for funds as a high priority issue. High dependence on government for infrastructure support was due to historical reasons. The author also concludes that de-reservation of products, initiated by the government, has changed the thinking of growing small-scale organizations, which are now ready to face competitive challenges.

In his chapter on 'Entrepreneurial Ambience of Eastern UP: A Scanning', P.S. Tripathi presents the case of a region that is one of the most backward pockets of India. Due to prolonged neglect, the entrepreneurial, industrial and infrastructural development of the region suffered. No significant investment has come in the last 15 years of reforms (1991–2004). In fact, existing industries like sugar, cotton, carpet and handloom are also facing a tough time in marshalling resources to upgrade themselves to face the new challenges.

The chapter by Ashok K. Singh is 'Perceived Constraints of Rural Entrepreneurs Related with their Income-generating Enterprises: A Perspective of Bihar State'. Based on primary and secondary data, he has presented a systematic analysis of the constraints of rural entrepreneurship based on a field study. He finds that constraints responsible for non-adoption of technologies, as experienced by the rural people, are socio-personal, technological, economic and communicational, varying in nature and magnitude.

Entrepreneurship has made its place in the business and corporate world. Little is known about the education, health and development of the weaker sections of society, without which social development is not possible. It is equally important to note that no nation can maintain sustainable growth and development on measurable, tangible and objective parameters in financial terms, if its social development index is low. Therefore, there is an urgent need to pay attention to the social aspects of entrepreneurship, which is another fertile area to work on.

In 'Towards a Model of Entrepreneurship: The SETWIN Model in Andhra Pradesh', Sita Vanka and S. Chandrasekhar Reddy have made an effort to rethink the developmental models/strategies for sustained development to face the challenges of 21st century. The last decade has witnessed downsizing of organizations, rising unemployment and increased displacement of employees. This calls for an approach that fosters employment generation for sustained economic growth. Entrepreneurship, in general, and entrepreneurial training, in particular, assumes significance in this context. The SETWIN model of skill and need-based training, with the objective of promoting entrepreneurial potential among the youth leading to employment generation, was initiated in Andhra Pradesh. This chapter highlights the opinions and perceptions of those who underwent training in some of the popular courses. Implications for entrepreneurial training in India and the evolving models are also discussed.

The chapter by D. John is on 'Social Entrepreneurship in Eye Health: A Sustainable and Equitable Model'. He has highlighted the importance of social entrepreneurship and presented its growing need in areas of education, health, micro finance, disability and human rights. He argues that it has brought the citizen sector out of the single-shop initiative into corporate entities. This trend is changing and the way society addresses its social problems has important implications for other sectors of society, especially business and government. This chapter calls for the corporate world to pay attention to this sector and concentrate on it for mutual benefit.

Infusing creativity into products and turning innovation into measurable outcomes such as profit are the challenges that need to be addressed. Here, students of entrepreneurship could play a significant role and contribute scientifically. Society has to create entrepreneurial leaders, who aspire not only to be at the top in the environment but also feel the need to nurture people on whom the nation's economy

stands. This is possible only through a comprehensive understanding of the socio-cultural as well as economic aspects related to starting and expanding business ventures. Entrepreneurs must balance internal resources and need to focus on continuous improvement of their employees by creating an environment conducive to growth and innovation. The framework posited in McClelland's achieving society model needs to be enhanced to develop a society as an entrepreneurial one. Policy makers and planners need to be flexible on the subject of entrepreneurship development if they want to achieve the target of sound economy. This requires nurturing an entrepreneurial culture, and ultimately a society rich in entrepreneurs. I trust that this volume will shed some light on this subject.

1

Towards Entrepreneurship Development in the 21st Century

Shivganesh Bhargava

This chapter focuses on the need of entrepreneurial society to face the contemporary challenges of the economy, markets, people management and the environment. From secondary data, a background has been prepared to propose a bright future for the Indian economy and put forward an agenda for governments of developing nations like India. Based on available literature, an attempt has been made to highlight the role of individuals in taking up entrepreneurship as a career, and identify where family environment, culture, society, educational institutions and support systems contribute significantly in forming and changing mindsets. It was found that the business environment is not very conducive to encouraging the Indian youth to consider self-employment or an entrepreneurial career as the preferred option over salaried employment. It is, therefore, necessary to take serious steps towards converting job seekers into job creators. Scholars have a role to play in encouraging the youth to take up entrepreneurship as a career. The chapter concludes that entrepreneurship development requires the attention of policy makers in changing the mindset of people and developing entrepreneurial organizations.

Entrepreneurship

Literature on different aspects of entrepreneurship shows that the word, entrepreneur, is derived from the French word **entreprendre**, which means 'to do something'. One could say that entrepreneurship is an innovative way of managing opportunities. It is the process of creating something new with value by devoting the required time and effort to gain economic independence and rewards (monetary/non-monetary), and achieve satisfaction. It is also the driving force for initiating business ideas and mobilizing human, financial and physical resources for establishing and expanding enterprises and creating jobs. In other words, entrepreneurship is the process of establishing a business enterprise and entrepreneurs possess the capacity to generate employment for themselves as well as others. Innovation and entrepreneurship are tightly coupled concepts. Innovation involves designing new ways of conceptualizing, developing and producing products. How new ideas are converted into products through entrepreneurship is an added dimension, which is sometimes said to be a mindset required to convert innovation into a real business situation for delivering benefits to stakeholders.

According to the Oxford dictionary, an entrepreneur is one who organizes, operates and assumes the risks in a business venture in an expectation of making a profit. Thus, an entrepreneur is a person who gets things done, starts a venture on his or her own and is able to create something that produces an outcome such as wealth. In other words, the entrepreneur is one who always searches for change, responds to it and puts persuasive efforts to exploit it as an opportunity for growth and development. Entrepreneurs create new jobs for people, improve their quality of life, contribute to/create economic growth, create wealth for reinvestment and improve their position in the global economic competition.

Successful global entrepreneurs provided some interesting insights for new ventures. They enhanced entrepreneurial activities through transforming the process of manufacturing, gaining from the revolution in telecommunications and information technology, creating a system of reducing geographical and political boundaries, entering the fast food revolution, and creating a place in health-related and children's products. They applied retailing innovations, made use of

the now booming electronic media's access to large populations, entered real estate by constructing low-cost houses for the masses, made air travel affordable, utilized the talent of that long-ignored group—women—and created a credible as well as friendly environment for getting access to the banking and hospitality services. It is beyond doubt that today this global era has created an environment for the customers to buy any product, international/national/regional/local, from anywhere. Think global and act local or act glocal (global and local) is the motive of several entrepreneurs. It is probably this kind of thinking that has enabled Indian entrepreneurs who have migrated to different places, mainly Europe and United States of America (USA), to become market leaders in trade and commerce.

Entrepreneurship in Developing Nations

To analyze the status of entrepreneurship and entrepreneurial environment in the East and the West, we can look at the largest corporations of the world such as Wal-Mart stores, B.P., Exxon Mobil, Royal Dutch/Shell Group, General Motors, Daimler Chrysler, Toyota Motor, Ford Motor and General Electric, all of which appear in the list of global Fortune 500 Companies in 2005. USA dominates, followed by Europe, with Japan from the East being an exception. While only four companies from India could find a place in this list, the nation has bright prospects for entrepreneurship.

Data reveals that India is one of the largest upcoming economies in the world and has the third largest Gross Domestic Product (GDP) in all of Asia. The liberalization of the economy, which started in the 1990s, has paved the way for a huge number of people to become entrepreneurs. India has a growing middle class (of around 250 million people), who could make their place in diverse fields such as manufacturing, agriculture and agro-processing, information technology (IT) and IT-enabled services, financial services, tourism and entertainment, health, housing and urban development. Today, India has one of the largest pools of technical and scientific talent in the world. It also has the advantage of having a burgeoning youth population in the working age group.

Entrepreneurship in an Emerging Economy

There has been a change in the world economy in the last 50 years and the change over the next 50 years could be more dramatic. Brazil, Russia, India and China (BRIC) are emerging economies with the potential to become even larger forces in the world economy. The list of the world's 10 largest economies may look quite different in 2050 and the largest economies in the world (in terms of GDP) may no longer be the richest (in terms of per capita income).

Opportunities for entrepreneurial activities are now increasingly available in traditional as well as non-traditional areas. However, the supply of entrepreneurs has not been increasing at the same pace. Small business enterprises play an important role in the economic development of a country. The development of these enterprises, both in the formal and informal economic sectors, is proposed as a way to achieve sustainable socio-economic development and eliminate poverty. Business needs to re-appraise its own role in designing new ways of preparing young people for the entrepreneurial challenge of the 21st century.

Agriculture, the main economic activity of India at the time of independence—when 90 per cent of the population was employed in agricultural activities and agricultural production, using traditional techniques of cultivation—was mainly for subsistence. The share of agriculture in the Gross National Product (GNP) was negligible and industrial sectors were completely underdeveloped. The nation also suffered from acute shortage of capital, skilled workers, infrastructural facilities and industries. Exports were centred around agricultural products, particularly raw cotton, spices and jute. Imports comprised scarce raw materials, machinery, equipment and even food grains. Basic infrastructural facilities like electricity, roads and transportation system, postal services, telecommunications, storage facilities and research and development units, while not beyond reach, were not easily accessible.

Today, we are able to export certain products that we have been importing in the past on account of surplus production. Our economy will automatically become stronger if this trend continues and follows in other products too. This could be an example of the impact of establishing a link between entrepreneurship and the emerging economy. While there could still be a debate as to exactly what factors have contributed to this status, very few scholars today have anything

to say against the open economy, as it is a solution to economic problems.

In fact, some Gandhian economists do say that all is not well with this new economy, particularly for an agriculture-oriented country like India. They still argue in favour of encouraging the development of rural and small industries, and taking into account the social as well as cultural contexts, when judging the relevance of the economy. It seems that planners and policy makers have now accepted the open economy as the mantra (formula) of development and we hardly hear anyone supporting Gandhian thought. Invariably, all schools of thought agree that entrepreneurship at the small or corporate level is the backbone of a sound economy and must be encouraged and promoted.

Small-scale Industrial Development in India

India, with its labour-abundant and capital-scarce environment has encouraged small-scale industries (SSIs) in the past as well. The 1956 Industrial Policy Resolution of India identified four factors, namely employment, equality, latent resources and decentralization, to be in favour of small-scale industrial units. The Government of India data available on the website (www.nic.in) shows that the programme for creating opportunities of self-employment for the educated unemployed has been in operation since 1973. The Small Industries Extension Training (SIET) initiative launched activities for stimulating entrepreneurship in Jammu and Kashmir (1972), Andhra Pradesh (1973), Assam (1974) and Karnataka (1975). The Government of India has now doubled bank credit to Small and Medium Enterprises (SMEs) from Rs 67,600 crore in 2004/05 to Rs 1,35,000 crore for 2005–10. A Corporate Debt Re-structuring (CDR) mechanism has also been put in place for SMEs in line with CDR applicable to big business houses. To arrive at the interest chargeable or loans being extended to SMEs, a transparent rating system has already been put into operation. Many institutions such as Small Industry Development Organization (SIDO), National Small Industries Corporation Limited (NSIC), National Institute for Entrepreneurship Development (NIED), National Commission on Enterprise in the Unorganized/ Informal Sector, Training and Entrepreneurship Development, Development Activities for Women and Trade Related Entrepreneurship Assistance and Development (TREAD) for women are engaged in formulating, coordinating, implementing and

monitoring policies and programmes for the promotion and development of SSIs.

In addition, SIDO provides a comprehensive range of common facilities, technology support services and marketing assistance through its network of 30 Small Industries Service Institutes (SISIs), 28 Branch SISIs, seven Field Testing Stations (FTS), four Regional Testing Centres, two Small Entrepreneur Promotion and Training Institutes (SEPTI), and one Hand Tool Design Development and Training Centre as well as a network of Tool Rooms known as Process-cum-Product Development Centres (PPDCs). All these function as autonomous bodies registered as societies under the Societies Act. Likewise, three National Institutes—National Institute of Small Industry Extension Training (NISIET), Hyderabad; National Institute of Entrepreneurship and Small Business Development (NIESBUD), New Delhi and Indian Institute of Entrepreneurship (IIE), Guwahati—are responsible for development of training models and undertaking research for entrepreneurship development in the SSI sector.

Formation of Small Industries Development Bank of India (SIDBI) is another step to promote entrepreneurship and reduce unemployment. SIDBI has tied up with a number of nationalized banks to ensure smooth credit flow. Today, SIDBI, along with other nationalized banks, is implementing IT-enabled applications, appraisal and monitoring systems to reduce transaction costs for entrepreneurs and speed up the credit delivery process. SMEs in India, having adopted international practices, are now functioning at par with their international counterparts. SME units with investments of up to Rs 10 crore are now called Medium Enterprises and priority lending is still restricted to SSIs. The Government plans to include trade and services within the ambit of SSIs and free SSIs from the typical inspection Raj (rule) by upgrading the infrastructure in major industrial clusters.

A country like India recognizes the importance of SMEs. SSI registration has been increasing over the years. A region-specific difference in numbers is possible but its positive impact in all regions is predicted. A large number of unregistered entrepreneurs may also be involved in income generation business activities, which ultimately benefit the entrepreneur and, in the long run, the economy of the nation. This is a healthy sign and demands the creation of an entrepreneurial environment, where the government has to be pro-active without suppressing the ongoing process.

Entrepreneurial Behaviour

Factors such as family environment, society, educational institutions and support systems play a very important role in forming and changing mindsets, which probably are not conducive to encourage the Indian youth to consider self-employment and an entrepreneurial career rather than salaried employment. It is, therefore, necessary to take steps for converting job seekers into job creators, where management scholars have a role to play for encouraging the youth to take up entrepreneurship as a career.

A perusal of some regular Indian business magazines reveals certain perceived traits associated with successful entrepreneurs. For example, professionalism, innovative thinking, knowledge and quality consciousness with Lakshmanbhai R. Gandhi and Ramachandrabhai R. Gandhi of Vadilal Ice Cream; affordable price, smart pricing strategy and developing mass market with Karsanbhai K. Patel of Nirma Chemical Works; fair price and strong marketing strategies with Aspi R. Balsara of Balsara Hygiene Products; honesty, dedication, Japanese culture and innovations with Jyothi Mukherjee of Bharat Biscuits; and innovation, customer loyalty and commitment to quality with Ramanbhai B. Patel and Indravadan Modi of Cadila Laboratories.

This indicates that both individual and organizational factors contribute to the success of entrepreneurs. In this context, some traits such as value, culture, creativity, patience, perseverance, dynamism, hard work and zeal, leadership, profit orientation, ability to attract and retain talent, maintaining the best industrial relation policies, honesty and ability to establish an international presence can also be seen as being common to all entrepreneurs. Content analysis of the studies focusing on entrepreneurial behaviour shows that a set of common characteristics could be identified, such as an intense drive, willingness to undertake a high degree of risk, enjoying performing difficult tasks, creativity and innovation, ability to get things done and focus on creating value. All these fall in line with what McClelland (1961) suggested four decades back, which can be considered as the determinants of entrepreneurial/organizational success even today.

Katz (1992) made an effort to examine the psychosocial cognitive model of vocational choices and suggested that personal history and social context play an important role in the choice of vocations. Busenitz and Barney (1997) found that entrepreneurs were more prone to

overconfidence and representative type of biases than their counterparts. Gatewood et al. (1995) found differences, by gender, where internal stable attributes were related to females and external stable attributes, to males.

Women Entrepreneurship

Throughout the world, women make a vital contribution to industrial output. Their work not only sustains their families but also makes a major contribution to socio-economic progress. Women have traditionally played an important role in the SME sector, as owners, managers and workers. They dominate three important sub-sectors, constituting over 80 per cent of the employees in textile, clothing and leather production; 75 per cent in food, beverages and tobacco production; and over 60 per cent in wood and wood processing. They also perform most agricultural work in rural areas, where they act as micro-entrepreneurs and traders in agricultural produce.

The participation of women, particularly in the SSI sector, has been as owners, managers and employees. Any SSI units or Small Scale Service and Business (industry related) Enterprises (SSSBE) managed by one or more women entrepreneurs in proprietary concerns or in which she/they individually or jointly have a share capital of not less than 51 per cent as partners/shareholders/directors of private limited companies/members of co-operative society are called Women Enterprises. This number has been increasing at a very fast rate in recent years. One can also see the fast rate in increase of women as managers and employees in entrepreneurial organizations.

Some examples of successful women intrapreneurs in India are Naina Lal Kidwai, Deputy CEO, HSBC; Indra Nooyi, President and CFO PepsiCo India; Kiran Mazumdar Shaw, CEO of BIOCON and the group of women (Jaswantiben Jamnadas Popat, Parvatiben Ramdas Thodani, Ujamben Narandas Kundalia, Banuben. N. Tanna, Laguben Amritlar Gokani and Jayaben V. Vithalani) who initiated *Lijjat Papad* in 1959. The Government of India has launched many schemes to attract women to careers as entrepreneurs.

The main objective of TREAD is to empower women economically through development of their entrepreneurial skills and by eliminating constraints faced by them in matters of trade. Under this scheme, there is a provision for assistance in the form of loans, grants, trade-

related training, trade information, counselling and extension activities relating to products, and market development for women entrepreneurs in the non-farm sector, in a group mode through reputed Voluntary Organizations (VOs), Non-Governmental Organizations (NGOs) and Self Help Groups (SHGs). To succeed as entrepreneurs, tips—such as never undervalue/underestimate yourself, never forget why you started your own company, maintain a comfortable network, remember that you are running a business, and promote yourself—could be of more help to female business owners than male.

Emerging Sectors

Entrepreneurial ability will never be a waste and could be utilized anywhere, anytime, in any sector and in any task. Looking at the global market trend and business growth, sectors such as health, entertainment, financial services, consulting, tourism, agro and agro processing, manufacturing, IT and IT- enabled services have a greater potential for entrepreneurship to flourish rather than traditional business areas.

In this techno-era, the prospects for entrepreneurial activities and success appear to be bright with the expansion and popularity of e-governance and e-banking. One can see many success stories particularly in the areas of IT, IT-enabled services and business process outsourcing (BPO). Big economies like the European Union (EU) and USA have entered into a number of trade agreements that facilitate transfer of technology to developing nations like India, through which entrepreneurial development applying collaborations and networking could be enhanced. Efforts at the level of inter-regional co-operation (IRC) with small economies such as Afghanistan, Bangladesh, Bhutan, Botswana, Cambodia, China, Ethiopia, Indonesia, Kazakhstan, Kenya, Malaysia, Maldives, Mauritius, Mongolia, Myanmar, Nepal and Pakistan may facilitate entrepreneurial efforts for mutual benefits.

Since the demand for organic vegetables and cereals is increasing globally, India, being the second largest producer of vegetables and the fifth largest producer of soya in the world, could establish her entrepreneurial skills and capture the untapped areas in horticulture. Entrepreneurs of India can take advantage of the cooperative route, contract farming and the poultry industry to capitalize on various ongoing government incentive schemes, which are not known to many

involved in this business. The government must put in some serious efforts in the direction of incubation and mentoring to promote these fields.

Tourism with different names—eco-tourism, spice tourism, adventure tourism, cultural tourism, medical and health tourism, and spiritual tourism—is another area where entrepreneurial skills could be utilized. In this field, entrepreneurs can enter into different functions like travel, guide services, hotels, emporiums and boutiques, printing, making audio/video matter and developing websites and portals on various places of tourist interest. Today, India is perceived as a relatively favourable destination in Asia and the government as well as entrepreneurs must utilize this opportunity professionally.

Another upcoming field of entrepreneurship is the field of business incubation and we have our own centre. It is a process of business enterprise development, where incubators nurture young firms and help them to survive, during the start-up period when they are most vulnerable, as well as help them grow. Our experience shows that incubators can also provide hands-on management assistance on financial, business, technical support and other areas. Services and consulting are other growing areas that one may consider entering for business in any part of the globe.

Emergence of an electronic marketplace is going to become essential in the years ahead, at least in the metro cities. With the available technology and manpower, India can experiment, do business innovatively, for the electronic marketplaces will create opportunities for even third-party intermediaries.

In comparison to the older generation, the new generation is more health sensitive. A vast market is waiting in the field of health and pharmaceutical sector for entrepreneurship. Lifestyle and the quality of life of people have changed drastically since the beginning of the 21st century. Ways of passing leisure time and work time have also changed. With electronic advancement, one has very bright prospects in the field of entertainment.

Entrepreneurial Skill and Mindset

Historical evidence shows that the mindset of an Indian villager towards starting a new venture is that of fear of failure due to external factors. Natural calamities such as floods, droughts and earthquakes

are regular phenomena and the government's failure in dealing with these adequately has also influenced their mental state, resulting in a lack of self-confidence and self-reliance in a large number of middle-class youths. Literature of the psychological sciences clearly shows that innovativeness develops from early childhood, where parents, senior members of the joint family, teachers, role models and ideals, peers of the similar value framework and overall environment play an important role in the moulding of an entrepreneurial mindset.

Beyond the individual level of analysis, we also have seen that in the success stories of entrepreneurs, easy access to financial input and encouragement from family members facilitate the development of new entrepreneurs. In the case of female entrepreneurs, pre-marital exposure to entrepreneurial activities within the family and support from the spouse as well as relatives and friends play a positive role. External factors such as availability of financial assistance and facilities for loans, technical manpower and employment contribute to promoting entrepreneurship. This means that India has entrepreneurs (people with skills) but does not have enough scope for entrepreneurship development. This requires creation of a positive mindset among people through visionary long-term efforts (programmes) by the government. Most developing nations, like India, have the necessary expertise, technology and business environment. The governments thus, have no option but to rethink their strategies for providing easy access to capital, ensuring an appropriate regulatory and tax environment, and creating a positive social and cultural attitude among the people, if they aspire to India taking its rightful place in the world. With a little more persuasive and serious efforts, the government may facilitate converting entrepreneurial efforts of the new generation into establishing India as a developed nation and powerful economy.

Conclusion

Entrepreneurs are considered to be the change agents in the socio-economic development of any country. A couple of decades ago, it was believed that entrepreneurship was hereditary. Certain communities in India were identified as the entrepreneurial communities. But it is evident today that entrepreneurship does not belong to a particular region, community, sex, education level, age or

income level. The free market model emphasizes minimal government intervention in the economy as the best way to maintain incentives for entrepreneurial behaviour. The Indian economy is poised for growth and with the government's commitment to liberalization, privatization and globalization, doors are opening for entrepreneurial ventures by all.

The world looks towards intelpreneurs (Intellectual + Enterprising), a society of people who are not only intelligent (individually and socially) but also industrious. At the individual level, Vroom (1964) predicted that intelligence (ability) and industriousness (effort/motivation) are necessary for performance (development) while Singh and Bhargava (1985, 1986) found them to be of equal importance. They argued that the absence or weakening of one could compensate for the other. The relevance of their findings is visible today at the societal level. This is the reason I see a bright future ahead for entrepreneurial management.

Even micro-level (small area) development of entrepreneurial society will become a chain reaction in the future among the coming generation of Indian villagers, leading to the creation of an entrepreneurial revolution of the East! Looking at the growing science and technology (S&T) infrastructure, available talent, professionalism of financial institutions, expansion of venture capital, quality of technical and managerial education, and fast growing industrial development, India has a strong chance of becoming an emerging, powerful and competitive economy in the future. Minimizing bureaucratic controls and visible obstacles on the one hand and adopting a more scientific approach towards the appraisal of credit worthiness, delivery of credit, market assessment and marketing strategy, on the other, are urgently required to be executed.

In fact it is a common belief that innovation is difficult to predict, but with consistent efforts, people, particularly managers, could be converted into successful innovators through strategies and self–confidence. This requires analyses of the suitability of entrepreneurial ventures as well as the ability to change products, customers and stakeholders. Today's managers, who have to play the role of entrepreneurial leaders, must balance between internal resources and need to focus on continuous improvement of their people by creating a hassle-free environment for achieving growth and innovation. Their positive expectations of the performance of colleagues exert a powerful influence on an individual colleague's performance, though

interpersonal relationships are not only simpler but also stronger between people of East as compared to people in the West. Why does a society like India, full of entrepreneurial talent, not have many entrepreneurs? Bhargava (2005), in a study on the rural unemployed youth, found that the common form of perceived employment is that of a peon, security guard, painter, waiter, sweeper, maid, or daily wage earner. Though the educational qualifications of the respondents varied from below matriculation to graduation, no qualitative difference was found in the perception of these groups. These respondents have the talent to acquire skills that could convert them into entrepreneurs. At the macro-level, this requires intervention from the external environment, particularly the government and financial institutions. At the micro-level, an organization may also promote intrapreneurship amongst its employees (managers/non-managers) through strategic decisions. Intrapreneural culture builds a relationship of trust among the people in an organization and this forces them to create and undertake many entrepreneurial activities. Our proposed thesis is that intrapreneurship within organizations and entrepreneurship in a society are the foundations of growth and development of the economy in future.

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2

Towards Developing Entrepreneurship and Building Entrepreneurial Organizations

Ishwar Dayal

The word entrepreneur entered economic theory more than two centuries ago when a French banker, Cantillon, used this word to signify an undertaker of business. An entrepreneur was visualized as the organizer of the factors of production and supplier of managerial skills. In due course, other economists, historians, and social and behavioural scientists gave a broader context to the term.

Research on factors affecting entrepreneurial manifestation has a long history, extending to the field of Economics (Schumpeter), Sociology (Weber) and Psychology (McClelland). A largely shared view, to which I also subscribe in this chapter, is that entrepreneurial activation is the continued result of entrepreneurial opportunities which have an economic, social and organizational origin, and of human behaviour that is related to entrepreneurial motives. The thrust of this chapter is to evolve action—choices that can activate entrepreneurial behaviour—using available research data from the social sciences and relevant experience. In this sense, entrepreneurship and intrapreneurship are processes that contribute to economic and societal growth.

To pursue the question of entrepreneurial activation, this chapter is divided into four parts:

(i) Entrepreneurial behaviour as an attribute of a person
(ii) Conditions that facilitate entrepreneurship
(iii) Cultural orientation that supports or discourages entrepreneurial activation
(iv) Organizational framework for enhanced entrepreneurial effort

The chapter will examine the processes involved in intrapreneurial and entrepreneurial activation and the socio-cultural/organizational considerations that influence these processes.

Entrepreneurial Behaviour

The issue of risk is central to the study of entrepreneurial behaviour and performance. Many studies have associated several characteristics of entrepreneurial behaviour such as strong predilection to (i) recognize opportunity; (ii) evaluate and judge a situation and (iii) make decisions after evaluating risk. Baumbeck and Mancuso (1987) found 'that entrepreneurs are stimulated by achievement itself, rather than by money. Money is a by-product and scorecard for the accomplishment of goals and achievement.' Hornaday and Abound (1971) used two psychological scales to evaluate an entrepreneurial sample. They found that entrepreneurs scored significantly higher in the scale of leadership, independence and need for recognition, and lower in need for support and benevolence. Palmer (1971) found that entrepreneurs are ambitious for personal achievement and show abilities for risk taking and making decisions under uncertainty. Entrepreneurs believe that their personal destiny is a product of their effort. They are independent, autonomous and self-reliant.

Most of the writings about entrepreneurship in India relate to setting up of new enterprises and the qualities needed to succeed. Desai (2000) states that 'Entrepreneurs are individuals motivated by a will for power; their specialist characteristic being an inherent capacity to select correct answers, energy, will and mind to overcome fixed talents of thoughts, and a capacity to withstand social opposition …' (p. 25). There are many books that discuss a step-by-step procedure for setting up a new venture (Jain 1998). The writings bring out problems in starting and

managing small enterprises and look at the do's and don'ts of starting such initiatives along with providing case studies and documenting personal experiences of setting up a new company.

Indian studies have also highlighted the characteristics that have shown up in Western studies. Entrepreneurs have a strong need for independence (Dayal 1999; Khandwalla 1987). They show impatience with bureaucratic procedures and have low levels of tolerance.

In brief, the studies show a consistent profile of entrepreneurial behaviour that may be operationalized.

They have a need for higher achievement and have a higher propensity for the following:

- Risk taking
- Identifying and seizing opportunity
- Decision making beyond past and the present trends

Ross and Unwalla (1986) have summarized intrapreneurial personality as:

- Focusing on results, not activity
- Questioning the status quo
- Motivated by problem solving and effecting change and innovation
- Frustrated by bureaucratic systems
- Ambitious and competitive

Conditions that Facilitate Entrepreneurship

Entrepreneurial activity needs, as almost everything else, a supportive environment. Zahara (1996) emphasizes that corporate entrepreneurship is essential for ensuring survival by periodic renewal of a firm's operations, redefining its business strategies and the product range, and enhancing its innovation capabilities. Such exercises are needed in a dynamic environment. It may be useful to briefly describe how some institutions or business organizations have developed a culture of thinking beyond the proverbial box and adopted processes that encourage individuals to take initiatives in work situations.

Example 1

Institution A had developed a practice of open and free discussion for decision making. The Director encouraged members to raise questions and voice alternative views even when, at times, the discussions led to the raising of voices. He interjected to the extent of summarizing the issues that came up for discussion and identified issues which needed examination, keeping in view the well-being of the institution. Over many months, the problem-solving and decision-making culture was characterized by (i) tolerance for ideas; (ii) decision-criteria that would be in the interest of the institution beyond self interest and (iii) openness among the members to bring out new ideas, however weird they sounded.

When new proposals were made to the Director he did not reject them but asked the individual concerned if he saw any reason why the proposal could not be implemented. The individual often saw the impracticality of the proposition or modified it. The institutional management encouraged discussion and interaction between people. Cumulatively such approaches created an environment of acceptance.

At the same time, the institution set out high goals of achievement for individuals and also for the institution as a whole. The attainment of the goals was linked to monetary and non-monetary rewards for individuals. The innovations of the individuals were given special recognition (Dayal 1991).

The illustration is provided to suggest the *process* employed by one institution for initiating and encouraging interactions among people to develop shared institutional norms and values. The members felt free to raise new ideas without fear of being ridiculed. The community was not afraid of adopting new ways of thinking so long as they served institutional goals. Conformity and uniformity were not seen to be institutional virtues. The *process* dimension (i.e. how issues are handled and resolved) in people-related issues is often more important than well-drafted statements of policy and rules of behaviour. Such supportive environment activates entrepreneurship.

Example 2

In an IT-based organization, CMC Ltd, the top management, headed by Dr P.P. Gupta before the company was sold by the government to

private owners, had laid down values such as respect for people, trust of people, opportunity for growth and development, and facilitation for innovation. The organization evolved practices which were derived from their value system. They had no leave rules. An employee stayed away when he had some compelling need to be away on personal account. Each individual had responsibility for results. The employees did not have to submit their travel account to their superiors. They would sign the statement and the account was settled. The superiors did not have to continuously chase work; the employees could consult anyone if they needed help. Everyone sat in an open hall and could be approached without the formality of an appointment. In our study of the Corporation, we found that absenteeism was the lowest in CMC as compared to its contemporaries. No fudging of travel accounts was noticed. Everyone kept to their work schedules and observed quality norms. There was a meditation room where employees could go at their own discretion. CMC developed many new systems, achieved impressive growth and became known for innovation (Sehgal 1996).

In brief, the organizational support for entrepreneurial behaviour is characterized by organizational practices which convey (i) respect for the individual; (ii) acceptance of an individual as a person by the community and not only as a role-performer; (iii) interactions among people that generate new ideas and encourage experiment even if they fail in their effort; (iv) recognition by the community for innovation and tolerance for deviance in thinking and (v) reward for high standards of performance and quality. The supportive environment demands performance and quality but it also encourages processes that create a sense of belonging and acceptance among employees, and practices that encourage self-direction and control.

The Current Scenario

Vast majority of organizations are top-driven. They are either subject to bureaucratic functional or rule-bound systems, or subject to family directions and controls. Some of them who have experienced competitive pressures in their key product groups have superimposed 'schemes' to reward improvements, largely in the performance area. They have initiated many different schemes. For example, National Thermal Power Corporation (NTPC) has schemes such as a 'best

practices' reward and teamwork, leadership, training, etc. Bharat Heavy Electricals Limited (BHEL), Bharat Electronics Limited (BEL), Gas Authority of India Limited (GAIL) and several oil companies have injected different types of schemes. Tata Motors have brought in and encouraged innovations. Tata Iron and Steel Co. Limited (TISCO) has a very successful works committee organization and a suggestion scheme. These are only a few instances but the basic structure is that of standardization, direction and control, with an attendant system of rigidities.

There are a growing number of companies, initiated by technically qualified individuals, that have a somewhat flexible managerial orientation and provide elbow room for employees. Another useful trend is that individuals with professional or managerial qualifications branch off to set up enterprises after some work experience or on completion of their studies. With rare exceptions, organizations provide conditions that activate entrepreneurial behaviour among employees. Of course, individual initiatives are noticeable especially among professionals. This trend will grow as the economy expands and business opportunities become more varied.

Luchsinger and Bagby (1987) suggest that characteristics of an organization that promotes intrapreneurship are:

- Focus on results and teamwork
- Reward innovation and risk-taking
- Tolerate and learn from mistakes
- Remain flexible and change-oriented.

Cultural Orientation

Sociological and psychoanalytical studies of child rearing practices have identified certain characteristics that develop during the process of primary socialization. In a joint-family environment, the head of the family is accepted as the leader and decision maker. The role of an individual is fixed. The younger people are taken care of in every respect; they follow what is required of them. They are protected by the elders in the family and people who are close to the family. Many studies have repeatedly found that the socialization process induces dependence, a strong family attachment and affiliated needs (Chattopadhyay 1975).[1]

The same patterns are reinforced in most school systems where conformity and obedience are rewarded. These patterns are further reinforced in tertiary education and work environments.

There are notable exceptions with respect to the characteristics identified here. This pattern is slowly changing in the urban nuclear family environment and among families where both parents work. A recent study of the urban youth, however, shows that while affiliation needs are still strong, young children rely on their friends for nurturance rather than the parents (Singhal and Rao 2004).

The Implications for Entrepreneurial Activation

Such cultural orientation has both positive and negative implications. The positive aspect is that individuals have the support of their families in whatever they undertake. Any failure of a project is condoned and accepted without the assigning of blame. In cases where individuals have a family business, they are absorbed in trading, or shops dealing with items of daily use. The family provides the training. These businesses are now being threatened by mega-stores, shopping complexes and professionally managed retail outlets.

The negative feature of cultural orientation is that individuals have little opportunity to question and develop their self-identity. In my study of factors that contribute to effective leadership, I found that it was organizations that helped people develop self-identity, self-confidence and judgement, rather than the family (Dayal 2004).

Some of the best recognized institutions of higher learning are consciously initiating systems and practices that help students to assess their own capabilities. Hence, the most important sources of entrepreneurial development may be identified as:

(i) Family, which provides security against failure, thus enhancing the risk-taking propensity for individuals concerned.
(ii) Organizations that empower and mould people to seek out entrepreneurial avenues, either within the organization or outside it.
(iii) Institutions of higher learning, which encourage an atmosphere of questioning and development.

These are not by any means the exclusive sources of entrepreneurial development, but are, I believe, representative of a trend.

Summing up: Framework for Development

Entrepreneurship is the core of economic development, especially in an open economy. The experience is that the failure rate of small businesses is very high. In our survey of small business enterprises in one area near Delhi, we found that many of them did not want to grow beyond their present size for a variety of reasons, such as an inability to deal with labour, find a market for their product and develop a system of people management. To a large extent these reasons are assignable to the 'personal limitations' of entrepreneurs. While a large number of such enterprises were able to operate successfully in a somewhat stable market environment, it is likely that the rate of failure would increase substantially in competitive market conditions. Even in the trading or retailing sectors, their survival would increasingly depend on innovative initiatives. Bhide (1999) writes, 'Great strategies, however, don't guarantee great execution. A venture may fail if its founders do not have the best people, attract capital, invest in organizational infrastructure and shape a culture to suit the venture's strategy'.

The evolving scenario suggests that a variety of entrepreneurial input would be needed. Different kinds of ventures to support economic growth are also needed considering that outsourcing is a growing pattern of managing enterprises. Specialized service and support organizations have to emerge in the Indian situation. In this context, intrapreneurship has a significant role. The intrapreneurial experience in large organizations would encourage individuals to set up a variety of business ventures and such developments would provide an accelerated growth impetus to the economy. In this sense, I believe that large organizations which develop intrapreneurship behaviour would have an important but indirect contribution to entrepreneurial activities in the evolving economic environment.

Primary institutions such as family, societal structures and relationships, and perhaps educational systems are instrumental in generating among individuals an urge to achieve, to compete, and to appraise one's own capability. As these institutions undergo changes in their social patterns, the lifestyle of people, their attitudes and values and social aspirations will change correspondingly. This phenomenon is already noticeable in some sections of the urban society in India. Western societies also experienced changes during the 19th and the

20th centuries, which were largely influenced by the phenomenon of industrialization coupled with technological developments taking place in businesses and industries in United Kingdom (UK) and other European countries. The important consideration is that societal structures that function on freedom of choice of individuals and consent are needed to contribute towards entrepreneurial activation. Behavioural training based on the McClelland model of achievement motivation has been successful in developing entrepreneurial behaviour among participants (Gupta 1989). I believe that the most significant contribution to entrepreneurial development will be when corporate management promotes an intrapreneurial structure in their business practices. This development is beginning to happen and I think the next decade would experience more rapid changes in this area.

End Note

1. Also Carstairs (1957), Steed (1957), Spratt (1966), Whiting (1968), Kakar (1978) and Dayal (1977).

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3

The Evolution of the Concept of Entrepreneurship

L.M. Bhole

The objective of this chapter is to discuss the meaning, role, functions and nature of entrepreneurship as they have evolved over the past two to three hundred years and as they will continue to evolve in the coming decades. It brings out that entrepreneurship is essentially a capitalist concept, that it is interdisciplinary in nature and that the entrepreneur belongs to the elitist class. To some extent, now, the role of entrepreneur as an innovator, risk taker and creative destructor has given way to entrepreneur as entrepreneur-manager and constructive imitator. The objective of the entrepreneur is essentially to maximize economic self-interest, and just as he has contributed to economic growth of nations, he has also been a contributor to the unsustainable development and the crisis of modern civilization. The entrepreneur in the 21st century will have to be a 'sociopreneur' and 'entrepreneur-trustee'.

Introduction

When India became politically independent, the national aspiration was to achieve growth with social justice and stability. A system of centralized development planning and mixed economy was adopted

to achieve these goals. Public and private sector initiatives were to be used for developing, mobilizing and harnessing the means, resources and factors for economic development. It was perceived that the 'problematique' of Indian development was the inadequate availability of capital and sophisticated technology. Therefore, high priority was given to increasing the rate of capital formation and technical progress. Since the state and Indian business houses were to supply entrepreneurship, the actual development of entrepreneurship did not receive explicit and high priority till 1971. The state assumed the role of 'entrepreneur' and launched many enterprises in new modern industries namely heavy machine tools, heavy electricals, fertilizers, locomotives, petro-chemicals, oil exploration and extraction, ship building, etc. The state also used the well-tested managerial expertise, financial resources and entrepreneurial capability of big business houses to set up enterprises in consumer and capital goods industries.

However, it was soon found that this strategy did not succeed in solving the problems of mass unemployment, mass poverty and underdevelopment of small-scale industries and business. Therefore, the authorities turned their attention to the development and training of human resources and entrepreneurship. Specific schemes such as Entrepreneurship Development Programmes (EDP) were launched in various States during the 1970s and subsequent years. In the 1990s, Indian entrepreneurship in Information Technology, Communication and Entertainment (ICE) industries assumed a leading role internationally and significantly impacted the growth process.

At this juncture of apparent success, it would be useful to remember that the model of entrepreneurship development for the 21st century may not be the same as it has been so far. The character, the goals, the responsibilities and the concerns of the enterprise have changed and are going to change further in the future. Similarly, the meaning or the concept of development has now undergone a significant change. The limits to growth, the serious environmental and ecological degradation, growing international and intranational disparities or inequalities, jobless growth, increased financial, economic and political instability, etc. have made it imperative to think of sustainable, less resource-intensive and less destructive development. In the 21st century, the entrepreneur will be increasingly required to contribute to the new enterprise development paradigms.

Nomenclature

The meanings of the terms entrepreneur and entrepreneurship have remained elusive. In the minds of some people, they create a vision of some special, abstract qualities. On the other hand, the discussion on policies for 'training and developing entrepreneurs,' or for 'increasing the supply of entrepreneurs' has tended to equate the entrepreneur with a highly competent, successful, efficient manager or administrator. There is also a possibility that some people may approach the subject as if the concept of entrepreneurship has remained unchanged over time and space. Therefore, it is necessary to highlight the nuances of the nature of entrepreneurship as they have evolved over the years.

Humanity has always consisted of individuals with entrepreneurial spirit. Throughout human history, entrepreneurs have seized the initiative to change the economic landscape. The olden-day hunters, gatherers, farmers, tool makers can be said to be the earliest examples of entrepreneurs. Use of the term entrepreneur is said to date back to 1709. Terms such as 'undertaker', 'projector', 'intrapreneur', 'leader', 'technopreneur', 'e-preneur', 'netpreneur' and 'venture-capitalist' can be found to have been used in literature for referring to the entrepreneur. In future, with the emerging and evolving responsibilities of the entrepreneur, scholars may require the use of terms such as 'sociopreneur' and 'sociopreneurship'.

Interdisciplinary Concept

The credit for initiating and first developing the concept of entrepreneur may perhaps be given to economists. J.B. Say, J.A. Schumpeter, F. Knight and others have played a major role in explaining the nature, meaning, role and functions of the entrepreneur. At the same time, it must be recognized that other social scientists, for example, the sociologist Max Weber and psychologist D. McClelland, have also made a significant contribution to the enrichment and broadening of the concept of entrepreneur. Entrepreneurship is a truly interdisciplinary concept with economic, sociological, psychological and cultural dimensions.

Preliminary Definitions

According to the Oxford Dictionary, an entrepreneur is a person who undertakes an enterprise (i.e. bold or difficult undertaking) or business with the chance of profit or loss; a contractor acting as intermediary; a person in effective control of a commercial undertaking. It may be noted that this is too inclusive a concept, as it treats even a mere contractor or intermediary as an entrepreneur.

A somewhat jargonized and highly generic formulation of the concept states that 'entrepreneurship is the ability to say you will make a difference and go make it happen, as opposed to sitting around and complaining about things and being a Monday morning quarterback' (Chhabra 2005: 45). Can we really refer to a gang leader, or a black marketeer, or some such person as an entrepreneur? All such people are very active and they possess the qualities mentioned in the definition in more than ample measure.

Entrepreneur as Innovator and Creative Destructor

J.B. Say, a French Economist (1767–1832), has defined entrepreneur as the individual who 'shifts economic resources out of an area of lower and into an area of higher productivity and greater yield' (Cardullo 1999: 4). According to Say, the entrepreneur upsets and disorganizes economic stability and brings together factors of production in a way that creates new wealth.

Schumpeter's perspective on entrepreneurship was similar to that of Say. Schumpeter has written extensively on the subject of entrepreneurship and its impact on the economy. Since the beginning of economic theory till Schumpeter came on the scene, economists had talked about only three factors of production: land, labour and capital. Schumpeter introduced the fourth factor of production, namely, the entrepreneur; he held the entrepreneur being distinctly separate or different from the factors of production, including capital. Like Say, Schumpeter argued that the entrepreneur is a 'creative destructor', an 'innovator' who creates or causes a dynamic disequilibrium in the economy by taking innovation to commercialization by embedding it in an environment where it did not exist previously. The entrepreneur

is one who conceives and engineers change, who tries out new combinations, who has a 'creative spark'. Originally, entrepreneurship was regarded as distinctly different from management and it was considered a crucial element to ensure business success. Innovation is the chief criterion, the defining characteristic, the distinctive aspect of the entrepreneur. It is a creative and adaptive response to given conditions and for this function the entrepreneur gets a distinct return, namely, pure profit.

The concept of entrepreneurship is typically a child of capitalism, particularly industrial capitalism. According to Schumpeter, the capitalist system or modern industrial system cannot remain stationary for long. The process of industrial mutation, of creative destruction incessantly destroys the economic structure from within. In such a system, the entrepreneur reforms or revolutionizes the pattern of production. He acts with confidence beyond the range of familiar beacons and overcomes resistance with his special aptitudes. These aptitudes are present in only a small fraction of the population. The entrepreneurial function is essentially not so much in inventing as in 'getting things done'. To elaborate, although eventually the entrepreneur will change the conditions, the capitalist system has the tendency to remain in a state of stationary equilibrium. In such economies, generally, there is no change in fundamental conditions. There is a 'circular flow' of goods and services in one direction and of money in the opposite direction. The producers use money to buy the services of factors of production who, as consumers, use the money to buy goods that have been produced by employing the factors of production. In such a stationary economy with a circular flow, there is no saving, hence no additional investment and consequently no changes in the methods of production, period after period.

It is the entrepreneur who changes this picture, who extricates the economy out of its state of stationary equilibrium and puts it on the path to growth. His actions cause business cycles, industrial fluctuations and changes in the structure of the capitalist industrial economy. He does this through innovation i.e. a new way of utilizing the productive resources of the economy as contrasted with the essentially routine task of managing those resources in customary ways. An innovative or innovating entrepreneur causes 'creative destruction', which results in economic growth. In the growth process, there is a constant and deep-rooted competition between new ways of doing things and the

old ways of doing things and in this struggle, the old is ultimately destroyed and the new raises the economy to a higher level of activity.

Difference between Invention and Innovation

Schumpeter differentiated between the inventor and the innovator (entrepreneur), between the resource-owner of a firm and the entrepreneur, and between the entrepreneur and the capitalist. He argued that the entrepreneur may or may not be the inventor, and similarly, the entrepreneur may or may not be the supplier of capital, funds, finance or credit. While the inventor produces ideas, the entrepreneur 'gets things done'. There is a difference between the 'discovery' on the one hand and the 'exploitation' of opportunity (i.e. realization of the potential value, which the discovery/invention might have created) on the other. Invention involves 'fruition of insight', 'flash of genius' and 'research and development'. It is the creation of a new product, process or service, which may need time to achieve general market penetration. It is born when it is proven to work within a limited environment such as a laboratory.

Innovation is a technical solution to a particular problem. It picks up an invention or concept and adds the economic dimension to it so that it can enter the marketplace. Innovation is an invention that is replicated reliably on a large scale and at an acceptable cost. It changes the yield or productivity of resources; it changes the value of and satisfaction obtained from the resources. Entrepreneurial innovation consists of diverse new activities such as, (i) introducing new kinds of goods and services, (ii) trying out untested methods/techniques/processes of production, (iii) opening up new markets, (iv) finding out new raw materials and new sources of raw materials and (v) reorganizing the structure of a particular industry. Innovation involves creating new structures in place of administering the existing or given structures. The entrepreneur is, thus, an entity in between the inventor and the manager. However, some people now argue that entrepreneurship does not consist only of doing something new or original; the successful adoption and adaptation of innovation or the changes brought about somewhere else are also a part of entrepreneurial activity. In other words, 'constructive imitation' is also a part of entrepreneurship.

Emergence of the Entrepreneur-Manager

The role of entrepreneur as an innovator or as a change-agent has now been highlighted by everyone and credit for defining innovation as a key function of the entrepreneur goes to Schumpeter. However, it is important to note that from the point of view of an evolutionary perspective the concept of entrepreneur had undergone some change at the hands of Schumpeter himself. Schumpeter, as the author of the *Theory of Economic Development* (1934), had talked of the entrepreneur as an innovator, but as the author of *Capitalism, Socialism and Democracy* (1942) he pointed out that in large firms, the economic development gradually tends to become depersonalized and automatized, and consequently innovation tends to be reduced to a routine. The technological progress then increasingly becomes the business of trained specialists, who turn out what is required and make it work in predictable ways.

In large organizations, in practice, there has been an emergence of the 'intrapreneur', who is a divisional manager or a more innovative employee, who mans a separate profit centre without having to go through the large organizational hierarchy. Does it mean that the role of the entrepreneur disappears in large organizations? In Schumpeter's view, the entrepreneurial function may become rationalized and bureaucratized as the enterprise grows, but it does not mean that it becomes obsolete.

The modification in the concept of entrepreneurship initiated by Schumpeter has been pursued, focused and extended by certain other scholars. The entrepreneurial role changes with the course of economic development. There are various stages of entrepreneurship, for instance, 'rule of thumb', 'informed' and 'sophisticated', as business leaders become less intuitive and more rational. The national, cultural and even personal characteristics tend to intervene to shape the entrepreneur. The task of the entrepreneur changes with the level of development. In underdeveloped countries, the functions of an entrepreneur may include innovation, promotion, capital provision, risk bearing, management and assembling materials and labour. In such countries, the entrepreneur must be less stereotyped and less professionalized than in developed countries (Bhattacharya 1983: 25–28).

In a similar vein, it has recently been argued that the entrepreneur plays a major role of matching the internal environment of the firm with the external one; he shapes the learning process at stake and selects the core competence of the organization. These entrepreneurial functions emerge in an evolutionary environment and they are additional to the traditional functions of the entrepreneur. It has been argued that since the process of creation of resources interferes with the process of allocation of resources, the traditional distinction between the entrepreneur (creator of resources) and the manager (allocater of resources) no longer holds well. As a result, we now have the concept of manager-entrepreneur (Cohendet 2000: 95–96).

As stated earlier, this does not mean that the entrepreneur disappears. What happens is that his role becomes modified and redefined. He still plays the role of change-agent who has some traits in common with the earlier Schumpetarian change-agent, but now he does not introduce novelty by breaking the circular flow, instead, he prepares and shapes the cognitive process leading to novelty. The cognitive process is shaped by building new business conceptions, managing the evolution of the knowledge-base of the firm and shaping its internal and external environments according to his vision (Cohendet 2000: 111–12).

Social Leader and Risk Taker

Schumpeter has emphasized the entrepreneur's social leadership role also. In this role, entrepreneur takes bold steps into the unknown and he makes commitments that may not meet the standard decision-making criteria. Through this role the entrepreneur becomes the source of economic growth and changes in the course of human development.

As indicated earlier, the entrepreneurial function is distinctly separate from that of the capitalist. It may be helpful but it is not essential for the entrepreneur to be able to supply his own capital; being able to do so or not has nothing to do with his essential function. The pure type of entrepreneur may be penniless, but he would be successful in innovating through obtaining credit from banks and/or stock market, development banks, investment banks, venture capitalists and so on. Schumpeter emphasized the importance of commercial banks in 'fructifying' the entrepreneurial innovations, plans, activities, projects and ventures. He, along with the economists like Kalecky and Keynes,

highlighted the potential role of commercial banks in financing economic development through the creation of credit and through making the financing process independent of 'prior savings', at least to a certain extent.

Another very important function of the entrepreneur is risk bearing or risk taking. According to the economist Knight, entrepreneurship is inherently associated with the existence of risk and uncertainty (1921). The entrepreneur is focused on facing uncertainty; he undertakes the work of forecasting, technological direction and control. This implies that the entrepreneur is one who has a vision and a sense of knowledge management (i.e. creation and distribution of knowledge) because without these, he cannot operate successfully in the face of risk and uncertainty. It has been pointed out that the entrepreneur is not 'risk-focused', he is not a gambler rather he is 'opportunity-focused' and a moderate risk taker. Yet, there is no doubt that entrepreneurship is about enterprise establishment under conditions of uncertainty. Although the entrepreneur obtains as much information as possible, and although he forecasts the future, he chooses to face risk and uncertainty. He is a calculated risk taker (not reckless or irrational).

Information Synthesizer

One of the roles of entrepreneurs, namely, 'entrepreneur as information synthesizer', has come to be highlighted currently. In the information age, information flows are regarded just as important as materials flows. The coordination in a volatile economy depends on the continuous synthesis of new information. The processing of information is costly. The entrepreneur exercises his judgemental abilities to synthesize information. Different entrepreneurs synthesize information from different sources, and even when they use the same source, they may interpret it differently. In the market system, the entrepreneur implements his coordination projects by borrowing money and exchanging it for ownership (or rental) of productive resources. In negotiating for command over resources, he is careful not to give away crucial information.

Entrepreneur as Elite, Technopreneur or Netpreneur

It has been pointed out that the entrepreneurs form the elite. The entrepreneurs of the first industrial revolution were associated with heavy engineering industries. The 20th century witnessed the rise of new entrepreneurs associated with science-based industries such as the chemical and electrical industries. During the past 30 years or so, Information Technology (IT), Internet, personal computers, the World Wide Web (www) and the knowledge industry are the industries with which entrepreneurs have been associated. This entrepreneur is sometimes referred to as netpreneur, defined as 'an entrepreneur who creates innovative content, software, communication products and services that are....delivered over digital networks—today the Internet' (Cardullo 1999: 6).

The characteristics of netpreneurs or technopreneurs are said to be different from those of other types of entrepreneurs. These characteristics are as follows (Cardullo 1999: 13–18):

- Ability to make major changes rapidly in a relatively short time. The technopreneur has to continually respond and make changes in a strategic direction because of numerous, continually occurring trigger points in the technology field.
- Flexibility and rapidity of response, coupled with strong customer focus, is the *sine qua non* of the technopreneur.
- Dynamism, as the technopreneur prospers in a constantly changing environment of novelty and innovation, which endows many of them with spectacular growth trajectories.
- Resilience, since the technological entrepreneurial process is not frustrated by the typical stigma associated with organizational failure. Instead, failure results in increased experimentation and sector growth.

What are the traits and goals of the entrepreneur? Is the entrepreneur necessarily a person? Can he be trained? Is he changeless? What would be his nature and role in the 21st century? We now try to discuss briefly such questions in order to clarify further the concept, nature and role of the entrepreneur.

Traits of the Entrepreneur

Psychologists, sociologists and other social scientists, on the basis of observation and empirical research, have identified the following personality and character traits of the entrepreneur. It is said that the entrepreneur takes control of a situation instead of waiting for the environment to deliver results. He is independent-minded; has a strong need to achieve and chooses to accept responsibility for solving problems, setting goals and achieving those goals through his own efforts. He is highly successful in capitalizing on new concepts; he is highly motivated and tenacious; he does not fear the possibility of a failure; he has faith in his ability to succeed. The entrepreneur is alert to new and possible worthwhile goals and available resources. He is active, creative and human rather than passive, automatic and mechanical (Kirzner 1973: 35).

The key qualities of the entrepreneur are said to be: visionary, innovator, performer, motivator, leader and go-getter. He tends to push the limits of perfection, sets standards and inspires people to extraordinary heights. He is optimistic and self-confident; he cultivates networks of social contracts to be able to synthesize information; he is persuasive in raising finance and astute in bargaining with customers and suppliers. For him, the trust engineered through moral values is very important in providing a climate of confidence within which risky coordination projects can be completed. Traditional values such as honesty and hard work are particularly important for him in motivating his employees (Casson 2000: 143–44). The entrepreneur specializes in making judgemental decisions about the coordination of scarce resources; he solves the problems caused by X-inefficiencies (Cohendet 2000: 112). He is tough-minded short of being truculent; he has confidence in his intuitive as well as rational faculties; he has a capacity to think tactically and to plan strategically; he is endowed with an attitude that stresses timely action based on usually inadequate information and ahead of prolonged fact finding; he has a mindset which stresses integration of many facts into action plans, rather than indulging in endless differentiation and analysis (Baty 1990: xiv).

Goals of the Entrepreneur

The maximization of economic, pecuniary, monetary self-interest or self-gain, or private profit is the leading objective of the entrepreneur.

He seeks to achieve business growth, build a business empire; he wants to create mega business organizations. It has been suggested, however, that to achieve financial success may not be his sole objective. He may be seeking to accomplish or take advantage of a strategic inflection point and change industry's direction for changing the course of economic and human development. Entrepreneurial activity and decisions do contribute to the growth of the economy, but it is a by-product of his personal goals. Economists differ on which development factor is more important in the development process. Some economists regard capital or finance as the most important factor; others regard technology to be the most important; while economists like Schumpeter regard the entrepreneur as the most important development factor. Notwithstanding this, it should be kept in mind that the national economic growth is not the consciously willed objective of the entrepreneur; it is the epiphenomenal result or outcome.

Entrepreneurs are born rather than trained. The appropriate state and private measures, and suitable political, economic and cultural environment can enable some persons to do certain entrepreneurial tasks, but they cannot create entrepreneurs. It has been rightly said that entrepreneurship is one vocational calling for which there is really no apprenticeship.

Entrepreneur: Person or Organization?

Entrepreneurial function is generally and traditionally embodied in a physical person, and, in a single person, in particular. However, over the years, some organizations, or group enterprises, or sometimes even the state has been considered an entrepreneur. In a large corporation, the entrepreneurial function may be carried out by a cooperative group. In the modern joint-stock company, it has become very difficult to identify the entrepreneur. Is the CEO, the Managing Director or the President the entrepreneur in a company? It is difficult to say because such functionaries may often be only the coordinators or figureheads? Is the shareholder an entrepreneur in a company? Again, it is difficult to say because the shareholders in companies are numerous, they are mostly passive receivers of dividend and they do not perform any entrepreneurial function except bearing the risk. Is the entrepreneur in danger of vanishing or being expropriated? As

said earlier, Schumpeter himself had suggested that in mature capitalism, there may not be any resistance to change; the change may be organized, depersonalized and bureaucratized leaving little role for the classical entrepreneur. Of course, Schumpeter has also said that these changes cannot make the entrepreneur really irrelevant. For similar reasons the idea of the state as the entrepreneur is difficult to grasp and focus on. The concept of entrepreneurship, while getting modified, has sometimes also been distorted, for example, the concept of 'e-entrepreneur'. With the growth of e-commerce, there has been a steep increase in the number of aspirants attending training sessions given by the leading online marketplace, eBay, and these aspirants are known as e-entrepreneurs. This is a kind of impoverishment or demeaning of the concept of entrepreneur.

Future Evolution of Entrepreneur

In future, the nature of entrepreneurship, particularly in terms of its goals, will have to be different from what it has been so far. As indicated earlier, the shift in the Enterprise paradigm and Development paradigm that has been occurring, and which will have to continue occurring if the human civilization is to survive, demands that the entrepreneur of the 21st century will have to be a new incarnation of the traditional entrepreneur. In a way, consciously or unconsciously, the entrepreneur has been the creator of unsustainable development. All his innovativeness, all his dynamic personality traits will have to be harnessed now to create the 'economy of performance' or ensure 'sustainable humane development' at the macro level.

At the micro level also, the entrepreneur will have to transform his own mission, strategy and character in tune with the 'new society'. Unfortunately, at present, the world has become full of entrepreneurs in the sense of 'contractor acting as an intermediary'. Today, in the world, there is a plethora of mere merchants, traders, financial operators, market manipulators, speculators and greedy profit seekers who are masquerading as entrepreneurs. From a wider perspective, the capacity of such 'entrepreneurs' to do harm far outweighs their capacity for good.

Therefore, in the years to come, enterprise will have to attune itself to changes that are inherent in the Development paradigm shift. The enterprise can be said to have its social architecture comprising its

Table 3.1
Social Architecture of Two Paradigms of Enterprise

Conventional Paradigm (P1)	*Social Paradigm (P2)*
A) Mission Profitability, viability, mercantilist, trickledown, paternalism, mainly economic and political	Profitability, viability, public acceptance, legitimacy, symbiotic, interdependence, partnership, trans-ideological, economic, political, social, cultural, ecological
B) Governance Private or state, professional	Autonomy, multi-stakeholders, negotiation, societal
C) Strategy Dominance, going it alone, industrialized focus	Niches in societal development, multi-enterprise cooperation, holistic development focus
D) Organization Character Authoritative, materialistic, efficiency, people-driven	Integrative, synergic, strategic, quantity and quality, human progress, social and economic wealth, efficiency and people-driven
E) Organization Structure With high and hard technology, hierarchical, vertical, bureaucratic, centralized, material performance-related	Wide range of technologies, system and network, pluralistic, shared, internally and externally multi-centred, societal, mission-related

Source: Adapted from Perlmutter (1984: 56–58).

mission, system of governance, strategy, organizational structure and organizational character. Apart from entrepreneurs and owners, there are other stakeholders in any enterprise as well as society, such as governments, communities, unions, consumers, ecologists and other organizations worldwide. Enterprise and society can run smoothly and without conflict if the premises, values, beliefs of enterprise and its social architecture can be reconciled with that of other stakeholders. Enterprise will have to shift from its conventional paradigm to a new paradigm if both its viability and legitimacy are to be ensured on an ongoing basis (Perlmutter 1984: 56–58).

Table 3.1 presents social architectures of the Conventional Paradigm of Enterprise (P1) and Societal or Emerging Paradigm of Enterprise (P2). Enterprises belonging to P2 can now achieve far better results;

the potential for constructive contribution to society in their case is largely unlimited. To make this real, the future entrepreneur will have to be a sociopreneur and entrepreneur-trustee. This implies that the development of entrepreneurship in future will necessarily have to mean development of entrepreneur-trustees.

Summary and Conclusions

Entrepreneur is a decision maker, coordinator, innovator, creative destructor, social leader, information synthesizer and risk taker. He may or may not be an inventor, or capital supplier. The classical Schumpetarian concept of entrepreneurship has undergone evolutionary changes during the past three centuries. Entrepreneurship is an interdisciplinary concept, which originated and flourished during the period of growth of capitalism, industrialism and industrial civilization. Therefore, it can be called a capitalistic concept. The entrepreneur belongs to the class of elites.

In its modified form, entrepreneurship has been known as intrapreneurship, technopreneurship, e-entrepreneurship, net-preneurship and so on. It has now been accepted that with changes in business organization, the Schumpeterian entrepreneur has been accompanied by the entrepreneur-manager and the constructive imitator. The entrepreneur is essentially a person rather than any organization or the state, and he is mostly born rather than trained.

Though profit maximization has been the predominant goal of the entrepreneur; he has contributed to the overall economic growth and development of nations, but this may be regarded as an epiphenomena i.e. a side-effect or a by-product of the pursuit of self-interest.

Social scientists have attributed a legion of qualities to the entrepreneur such that he has nearly been deified. Although the entrepreneur has received universal acclaim and he has been put on a high pedestal by everyone, consciously or unconsciously, he has been a creator of unsustainable development and he has contributed to the crisis of modern industrial civilization. The development of entrepreneurship in the future, therefore, will have to be in the direction of sociopreneurship and the entrepreneur as trustee would have to be in tune with the newly evolving enterprise paradigm and development paradigm.

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4

Entrepreneurship: An Effective Means to Promote Employment

S.R. Subba Rao and Ch. S. Durga Prasad

Introduction

Promoting employment is one of the key objectives enunciated in all the Five Year Plans of India. Various approaches have been adopted by the government, at the central as well as state levels, to generate employment opportunities. Such approaches include special schemes, liberalization of policies to accelerate the pace of industrialization, which will create jobs and so on. Small-scale industries have been accorded particular attention, as a higher rate of employment generation is expected from them as compared to large-scale industries. Despite all these efforts, employment still continues to dominate the policy issues of the government. This chapter examines the significance of entrepreneurship as an effective means of promoting employment opportunities in the country.

Entrepreneurship and Employment: Conceptual Issues

As per a study by Loveman and Sengenberger (1991), entrepreneurship stirs labour intensity and implies employment. This

establishes a direct relationship between entrepreneurship and employment.

Unemployment may trigger start-up activity of self-employment. Or, higher rates of self-employment may lead to greater entrepreneurial activity, reducing the level of unemployment in the process. Thus, self-employment and unemployment are inter-related. Entrepreneurial activity is not only due to the push effect or threat of unemployment, but also due to the pull effect of a growing economy and the past entrepreneurial activities as well (Audretsch, Carree and Thurik 2001). It is assumed, in general, that changes in the level of entrepreneurship and unemployment have a two-way causation. There could be a Schumpeter effect of entrepreneurship lowering unemployment and a refugee or shopkeeper effect of unemployment triggering entrepreneurship (Baptista and Thurik 2004). These studies highlight the need for creating an atmosphere of economic growth to attract entrepreneurship.

According to Gibrat's Law, enunciated by Robert Gibrat, the growth of a firm and its size are independent of each other (Baptista and Thurik 2004). It implies that shifting the focus of employment from large to small firms should not affect total employment. It also means that concessions or incentives to small-scale industries will not create greater employment opportunities as compared to a similar emphasis on large-scale industries.

Empirical evidence shows that Gibrat's Law does not hold well for a wide range of firm sizes. According to Sutton (1997), smaller firms have higher growth rates than larger firms. As per Evans (1987), a firm's growth is negatively related to its size and age. This was proved in many subsequent studies, irrespective of differences in country, time period, industry and methodology used (Audretsch, Klomp, Santarelli and Thurik 2004). The evidence has been in favour of young and small firms outperforming larger, more established firms in creating employment.

Though in the initial years after start-up Gibrat's law may not apply, but later on, the growth rates appear to follow Gibrat's law (Lotti, Santarelli and Vivarelli 2003). Even then, there is a case for small industry development as it can come about in a shorter period as compared to large-scale units, which will have long gestation periods. Thus, small firms can promote employment opportunities faster than large firms.

Promotion of entrepreneurship through small firms is also important, mainly for two reasons: (i) application of new technologies has reduced the value of economies of scale in many sectors (Carlsson 1989) and (ii) the growth of innovations and reduction in product and technology lifecycles appears to benefit new entrants and small firms, which have greater flexibility in coping with changes as compared to large units (Christensen and Rosenbloom 1995). Large firms may face stronger resistance to technological change because of institutional rigidity and other factors; hence, new firms are more likely to introduce innovations (Christensen and Rosenbloom 1995). Promotion of entrepreneurship, with a differential approach for metropolitan, urban, semi-urban and rural areas accelerates asset creation, economic growth, employment opportunities, rural development and productivity (Subba Rao and Durga Prasad 2005). In a nutshell, the studies have shown the following. There is a direct relationship between entrepreneurship and employment. Unemployment triggers entrepreneurship and entrepreneurship lowers unemployment.

Employment Situation

The situation of employment in India is analyzed in this section with respect to (i) organized and unorganized sectors, (ii) industrial groups and sectors, (iii) rural and urban areas, (iv) occupation, (v) age groups and (vi) states.

Organized and Unorganized Sectors

The data on population, labour force, employment and unemployment rate (UR) in the organized, and public and private sectors is given in Table 4.1. The labour force, as a percentage of the population of the country, decreased from 42.86 per cent in 1993/94 to 40.44 per cent in 1999/2000. These figures could have been different had literacy percentage and the age at the entry level gone up. The number of people employed as a percentage of the labour force declined from 98.04 per cent to 97.77 per cent during 1993/94 to 1999/2000. During this period, the population increased by 1.93 per cent, labour force by 1.03 per cent and employment by 0.98 per cent. The UR measured as a percentage of the labour force on current daily status basis increased from 6.03 per cent in 1993–94 to 7.32 per cent

in 1999/2000 for India. As per the Planning Commission (2002: 264), the UR has gone up further to 9.11 per cent in 2004/05.

Employment in the organized sector as a share of total employment formed only a small part and declined from 7.31 per cent to 7.08 per cent during 1993/94 to 1999/2000. It also had a small growth of 0.53 per cent in this period. People depending on the unorganized sector for jobs is 92.69 per cent and 92.92 per cent, which is very high.

Within the organized sector, the public sector is a major employer, but its share too declined from 71.03 per cent to 69.05 per cent during 1993/94 to 1999/2000, and showed a negative growth of 0.03 per cent during this period. The share of private sector employment in the organized sector increased from 28.97 per cent to 30.95 per cent, a growth of 1.87 per cent, in this period. The data, overall, indicates a fall in the share of employment in the organized sector. Within the organized sector, the share of employment in the public sector showed a negative growth. Employment in the private sector, though having a smaller share, indicated growth.

Table 4.1
Employment in Organized Sectors

Sector	*Employment (million)*		*Growth rate (% per annum)*
	1993/94	*1999/2000*	*1993/2000*
1. Total population	895.05	1004.10	1.93
2. Total labour force	381.94	406.05	1.03
3. Total employment	374.45	397.00	0.98*
4. Unemployment rate+ (%)	6.02	7.32	
6. (a) Organized sector employment	27.37	28.11	0.53*
(b) Share of organized sector in total employment (%)	7.31	7.08	
7. In organized sector employment:			
(a) Public sector	19.44	19.41	–0.03
(b) Private sector	7.93	8.70	1.87
(c) Share of public sector (7a/6a)	71.03	69.05	
(d) Share of private sector (7b/6a)	28.97	30.95	

Source: Compiled from the data in the Report on employment, Planning Commission (2001), pp. 27–35.

* Compound rates of growth.

+ On current daily status basis.

Industrial Groups and Sectors

The data on employment by sectors, for the years 1993/94 and 1999/2000, is given in Table 4.2. For all the sectors together, the growth in employment during this period was 0.98 per cent. The construction industry showed the highest growth of 7.09 per cent followed by financial services with 6.20 per cent; transport, storage and communication 6.04 per cent and trade 5.04 per cent. The manufacturing sector experienced small growth of 2.05 per cent. The community, social and personal services sector also experienced very small growth of 0.55 per cent. Negative growth was experienced in the case of mining and quarrying (–2.85); electricity, gas and water supply (–0.88) and agriculture (–0.34) sectors. Construction industry, financial services, transport, storage, communication and trade sectors seem to have had better opportunities for employment.

Table 4.2
Total Employment and Share of Organized Sector, by Industry

Industry	*Employment (million)*			*Share of Organized sector in total employment (%)*	
	1993/94 Total	*1999/2000 Total*	*Growth 1993/94 to 1999/2000*	*1993/94*	*1999/2000*
1. Agriculture	242.46	237.56	–0.34	0.61	0.58
2. Mining and quarrying	2.70	2.27	–2.85	40.37	44.49
3. Manufacturing	42.50	48.01	2.05	15.05	14.06
4. Electricity	1.35	1.28	–0.88	71.85	78.13
5. Construction	11.68	17.62	7.09	10.53	6.70
6. Wholesale and retail trade	27.78	37.32	5.04	1.62	1.31
7. Transport, storage and communication	10.33	14.69	6.04	30.11	21.44
8. Financial services	3.52	5.05	6.20	43.46	32.67
9. Community, social and personal services	32.13	33.20	0.55	34.02	34.61
All Sectors	374.45	397.00	0.98	7.31	7.08

Sources: 1. Directorate General of Employment and Training for employment in organized sector
2. NSSO 55th Round of Survey.

In the organized sector, in 1999/2000, relatively higher shares of employment were noticed in the case of manufacturing (14 per cent), construction industry (6.70 per cent), though these showed a decline in shares in 1993/94. Agriculture and wholesale and retail trade sectors had very small shares of 0.58 per cent and 1.31 per cent, respectively, in 1999/2000, which also showed a decline over 1993/94. The construction and manufacturing industries reflect better employment potential when compared to other sectors.

Rural and Urban Areas

For rural areas, the UR increased from 5.63 per cent to 7.21 per cent in the years 1993/94 to 1999/2000. In urban areas, it went up from 7.43 per cent to 7.65 per cent (Planning Commission 2001: 17). The UR is higher in urban areas when compared to rural areas. But the increase in the rate is sharper in rural areas. A detailed analysis of the differences that prevail between rural and urban areas, in various respects, is necessary. The approach to entrepreneurship can differ in rural and urban areas depending upon the characteristics of these areas. These have been spelt out in this study.

Occupation

The distribution of workers by category of employment is given in Table 4.3. During 1993/94 to 1999/2000, the category of self-employed persons accounted for the highest share of employment, at 54.8 per cent in 1993/94, but it declined to 52.9 per cent in 1999/2000. In rural areas, the share was higher at 58 per cent and 56 per cent, respectively. The share of urban areas was lower at 42.3 per cent and 42.1 per cent, respectively, which is almost a stagnant level during this period. The highest share, accounted for by the category of self-employment, is a positive aspect. This share, higher in rural areas as compared to that in urban areas indicates, perhaps, the inadequate availability of salaried jobs in rural areas.

Next comes the share of casual labour which increased from 32 per cent to 33.2 per cent from 1993/94 to 1999/2000. In rural areas the share is higher at 35.6 per cent and 37.3 per cent, respectively. Urban areas have a much smaller share of 18.3 per cent and 17.8 per cent,

respectively, showing a decline. The higher share of casual labour in rural areas could be related to the agricultural sector.

Regular salaried persons accounted for a lower share of 13.2 per cent in 1993/94, which increased marginally to 13.9 per cent in 1999/2000. The share is very low in the case of rural areas, 6.4 per cent and 6.7 per cent, respectively. The share is significantly high in urban areas, showing an increase from 39.4 per cent to 40.1 per cent in this period. The lower share in case of rural areas indicates a lack of adequate scope for salaried jobs in these areas.

Table 4.3
Distribution of Workers (Usual status) by Category of Employment (%)

Year	*Category of Employment*		
	Self Employed	*Regular Salaried*	*Casual*
1. Rural Areas			
1993/94	58.0	6.4	35.6
19992000	56.0	6.7	37.3
2. Urban Areas			
1993/94	42.3	39.4	18.3
1999/2000	42.1	40.1	17.8
3. Combined			
1993/94	54.8	13.2	32.0
1999/2000	52.9	13.9	33.2

Source: NSSO 50th and 55th Rounds of Surveys.

Age Groups

The employment position, according to age groups, is shown in Table 4.4. During 1999/2000, the UR was the highest at 14.4 per cent for the age group 15–19 years. For rural areas, the rate was lower at 13.3 per cent, when compared to urban areas, which show the rate of 19 per cent. This is understandable as the population in this age group, whomsoever could afford, would be mainly pursuing their education. The affordability is lower for rural people than for urban people.

For the age group 20–24 years, the total unemployment rate was high at 13.5 per cent, with 11.8 per cent for rural areas and 18.7 per cent for urban areas. A similar position is seen for the age group 25–29 years, with a UR of 9.2 per cent; rural areas accounted for a

lower rate of 8.7 per cent as compared to urban areas, which had a high rate of 10.9 per cent. This indicates the prevalence of high unemployment among educated people.

The UR was on the lower side, that is, 5.8 per cent and less for the age groups 30–34 years onwards. Notably, the UR rate for rural areas is higher in each age group, as compared to urban areas. This highlights the need for provision of employment opportunities, especially in rural areas. For the age group 60 and above, the unemployment rate is higher, at 3.8 per cent for urban people than for rural people, the figure for which was 3.5 per cent. This could be because of the readiness of people in this age group in urban areas to undertake jobs as compared to those in rural areas.

Table 4.4
Unemployment across Age Groups: 1999/2000 (% of labour force)

Age (years)	*Unemployment Rate*		
	Rural	*Urban*	*Combined*
15–19	13.3	19.0	14.4
20–24	11.8	18.7	13.5
25–29	8.7	10.9	9.2
30–34	6.1	4.9	5.8
35–39	5.0	3.7	4.6
40–44	4.8	2.7	4.2
45–49	4.6	2.4	3.9
50–54	4.5	2.1	3.9
55–59	4.6	2.0	4.0
60 and above	3.5	3.8	3.5
All age groups	7.2 (5.6)	7.7 (7.4)	7.3 (6.0)

Source: NSSO 50th and 55th Rounds of Surveys.
Notes: 1. Unemployment rates on current daily status basis.
2. Figures in parenthesis are for 1993/94.

States

The position of employment, according to state, in the primary, secondary and tertiary sectors, is given in Table 4.5. For the 23 states under reference and Pondicherry (Union Territory [UT]), the mean values of sectoral shares of employment, in percentage terms, have

shown a decline for primary sector from 58.41 to 52.43, and an increase from 31.49 to 36.71 for the tertiary sector during 1993/94 and 1999/2000. The share of employment in the secondary sector shows a small improvement from 10.1 to 10.87. Thus, there was a shift in the share of employment from the primary to the tertiary sector. It is a favourable phenomenon, reducing the pressure on the agricultural sector for employment. But the share of the secondary sector did not change much indicating the lack of notable creation of employment opportunities herein.

In the case of the primary sector, during 1999/2000, the percentage share of employment was the highest for Bihar (73.55), followed by Meghalaya (70.34), Orissa (68.96), Madhya Pradesh (68.62) and Arunachal Pradesh (67.12). These five states may be termed as very high agri-based. The share of employment is in the range of 60–65 per cent for Manipur (63.49), Rajasthan (61.42), Andhra Pradesh (60.55), Himachal Pradesh (60.3) and Uttar Pradesh (60.19). These five states may be considered as high agri-based.

Poverty is a critical aspect to be tackled. There is a decline in the per cent of population below the poverty line (PPBPL) from 35.97 to 26.1 during 1993/94 and 1999/2000, for the country as a whole. Rural areas have a higher incidence of poverty, but the PPBPL declined from 37.27 to 27.09 in this period. Urban areas have improved with a fall in the PPBPL from 32.36 to 23.62 in these years. As at 1999/2000, the PPBPL is the highest in the case of Orissa (47.15), followed by Bihar (42.6) and Madhya Pradesh (37.43). These three states may be considered high poverty states. The PPBPL is also high in the north-eastern states including Sikkim (36.55), Assam (36.09), Tripura (34.44), Meghalaya (33.87), Arunachal Pradesh (33.47), Nagaland (32.67) and Manipur (28.54). The incidence of poverty is high in Uttar Pradesh (31.15) and West Bengal (27.02). The incidence of poverty is lower in the remaining states.

The UR, during 1999/2000, was found to be the highest in the case of Kerala (20.77), followed by West Bengal (14.95) and Tamil Nadu (12.05). These three may be termed as high unemployment states. The UR is in the range of 7 to 8 per cent for Assam, Andhra Pradesh, Orissa, Bihar and Maharashtra. These five may be categorized as moderate unemployment states. It is less than 5 per cent for the other states.

It is examined here whether there is any association (i) between the sectoral shares of employment and the PPBPL; and (ii) between

Table 4.5
Sectoral Employment, Population Below Poverty Line and Unemployment Rate (%)

Sl No.	*States/UT*	*Sectoral Shares of Employment (Usual Principal Status) (%) 1999/2000*			*Population Below Poverty Line(%) 1999/2000*			*Unemployment Rate (%) 1999/2000*
		Primary	*Secondary*	*Tertiary*	*Rural*	*Urban*	*Total*	
1.	Andhra Pradesh	60.55	9.29	30.16	11.05	26.63	15.77	7.94
2.	Arunachal Pradesh	67.12	2.47	30.41	40.04	7.47	33.47	–
3.	Assam	57.90	3.81	38.29	40.04	7.47	36.09	8.00
4.	Bihar	73.55	7.32	19.13	44.30	32.91	42.6	7.35
5.	Delhi	5.26	23.61	71.13	0.40	9.42	8.23	4.58
6.	Gujarat	52.48	14.00	33.52	13.17	15.59	14.07	4.63
7.	Haryana	45.15	12.45	42.40	8.27	9.99	8.74	4.67
8.	Himachal Pradesh	60.30	5.42	34.28	7.94	4.63	7.63	2.93
9.	Jammu and Kashmir	52.77	5.57	41.66	3.97	1.98	3.48	–
10.	Karnataka	58.40	11.52	30.08	17.38	25.25	20.04	4.61
11.	Kerala	34.67	15.63	49.70	9.38	20.27	12.72	20.77
12.	Madhya Pradesh	68.62	7.56	23.82	37.06	38.44	37.43	4.60
13.	Maharashtra	49.96	12.63	37.40	23.72	26.81	25.02	7.09
14.	Manipur	63.49	6.33	30.18	40.04	7.47	28.54	–
15.	Meghalaya	70.34	1.31	28.35	40.04	7.47	33.87	–
16.	Orissa	68.96	9.10	21.94	48.01	42.83	47.15	7.38
17.	Punjab	43.48	13.30	43.22	6.35	5.75	6.16	4.15

(*Contd.*)

Table 4.5 *(contd.)*

Sl No.	*States/UT*	*Sectoral Shares of Employment (Usual Principal Status) (%) 1999/2000*			*Population Below Poverty Line (%) 1999/2000*			*Unemployment Rate (%) 1999/2000*
		Primary	*Secondary*	*Tertiary*	*Rural*	*Urban*	*Total*	
18.	Rajasthan	61.42	8.66	29.92	13.74	19.85	15.28	3.06
19.	Tamil Nadu	41.93	20.10	37.97	20.55	22.11	21.12	12.05
20.	Tripura	38.20	3.87	57.93	40.04	7.47	34.44	–
21.	Uttar Pradesh	60.19	11.87	27.94	31.22	30.89	31.15	4.27
22.	West Bengal	47.34	17.56	35.10	31.85	14.86	27.02	14.95
23.	Pondicherry	23.68	26.65	49.67	20.55	22.11	21.67	–
All India*		52.43 (58.41)	10.87 (10.1)	36.71 (31.49)	27.09	23.62	26.1	7.32

Source: NSSO, 50th and 55th Rounds of Surveys.
*Sectoral shares are mean values. Figures in brackets are for 1993/94.

Table 4.6
Coefficients of Correlation between Sectoral Shares of Employment, Unemployment Rate (UR) and the Per cent of Population Below the Poverty Line in Rural and Urban Areas

	*Primary**	*Secondary**	*Tertiary**	*UR*
Rural**	0.61	–0.45	–0.34	0.51
Urban**	0.35	0.18	–0.35	0.25

Source: Worked out by the authors.
*Refers to share of employment in these sectors.
**Refers to PPBPL.

Table 4.7
Two-sample t Tests Assuming Equal Variances

Variables	*t value*	*p value*
1. Primary sector and rural areas*	6.17	1.88199E-7
2. Primary sector and urban areas*	8.33	1.36313E-10
3. Secondary sepctor and rural areas*	–3.79	.00046
4. Secondary sector and urban areas*	–2.46	.017802
5. Tertiary sector and rural areas*	3.20	.00258
6. Tertiary sector and urban areas*	5.46	2.07393E-06
7. UR and rural**	3.34	.00252
8. UR and urban**	3.88	.00064

Source: Worked out by the authors.
Notes: 1. Primary, secondary and tertiary sectors refer to the per cent share of employment in these sectors.
2. Rural and urban areas connote the per cent of population below the poverty line in these areas.
* t critical values (two-tail) at .05 level of significance are + 2.02.
** t critical values (two-tail) at .05 level of significance are + 2.06.

UR and the PPBPL. This has been done across rural and urban areas. For this, the coefficients of correlation (r values) have been listed in Table 4.6. The results are tested using t statistic (two-tailed), at 5 per cent level of significance, assuming equal variances in the sample data. The output is given in Table 4.7.

All the associations are found to be significant, which indicates the following:

1. The correlation between the percentage of employment in the primary sector and the PPBPL in rural areas is strong, being 0.61.

2. The UR and the PPBPL are related significantly, the value of r being 0.51.
3. The per cent of employment in secondary and tertiary sectors and the PPBPL in rural areas are negatively correlated, with r values of –0.45 and –0.34, respectively.
4. The tertiary sector's share of employment and the PPBPL in urban areas are negatively correlated with an r value of –0.35.

These indicate that (i) the people employed in the primary sector in rural areas could also be poor; (ii) creation of employment opportunities in the secondary sector will help in reducing the poverty of rural people and (iii) in both rural and urban areas, higher employment opportunities in tertiary sector will reduce poverty.

Entrepreneurship to Promote Employment

Though the government and other agencies have come out with various programmes and schemes to alleviate poverty, the results are not satisfactory. Slums are growing. Poverty persists significantly. Entrepreneurship may be considered an effective tool to deal with this situation, with strategic policy support and infrastructure back up (Subba Rao and Kotriki 2005).

Expenditure under various employment schemes of the Government of India increased from Rs 6485 crore during 1993/94 to Rs 8698 crore during 1999/2000, a growth of 34.12 per cent (Planning Commission 2001: 109). But these programmes did not create the desired impact. What is needed is a climate to attract entrepreneurship rather than doling out benefits to the poor, which does not generate economic activity.

The UR in India has increased significantly to over 9 per cent. The share of organized sector in total employment is very small at less than 8 per cent. Within the organized sector, the public sector is not able to provide employment opportunities. The private sector has to grow to provide employment avenues. This can be done through the growth of entrepreneurial activity.

As Gross Domestic Product (GDP) increased, the elasticity of employment also increased. For the period 1993/94 to 1999/2000, a trend of positive relationship between the two was found with 0.73 for finance, real estate and insurance sectors, 0.69 for transport, storage

and construction sectors and for business services, 0.55 for wholesale and retail trade sectors and 0.26 for the manufacturing sector. It is weak at 0.07 for community, social and personal services and negligible in the case of agriculture, mining and quarrying, and electricity sectors. Overall, for all sectors, it was 0.15 (Planning Commission 2001: 46). This trend indicates the scope for entrepreneurship being more in the case of finance, real estate, insurance, transport, storage, construction and wholesale and retail-trade sectors.

Urban areas are experiencing a change from traditional manufacturing industries to information and technology, computers, electronics and telecommunications and biotechnology units. Entrepreneurship in these industries will provide more employment opportunities.

There were about 10 million seasonal/circular migrants in the rural areas in 1999/2000. This includes about 4.5 million inter-state migrants. The migrants were mostly involved in agriculture and plantations, brick kilns, quarries, construction sites and fish processing activities (National Commission of Rural Labour). The study reveals that casual workers, who are growing in number, will have only seasonal employment. In the off-season they will have sustenance problems. Self-employment opportunities and entrepreneurship will help such people to find more sustainable jobs.

There is a shift in the share of employment from the primary to the tertiary sector. This reduces pressure on the agricultural sector for employment. But the share of the secondary sector remains unchanged. The industries sector in the country needs a big push with policy measures. The tertiary sector is growing, a fact which promises to enhance employment opportunities.

The study indicated prevalence of a high percentage of educated unemployed people in the age group 20–24 years in urban areas. In the middle-age groups, a high percentage of people in rural areas is unemployed. Younger people in rural areas seem to be taking up some jobs rather than going in for higher education due to lack of opportunities and affordability. People in the higher age groups generally depend on the agricultural sector for employment, working for meagre incomes. Promotion of entrepreneurial activity in rural areas will provide scope for better earnings for the people there.

Rural areas have a higher increase in poverty when compared to urban areas. The incidence is in the highest bracket for Orissa, Bihar

and Madhya Pradesh. It is very high in the north-eastern states and high in Uttar Pradesh and West Bengal. Kerala and Tamil Nadu have high unemployment rates. Assam, Andhra Pradesh, Orissa, Bihar and Maharashtra have moderate unemployment rates. These states need special attention to promote entrepreneurship. There are very high agri-based (Bihar, Meghalaya, Orissa, Madhya Pradesh and Arunachal Pradesh) and high agri-based states (Manipur, Rajasthan, Andhra Pradesh, Himachal Pradesh and Uttar Pradesh). Agriculture-oriented units should be promoted in these states.

Conclusion

It has been established, conceptually, that entrepreneurship will promote employment opportunities. In India, various programmes and schemes have been implemented to promote employment. But these are not yielding the desired results. The continued incidence of poverty, both in urban and rural areas, highlights the need for promoting entrepreneurship, more so in rural areas. The sectoral analysis indicates that entrepreneurial activity has to be modelled in such a way so as to attract people from agriculture to other sectors. The study has also identified states which require special attention regarding entrepreneurship to improve employment opportunities and hence the plight of the people therein. Entrepreneurial activity will provide more opportunities for employment to people in middle age groups, which is more important in the case of rural areas. To sum up, therefore, entrepreneurship will be an effective means to promote employment in the country.

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5

Entrepreneurship and Economic Growth: The Indian Perspective

Pramod Pathak and Saumya Singh

A recent survey published in *The Times of India* (ToI) describes the Indian youth as 'cool, confident, and even a little complacent'. The Indian youth today, in marked contrast to his ilk of the pre-reforms generation, is not worrying about the future. Rather he is sanguine about his future. The survey found only 7 per cent of the Gen-X Indians worried about finding employment and a mere 5 per cent anxious about financial stability. These findings of the global market research company Synovate, through a survey conducted across eight countries during July 2005, may be significant pointers to what India may become in the next score or more years. Interestingly enough, the study found Indian youth to be very different from his/her Asian counterparts. It found nearly 19 per cent of young Asians expressing their worries about good jobs and 16 per cent about financial stability, a much a higher figure compared to India. While youth across the region want to be wealthy, successful and educated, they want to achieve this through a range of business choices. A good number want to venture into business ownership and information technology. Another survey, a Times-CNN poll conducted by the market research firm TNS in the four metros, finds people rather confident that India is going to be a superpower in the next 25 years. Is there any relationship between the findings of the two surveys? Yes and no. Yes,

if certain conditions are fulfilled, and no if we fritter away the advantage as is our wont.

Ambitions and expectations may translate into results only if they are backed by systematic efforts. An ancient *Sanskrit shloka* (couplet) from the Indian book of knowledge *Akshayniti Sudhakar* sums this up very succinctly; *Udyamen hi sidhyanti karyani na manorathe, nahi suptasya singhasya pravishanti mukhe mrigah,* which means that an objective can be achieved only by making efforts in an enterprising manner. Mere desire cannot help in achieving anything. Just as a lion has to hunt for deer in order to satisfy his hunger. The deer on its own does not come to the lion to be hunted. Incidentally, it is the *Sanskrit* word *udyam* that is the origin of *udyamita,* the Hindi equivalent of entrepreneurship. Contrary to popular belief, entrepreneurship as a means of economic growth and wealth creation was recognized in the past too. There are references to suggest the power of *udyamita* in ancient Indian literature, dating back to as early as the 6th century BC, in the *Jatak Tales*, the popular literature of that time.

In all ages, then, entrepreneurship has been regarded as an important determinant of wealth creation. It was trading in the ancient times, labour-dominated production in the medieval age, technology-enabled manufacturing in the modern times and services- and knowledge-oriented in the post-modern era. The all-important question that needs to be answered then is why is *udyamita* or entrepreneurship not picking up in India at the pace that is required?

Entrepreneurship and Economic Growth

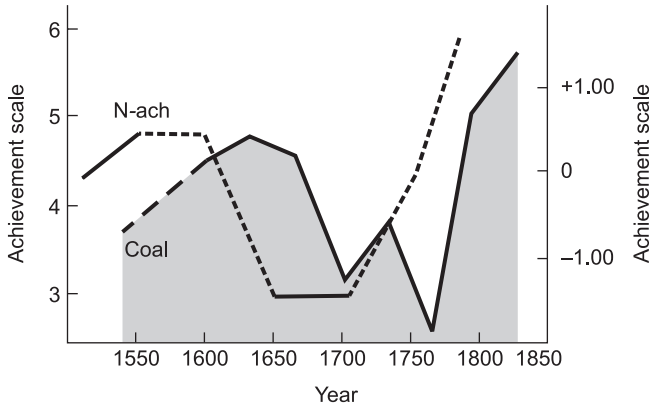
It has sometimes been suggested that entrepreneurship plays a crucial role in industrial development and many thinkers attribute the development of the West to entrepreneurship. In fact, the word entrepreneur was coined by French Economist J.B. Say more than 200 years ago. It was Joseph Schumpeter who, in the first half of the 20th century, assigned the crucial role of innovation to the entrepreneur in his theory of economic development. One school of thought is that economy is the effect for which the entrepreneurship is the cause. Entrepreneurship is fuelled by a need for achievement and it is this need for achievement that is related to society's economic and business growth. McClelland's seminal work on achievement motivation gives

ample evidence of the correlation between the need for achievement (N-ach) and economic growth.

It has been observed that if investigators find evidence of a strong achievement motivation in a particular society they may be able to make predictions about economic growth in that society.

By studying the social motives revealed in a culture's popular literature (especially children's books) and relating them to its economic history, researchers found that a high N-ach correlates with various indices of economic growth, such as the consumption of electricity. These studies have shown that a high N-ach is exhibited before spurts in economic growth and, thus, predicts them. The delayed relationship is diagrammatically illustrated in Figure 5.1.

Figure 5.1
The Relationship between N-ach and Coal Imports in England between 1550 and 1850



Source: Morgan et al. (1986: 287).

Note: The changes in N-ach came about 50 years before changes in economic activity. Imagine sliding the N-ach curve to the right by about 50 years; the two curves would then be almost identical.

In Figure 5.1, we see that the N-ach successfully predicted economic ups and downs in the English economy between the years 1550 and 1850. Economic activity was measured by changes in coal imports. The lag between levels of achievement motivation and economic changes was about 50 years. For the 20th century, investigators have found a shorter lag. Although the relationship between the N-ach and

economic growth is suggestive, it is not proof that N-ach causes economic growth; they may both be caused by other factors. However, knowledge of social motives dominant in a society may help us understand its history and predict its future. This application of psychology to history and future trends is relatively new, but it may turn out to be a major contribution.

In light of this information, we can interpret the recent findings of Synovate and TNS studies quoted earlier as precursors to India's graduation from a developing to a developed economy. However, we need to keep our fingers crossed because there are reasons to believe that achievement motivation can only be translated into achievement oriented behaviour if certain other conditions are fulfilled, otherwise frustration creeps in. Furthermore, the outcome of achievement oriented behaviour is also dependent on other antecedent conditions. Nevertheless, the fact remains that achievement motivation is critical to economic growth and development and is a necessary condition. Entrepreneurship by its very nature concerns activities and actions on the part of the people to create new ventures. It is essentially a way of thinking, a mindset.

Of late, entrepreneurship is being treated as central to the economic development process and is receiving much attention from researchers and policy makers. In common parlance, entrepreneurship is often taken as synonymous with self-employment or creation of new firms or sometimes with innovative start up. However, the modern concept is that it is a much broader term and there are many facets to the modern entrepreneurial process, which facilitate, steer and shape the development of national and regional economies. Thus, for the policy maker these provide many opportunities to tap the benefits of entrepreneurship.

Understanding Entrepreneurship

At this stage, a definition of entrepreneurship against the current backdrop is in order. According to the classical view, an entrepreneur is a person who takes the risk, brings the factors of production together and creates the output that is sold in the market. But given the present times, many variations of this entrepreneurship are there. From the passive calculator of the neo-classical model to the middleman

intermediary or even the speculator, they all fall within the ambit of the term, entrepreneur. The person who is capable of anticipating unperceived opportunities, searching new inferences, reading the market and exploiting new technologies is an entrepreneur in the modern sense of the term. Thus, entrepreneur is not only an expression to denote individuals engaged in high-level activities such as introducing new technologies but also the people who are engaged in low-level activities like arbitrage. The Schumpeterian view, however, has a wider acceptability as it views entrepreneur as an innovator who not only works within the framework of existing markets but also reallocates resources to new uses and actively seeks creation of new markets, while leading to the destruction of obsolete markets. There are several other definitions also, each focusing on a certain aspect of the entrepreneur. But the contemporary view is that an entrepreneur is not necessarily a person who establishes an enterprise of his own. He may be a person with an enterprising spirit and employed by some other organization or entrepreneur. In management literature, references are there about the entrepreneurial manager who acts like an entrepreneur, but within the organizational context. There is a distinct term for this kind of a person—intrapreneur. Coined by Gifford Pinchot, intrapreneur is 'any of the "dreamers" who do'. The intrapreneur may be the creator or the inventor, but he or she is always the dreamer who figures out how to turn an idea into a profitable reality. Another popular coinage in modern management literature is 'ultrapreneur', a term used to indicate a new mindset of the entrepreneur that denotes an ultrapreneuring team for coordinated efforts between the buyer and the selling company for fast action. Entrepreneurship, thus, is largely related to attitudinal dimensions. The qualifying characteristics being innovation, risk taking and wealth creation.

The important point to note here, however, is that entrepreneurship on its own is not a sufficient condition for wealth creation. It has to be backed up by social values, political process and supporting institutions all of which combine to form that crucible of growth popularly covered under the umbrella expression culture. In fact, a widely accepted view is that entrepreneurial thinking is also a product of a facilitative culture. On the other hand, there can be stifling cultures too—cultures that do not allow entrepreneurship to grow.

Culture and Entrepreneurship

The famous study on culture's consequences by Geert Hofsted has long proved that there are culture-dependent differences in thinking and acting, and at times this cultural differentiation may prove the crucial element in fostering entrepreneurship. Culture both reflects the environment—physical and social—and in turn shapes it. It is important therefore to understand the relationship between culture and entrepreneurship. The cultural moulding of one's perception, memory and attitudes indicates the massive impact of different designs for living upon the individual. A convenient shorthand way of referring to the training in the life-ways of a society, which the new member acquires through social interaction, is to speak of the 'effect of culture upon the individual'. But in so speaking, we are merely using a convenient abstraction to point to the myriad ways in which various people (who themselves learn the ways of the group from others) train the new individual in the approved ways. There is no single thing called 'culture' which influences a person.

The relationship between culture and the individual is intertwined. Culture influences a person in a massive and pervasive way and this makes for the stability of a society and the continuity of its culture; the person also influences his culture and thus makes social change possible. The culture of a society consists, in part, of a particular set of arrangements for solving the problems of the members of the society. Some of these problems are special ones peculiar to the members of a particular society. Others are universal problems common to all human beings—such as meeting biological needs of the members, training the young, caring for the sick. There are, of course, many different possible arrangements for solving these problems. From among these possible arrangements, one society adopts one set; a second society, a different set. This is another way of saying that no two cultures are identical.

The particular set of cultural arrangements adopted by a society is influenced by the physical environmental factor, as well as man's attitude and desire to improve his habitat. A society's culture, in other words, is not entirely determined by the 'given' physical environment. Man is not a passive victim of his physical environment. Within limits, he can act on it and transform it to suit his ends.

The historically important thing with regard to natural resources is man's attitude towards them. It was not the availability of iron that created the Iron Age in Britain, nor the presence of coal that ushered in the Industrial Revolution, but the initiative of certain men at particular moments in time in finding a use for these mineral riches of the earth. The modifications or changes that have taken place in mechanical contrivances follow and tangibly employ prior modifications and changes in the purposes of human tool makers and tool users. The conversion of an agricultural parish in England into an industrialized community, the adoption of a new tool, or the incorporation of a new technique of production into a small, local cultural system has occurred early or late in time, here or there in space, as dictated by human will. Human geography demands as much knowledge of human beings as of geography.

The culture of a given society is also influenced by contacts with other cultural groups. Just as there is congruence between the 'physical surround' and culture, so is there congruence between the 'social surround' neighbouring cultures and the culture of any given society. The borrowings of one society from the culture of another are not, however, blind and random scavenging of odd bits and pieces. A society borrows only those cultural ways that are seen by its members as helpful in solving the problems they face; that are seen, in other words, as a means of reaching their goals. However, the impact of social surround is a slow and complex process that is determined, among other things, by strength of the cultures, the value system and the attitude of people towards change. Education plays an important role in determining attitudes. Perhaps, this is the reason why providing education for all is a central pillar of the Millennium Development Goals stipulated by the United Nations. The relationship between quality education and economic growth is now a proven fact. A few cases provided hereafter may be relevant at this stage.

The Chotanagpur region of the Jharkhand state, which was earlier the southern part of the erstwhile Bihar state was one of the first regions to have acquired industrial status in independent India. The mineral-rich region had attracted the attention of our first Prime Minister Pt Jawaharlal Nehru and a number of large industries came up in the region. Along with large public/private sector undertakings like HEC, SAIL, IISCO, HSCL, FCI, PDIL, TISCO, the central as well as state governments promoted growth of small-scale industries

and entrepreneurs were encouraged to set up units. With the nationalization of coal mines in the early 1970s this process gained further impetus. Thus, four major industrial area development authorities were created around the four industrial cities of Ranchi, Jamshedpur, Bokaro and Dhanbad. These were Ranchi Industrial Area Development Authority, Adityapur Industrial Area Development Authority, Bokaro Industrial Area Development Authority and New Kandra Industrial Estate, respectively.

The objectives of these area development authorities were manifold. The state government wanted to enhance the pace of industrialization, exploit the natural resources of the region judiciously, and catalyze economic growth and regional development. Many small-scale units were set up in the region. Some were ancillaries to the existing large industries and some were set up to use the natural resources, particularly coal and other minerals available as raw material. This period saw rapid industrial activity in the region. It is to be remembered that today's highly developed industrial regions like Gurgaon and NOIDA were not even planned then.

In the 1980s, the Government of Uttar Pradesh (UP) decided to develop the industrially backward eastern region, and a number of strategic initiatives like incentives to set up units in zero industrial areas were announced. Land, finance, etc. were made available and industrial estates around industrially backward districts like Varanasi and Jaunpur were developed. Thus, Ramnagar Industrial Estate in Varanasi District and Satharia Industrial Development Authority in Jaunpur were created. Many units came up. It was much later that NOIDA started coming up, after the government of UP decided to use the proximity of the region to Delhi as a strategic advantage. The Haryana Government's plan of developing Gurgaon came even later. However, as things stand today, the industrial area development authorities of Jharkhand and industrial estates of eastern UP are in shambles, while Gurgaon has become a leading industrial hub of the country, overtaking even NOIDA. A systematic observation of the industrial development process in and around the regions mentioned above will suggest that for entrepreneurship to flourish mere government support in terms of incentives is not enough. Nor, also, is the abundance of natural resources in the region. There is an entrepreneurial culture that is needed which includes many more things. It was this that was missing in eastern UP and Jharkhand.

Why the attempts to industrialize Jharkhand and eastern UP failed and why NOIDA and Gurgaon grew has to be understood. The difference lies in the cultures of these regions. While Jharkhand and eastern UP represent stifling cultures, NOIDA and Gurgaon represent facilitative cultures.

In stifling cultures, entrepreneurs set up units to misuse the finances and other incentives that are offered, the political establishment is exploitative, the support system is rudimentary, and the social system is indifferent. Thus, all the stakeholders lack commitment. And without commitment the result is what we saw, efforts and intentions do not yield results.

Attempts have been made by researchers to find out the basic elements of the entrepreneurial culture. While opinions vary and views are myriad, there is a wide agreement on the fact that entrepreneurship flourishes in some societies much more than in others. In India, for instance, Sindhi, Marwari, Gujarati and Punjabi cultures have thrown up many more successful entrepreneurs than others. This, however, is not to rule out the growth of entrepreneurship in other cultures. Rather, it is to identify the elements of successful entrepreneurial cultures and inculcate them in other cultures. But this is easier said than done. There is a need to study and understand the entrepreneurial culture, identify the elements of cultures and inculcate them in other cultures.

Developing Entrepreneurial Culture

India can make rapid strides if entrepreneurship gets due importance in national economic policies. The growth of Japan, South Korea, Singapore and other leading Asian economies can largely be attributed to entrepreneurship. The point to be noted here is that a culture for facilitating entrepreneurship is to be fostered. How to do this is perhaps to be learned from those who have realized it.

Culture, like personality, has both content and pattern. Just as mere testing of the separate traits of an individual does not describe his personality, so the mere listing of the separate institutionalized ways of a society does not describe its culture. Two cultures, just as two personalities, may contain highly similar elements and yet be extremely unlike one another in pattern. It is this pattern, the arrangement of elements, that is critical. Just as in diamond and coal, the basic element carbon is same but the arrangement of molecules does the trick.

Developing entrepreneurship is thus a difficult task given the fact that you need a facilitative culture. Industries fail to flourish in Jharkhand, Bihar and eastern UP despite government efforts. The entire set of social, psychological, political, legal and economic environment needs to be taken into account. Delineating areas, outlining policies and announcing incentives may not be enough as has been proved in the cases mentioned above. A culture needs to be created. There is need to learn from the experiences and experiments of other cultures.

In India, the problem is diversity. There is so much diversity that a one-size-fits-all intervention will not work. Down south, the knowledge-based industry and its servicing has thrown up many entrepreneurs. Chennai and Hyderabad have seen rapid growth. East on the other hand is sluggish; rather the growth in Bihar, Jharkhand and eastern UP is negative, West Bengal being no better.

Jharkhand is a classic case to prove how absence of entrepreneurial culture stifles growth. The state has abundance of natural resources, an industrial background running back to late sixties and availability of finances, yet it is ranked amongst the worst states in the country. In fact, the honourable High Court of the state has been constrained to observe time and again that Jharkhand is going the Bihar way. These remarks made by a highly responsible agency of the state sum up the quality of governance of the state. This quality, incidentally, is a crucial determinant of an entrepreneurial culture because other determinants like infrastructure and law and order are dependent on it. Another important aspect is the social-cultural milieu. But more than their presence it is their interaction that is critical.

Conclusion

What makes an economy tick? This, perhaps, is the most relevant economic question for us in present times. Particularly, because many in India see this country emerging as an economic superpower in the next few decades. The popular one word answer to this vital question should be entrepreneurship. Both the theory and evidence suggest that entrepreneurial activities play a pivotal role in economic growth, small and medium enterprises being the crucial determinants. It is precisely because of this that the Government of India as well as

different states are so keen to encourage entrepreneurship. In fact, the various state governments are boasting about their open arm policy towards entrepreneurs. Finances are available, policy measures are initiated and technical support is being extended. Despite these, however, growth of entrepreneurship is not satisfactory. But why does the entrepreneurship that steered growth in the West, Association of Southeast Asian Nations (ASEAN) countries and Japan fail to click in India. Small and medium enterprises have not shown the competitiveness and the character that boosts the economic development. The reason in one simple word is culture—entrepreneurial culture. This has to be systematically developed.

The Jharkhand example sums this up very well. This new state has the potential to be a leading state of the country. But it is a laggard. The same can be said of Bihar and eastern UP. To develop entrepreneurial culture, policy initiatives have to take a culture-specific view. What works in one region may not necessarily work in another region. A holistic approach is required for developing an entrepreneurial culture, where the society at large is involved in entrepreneurial development. It is the social environment that ignites young minds towards achievement orientation.

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6

Capital Structure Dynamics: Are Young and Small Firms Different?

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Introduction

The study of capital structure deals with the mix of financing resources for the firm and its various linkages. Typically, the literature on capital structure has dealt with the mix of debt and equity. The high risk nature of equity and the interest expense of debt are a matter of concern and always form a difficult decision making aspect for a firm.

The literature on the relevance, or more so the irrelevance, of capital structure was sparked off with the seminal paper of Modigliani and Miller (1958). Their proposition, that the value of a firm is unaffected by the mix of debt and equity when there are frictionless markets and no taxation, was indeed a new insight for the markets. The proposition in the first place may seem unrealistic, but in reality it proposes that if at all the value of a firm is affected by the mix of debt and equity, it would be because one or more of these propositions are violated.

What do the Theories Say?

There is no one particular theory that deals with the choice between debt and equity, but there are many that indicate the reasons because

of which firms tend to choose a certain mix of both. The trade-off theories, to which the Modigliani-Miller (MM) theorem belongs, indicate that firms choose debt levels that provide tax advantages and in turn are better off when facing financial problems. This view has evolved into a proposition that firms use debt and non-debt instruments as tax shields. However, most of the empirical studies, for instance Chaplinsky (Cited in Fazzari et al. 1988) and Titman and Wessels (1988) found no evidence of the effect of tax on leverage levels. Interestingly, some empirical analysis also proves that both taxation and non-debt tax shields are negatively related to the leverage (Huang and Song 2003, Givoly et al. 1992). The inconclusive nature of the relationship often poses a problem in decision making for a firm.

Myers and Majluf (1984) through their famous 'pecking order theory' look at the capital structure puzzle in terms of the firm's ordering hierarchies. The theory assumes perfect financial markets, where the shareholders cannot perceive the true value of their investment, i.e. presence of information asymmetry. In such a case, firms first prefer internal to external finance, then go for debt, and subsequently for inside and outside equity which are considered highly risky. Shyam-Sunder and Myers (1999) tested these theories and found support for both.

Following the same reasoning as of information asymmetries, Fazzari et al. (1988) had studied the importance of financing hierarchies created by capital market imperfections, within the framework of 'q' theory. They had used the panel data on individual firms (A—those with exhausted internal funds and B—those paying dividends). The study pertained to differences in 'q', financing behaviour and investment across firms classified by their retention behaviour. The study concluded that financial constraints were not just due to taxation, but could be attributed more to asymmetric information. The firms were divided based on the dividend income ratio and then put into three classes, class 1 being the most retaining firm and class 3 the highest dividend payer.

The conclusions of Fazzari et al. (1988) indicate that firms resort to external finance to smoothen out their investment needs. The investment behaviour of firms paying no dividends was driven by fluctuations in cash flow, and contractions in cash flow would reduce investment. Furthermore, firms with high retention ratios may have no low cost marginal source of finance for investment. This indicates

that information costs and also other costs (transaction costs, agency costs, etc.) have an effect on a firm's financing decisions.

Such costs operate through numerous factors such as the firm's age, its size and expenditure characteristics. In this study, we look at such determinants of capital structure using panel data for all the major industries that constitute the Indian manufacturing sector. Earlier studies have also undertaken panel data analysis on the Indian corporate sector (Bhaduri 2002, Bhole and Mahakud 2004). This study considers two segments—young firms and small firms. The classification had been done with a view to determining the effect on the leveraging of young and small firms and how it differs from the conclusions derived from overall sample. This motive is preceded by the evidence that small and young firms are financially more constrained than larger firms (Krishna et al. 1999, Fazzari et al. 1988, Fama and French 2004).

Capital Structure and its Determinants

The theoretical and empirical literature on capital structure has considered firm age, size, tax, profitability, and non-debt tax shields as common determinants of leverage for a firm. Rajan and Zingales (1995) test the determinants of leverage of firms in G-7 countries and find that size is a crucial component to borrowing, since large firms have greater ability to convince the lenders about their prospects which small firms hardly can. They also prove that leverage of the firm increases with tangibility and decreases with profitability. We first define leverage and then consider its determinants by summarizing the literature and related definitions. Firm size, age, taxation, interest coverage ratio, cash at the beginning of the year, profitability and industry effects are some determinants that we use in this chapter.

Measures of Leverage

The capital structure of a firm is broadly made up of amounts of equity and debt. Specifically, it deals with the permanent long-term financing of a company, including long-term debt, common stock and preferred stock, and retained earnings**.** Leverage is therefore defined as the ratio of long-term debt to total capital. For empirical purposes, many forms of leverage are used, mainly ratio of debt to

book value of capital, ratio of book value of debt to market value of capital (Rajan and Zingales 1995, Myers and Majluf 1984). The results however did not seem to change and thus these are often used to check the robustness of results.

For our purpose, we have considered two measures of leverage: LEV is defined as the ratio of debt to debt plus equity, and LEV2 as the ratio of long-term debt plus current liabilities to long-term debt plus equity plus current liabilities. Since we consider both the current liabilities and accounts payable, the concept expands to that of financial structure, which suits small firms too (Van der Wijst 1989). Since the focus here is to find the size-based differences in determining capital structure, the second measure is recommended. Though accounts payable data is crucial in this regard, non-availability of the data limits the measure to consider only the current liabilities.

$$\text{Leverage (LEV)} = \text{long term debt}/(\text{long term debt} + \text{long term equity}) \quad \ldots 1$$

$$\text{LEV2} = (\text{long term debt} + \text{current liabilities})/(\text{long term debt} + \text{long term equity} + \text{current liabilities})$$

The Determinants: Firm Size

As mentioned earlier, Fazzari et al. (1988) have found that access to credit for larger firms is easier than for the smaller firms, due to the opposing forces of information asymmetry and profitability concerns. Smaller firms resort to using retained earnings for investment needs and at most go in for debt (in the Indian case, largely bank loans, unorganized debt markets). The reason being the costly nature of other forms of financing (equity, bonds, in some cases even bank loans), both in terms of monetary pressure on the firm's finances and also the information costs involved. Rajan and Zingales (1995) also find that smaller firms have larger dependence on debt than on equity in most of the countries, but most of the small firms rely only on retained earnings. Using this assertion as a base we analyze the data at three levels: overall sample, young firms and small firms. Firm size is defined as a function of sales turnover (Rajan and Zingales 1995, Huang and Song 2003, Bevan and Danbolt 2000). The practice in many countries is that firm size is considered as a function of number of employees

but value addition and sales are also considered as close proxies for the firm size (Krishna et al. 1999). We define firm size as a logarithm of sales turnover of the firm. A square term of size is also introduced in order to see whether there is any threshold level determined by firm size. Subsequently we hypothesize:

Hypothesis 1: Leverage increases with Firm Size
Where, firm size= log (Sales Turnover).

Firm Age

Though not many studies have included this variable for empirical testing, the theoretical considerations of capital structure seem to imply that older firms or firms that have a higher survival rate tend to obtain debt more easily than younger firms (Inessa and Peria 2004). Equally, their equity patterns and dividend payouts are considered consistent by most common experience. Though older firms get debt easily, their equity reliance would tend to be more to hold the shareholder confidence and to have less interest burden. Here we assume that owners act in favour of shareholders and therefore encourage more equity (in conjunction with the pecking order theory). In this study, firm age is defined as the number of years in business, or precisely, 2004, minus the year of incorporation of the firm. Unlike the regular approaches that use firm age directly, here we consider an important factor of entrepreneurship. The firms are divided into two classes: young and old. Young firms, according to the pecking order theory (Myers and Majluf 1984), find it difficult to obtain debt due to high information costs associated. In the context of the agency theory, we could also consider that young firms face higher agency costs because the managers are more in favour of new shareholders, and hence the conflict of interest would result in relying on lower debt. Therefore, the determinants that we test here would not be as important for young firms as for others in the sample. For this purpose, we use slope dummies associated with each of the explanatory variables. The hypothesis that we test is:

Hypothesis 2: The variables determining overall behaviour are not as important for young firms.

Where, firm age= t – year of incorporation; where t = 2000…2004.
Young = age < = 15 years.

Taxes

The effect of taxes on leverage has been worked mainly by Modigliani and Miller (1958) and subsequently by others. Since the tax rate for all the firms is more or less the same, the marginal effective tax rate or effective tax rate have been in wide usage in the capital structure literature. The static trade off theory suggests that firms choose a trade off between the tax benefits due to debts and interest burden, i.e. cost of debt. This is often punctuated by the motive of tax shielding by firms. Firms tend to save their payments towards corporate taxes by preferring debt to equity since interest expense is tax deductible (Modigliani and Miller 1958). Most of the empirical tests have been inconclusive. However, the effect of a change in statutory corporate tax rate leads to a change in leverage decisions (Givoly et al. 1992). Firms with higher effective marginal tax rates tend to decrease their leverage more than firms that have lower tax rate to match the statutory tax rate. With this proposition as a base, we test the Indian situation since the Government of India in three budgets, from 2002 to 2004, has brought down the corporate taxes and also the personal taxes in the form of decreasing capital gains tax. In this study we do not directly study the impact of change in personal taxes, but we do study the impact of the effective rate of taxation (ERT), defined as the proportion of tax paid out of profit before taxes (PBT). We, therefore, test the proposition of Givoly et al. (1992) by the third hypothesis:

Hypothesis 3: Firms with higher ERT tend to decrease their leverage (i.e. ERT is negatively related to leverage),

Where, ERT= Taxes in the current year/ PBT.

Cash at the Beginning of the Year

The traditional cash flow theorists, e.g. Fazzari et al. (1988), suggest that financial constraints to a firm are explained by changes in the cash flow of the firm. Consequently, this proposition has been tested several times in a series of comments and replies, (e.g. Kaplan and Zingales 1995, Fazzari et al. 1995). The results, so far, have been inconclusive. Management of cash flow has always been a major impediment for young and small firms. This is very much true in the Indian case too. We suggest that a strong cash position at the beginning of a financial year would make the firm tend towards lower leverage.

Krishna et al. (1999) as well as Rajan and Zingales (1995) suggest that access to debt for smaller firms is difficult and therefore they have to rely largely on retained earnings. Therefore, to avoid bankruptcy, a firm has to have a healthy cash flow at the beginning of the period, since getting debt would be difficult, and retained earnings would help them continue operations of the firm.

The indication here would be of a negative relation between cash at the beginning of the period and leverage.

Hypothesis 4: Leverage decreases with an increase in cash at the beginning of the year.

Lcash= log (cashbegin).

Interest Coverage Ratio

The interest coverage ratio depicts the firm's capacity to repay debts. If the firm cannot afford debt it will stick to its retained earnings and manage the operations from its cash flow. Much of the literature (for example Rajan and Zingales 1995 and Inessa and Maria 2004) considered the interest coverage ratio to test the firm's preference for internal or external finance. In this chapter, we consider the effect of interest coverage ratio on leverage with the hypothesis that a larger interest coverage ratio, meaning a larger capability for repaying its debts, leads to larger acquirement of debt by the firm which means larger leverage.

Hypothesis 5: Leverage increases with Interest Coverage Ratio

Where, Interest Coverage Ratio= Interest Expenses/ PBIT

PBIT= Profit before Interest and Taxes.

Profitability

Profitability has many times been considered as having a positive effect on leverage. The reasoning behind this is in the lines of the MM theorem, which considers that most profitable firms tend to go for more debt since tax benefits from holding debt are high. Myers (1988) cites evidence which proves that due to preference for equity being high on the pecking order basis, profitability should be an important determinant of leverage. According to Titman and Wessels (1988) there is also a possibility that the non-debt tax shields (for example,

tax deductions for depreciation) could be substituted for debt based tax shields. The benefits thus accruing from non-debt based tax shields, if more than those benefits due to debt-based tax shields, may replace non debt-based measures as a priority for the firm. The hypothesis therefore to be tested would be:

Hypothesis 6: Profitability has a positive effect on leverage
Profitability (Pblty) = PBIT/Sales Turnover.

Data, Methodology and Descriptive Statistics

The data used in this chapter is from the Capitaline database on Indian industry which provides balance sheet data on firms. The sample period considered was from March 2000 to March 2004. A major segment of the Indian manufacturing sector was covered, which consisted of the following industries: aluminium, auto (LCV, HCV, Motorcycles, Scooters, Cars and Tractors), bearings, engineering, engine manufacturing, petrochemicals, steel and tyre manufacturing. The total dataset contains 274 firms. The panel data process required that a minimum of four years, data be available for each firm, a criterion that whittled the number of firms down to 183. Out of these 183 firms, 55 were young, 23 were small and eight were both young and small, all of which had minimum four years and maximum five years of data. This sample size needs to be increased to improve the reliability of the results. Since this is a preliminary inquiry over a certain group of firms, this study would give us an indication of what to expect from a larger sample. The future work would include all the firms in every sector.

Two classifications were then made. First, the young firm which we define as having an age of less than or equal to 15 years (this is because the mean age of the sample is 31). Second, the small firm which we define as having an annual sales turnover of less than or equal to Rs 5 crore. The Indian classification system uses plant and machinery investment as a criterion, (that is less than or equal to Rs 1 crore) but since we wanted to determine the importance of firm characteristics, the size variable was chosen for sub-sampling). These two classifications were then multiplied with the explanatory variables to obtain the slope dummies. However, due to the non-availability of data for some firms, we had to use an unbalanced panel.

Test for Poolability of Data

The choice for using a panel dataset basically arises from the purpose of observing and giving weightage to respective groups with regard to estimation. Sometimes the dataset may seem to have negligible group-based variations and thus the need for performing panel data analysis becomes questionable. Performing an Ordinary Least Square (OLS) regression on a pooled dataset may seem to be the obvious choice. Industry data often shows firm-level differences to be significant. However, in this study we perform an 'F' test proposed by Greene (2000) which tests for significance of group effects. In the present context, pooled OLS estimates are compared with the panel Least Square Dummy Variables (LSDV) estimate.

The LSDV method incorporates dummies for each firm and thus accounts for group differences. The F-test that is used is as

$$F(n-1, nT-n-k) = \frac{\frac{(R^2_{lsdv} - R^2_{pooled})}{(n-1)}}{\frac{(1-R^2_{lsdv})}{(nT-n-k)}} \quad \ldots 2$$

Where, $n = 183$, $T = 5, k = 13$

The null hypothesis, that is 'no significant group effects', is rejected if the F statistic turns out to be statistically significant. If the result is insignificant, then there is no difference between the estimates of LSDV and the pooled model, therefore using a pooled OLS would not cause a problem.

The panel data approach was given preference since using cross-section data yielded inconsistent and inconclusive results. The limitations of using cross-section data for leverage were put forth by Myers (1977). He indicated that changes in leverage and leverage decisions cannot be perceived and predicted using cross-section data, since a firm cannot always be on an optimal capital structure point and annual changes also should be considered. Following this argument, we used the panel data approach in the following model.

$$LEV_{it} = \alpha_i + \beta_1 size_{it} + \beta_2 (size)^2_{it} + \beta_3 ert_{it} + \beta_4 intcov_{it} + \beta_5 pblty_{it} + \beta_6 lcash_{it} + \beta_7 Dyngsm_{it} + \beta_8 Dsize_{it}$$

$$+ \beta_9 Dert_{it} + \beta_{10} Dint_{it} + \beta_{11} Dpblty_{it} + \beta_{12} Dcash_{it} \quad \ldots 3$$

Where,

LEV = Leverage
LEV2 = second measure of leverage, including current liabilities
ERT = Effective Rate of Taxation
size = Size of the firm
sizesq = square of size
intcov = Interest coverage ratio (ref equation 6)
Pblty = Profitability
Lcash = Log (cash at the beginning)
Dyngsm = Dummy associated with firms that are young (age<=15 yrs) and small (sales turnover <=5 Cr.); Dyngsm=1 ; if firm is young and small . 0 if not
β = coefficient values

Variables with prefix 'D' are slope dummies of interaction between Dyngsm and the explanatory variables.

The Feasible Generalized Least Squares Method[1]

After performing the OLS regression it was found using the Breusch-Pagan heterosckedasticity test[2] (Breusch and Pagan 1979), which uses the lagrangian multiplier (LM) method, that panel-wise heterosckedasticity persists. Also, using the Arrelano-Bond Autocorrelation[3] test, which uses the lag of the dependent variable as an explanatory variable and then tests for autocorrelation according to panel, it was found that the AR(1) errors were present in the model.

The best way to correct these two violations is to use a generalized least squares estimation which can even account for the autocorrelation component simultaneously.

Feasible Generalized Least Squares (FGLS) estimation procedure is suited for such a motive. Consider the following linear equation

$$y = x\beta + \varepsilon \quad \ldots 4$$

The generalized least squares method assumes that

$$\text{var}(y) = \Sigma_0, \text{ a positive definite matrix}$$

$$\Sigma_0 = \Sigma(\sigma_0^2, \rho_1); \text{ where } \rho_1 \text{ is corr } (y_t, y_{t-1}) \qquad ...5$$

is known but in practice, Σ_0 is typically unknown and therefore the GLS estimation method cannot be used. The FGLS estimation, instead, uses a close estimate of Σ_0 say, $\hat{\Sigma}$ in the following manner.

First we estimate ρ_1 by some estimator $\hat{\rho}_t$ which is computed as follows (Kuan 2002).

1. Perform OLS estimation of equation 2 and compute $\hat{\rho}_t$, using the OLS residuals as $\hat{\rho}_t = \dfrac{\sum_{t=2}^{n} \hat{\varepsilon}_t \hat{\varepsilon}_{t-1}}{\sum_{t=2}^{n} \hat{\varepsilon}_{t-1}^2}$ ...6
2. Now transform the data by using the transformation matrix $\hat{V}_t^{-1/2} = V(\hat{\rho}_t)^{-1/2}$ ...7

Compute the resulting FGLS estimate by regressing $y_t(\hat{\rho}_t)$ on $x_t(\hat{\rho}_t)$. Iterations could be done by computing $\hat{\rho}_t$ for every regression.

$$\hat{\beta} = (X'\hat{\Sigma}^{-1}X)^{-1}X'\hat{\Sigma}^{-1}Y \qquad ...8$$

This procedure could be extended to higher order Auto regressive disturbances.

In the panel data methodology

$$y_{it} = x_i\beta_{it} + \varepsilon_{it}$$

The most common problems are the panel-wise heterosckedasticity and autocorrelation. Since industry data is heterogeneous, we could expect these to exist in our data too.

The FGLS procedure, when used in panel data, was found to be correcting the panel-wise heterosckedasticity. The panelwise autocorrelation problem is already accounted for in the two-step procedure of FGLS estimation. However, we need to perform the heterosckedasticity and autocorrelation tests on a simple OLS model and then incorporate the FGLS procedure.

Suppose it is found that only heterosckedasticity persists and no autocorrelation, then the estimation method of FGLS would involve directly obtaining a close estimate of the matrix,

$$\hat{\Sigma} = \begin{pmatrix} \hat{\sigma}_{11}^2 & \cdots & 0 \\ \vdots & \ddots & \vdots \\ 0 & & \hat{\sigma}_{it}^2 \end{pmatrix}$$

Descriptive Statistics

This section introduces the descriptive statistics, which will be discussed with respect to categories of young and small comparing them with the whole sample. Industry trends are also discussed in the same fashion.

Two measures of leverage were considered. As seen in Tables 6.1, 6.2, 6.3, 6.4 and 6.5, the mean LEV and LEV2 of the whole sample indicate a low proportion of debt. This is reflected again in large firms, which show a mean of 0.31 for LEV and 0.29 for LEV2. With respect to small firms, the mean is 0.17 for LEV and 0.29 for LEV2. The old firms reflect the same pattern as for the whole of the sample, whereas young firms have the same pattern as that of large firms.

Table 6.1
Descriptive Statistics for all 183 Firms

Variable	*Mean*	*Std. Dev*	*Min*	*Max*
LEV	0.2992	0.268008	0	0.98472
LEV2	0.3965	0.273679	0	0.988886
Salest	638.8386	1905.454	0.21	24137.02
ERT	0.1829	0.396855	–5.83333	3.222222
Cashbegin	20.1870	70.25956	–26.33	696.4
Intcov	10.9515	56.99547	–125	1022.34
Pblty	–0.0307	0.473175	–6.26415	6.333334

The larger firms seem to show higher debt levels than small firms which indicates that leverage increases with size. The young firms often tend to emulate the large firms, since the young firms would always try to keep the management practices of large firms as a benchmark or target and behave in the same manner. Young firms go for higher debt levels so as to work in the favour of shareholders.

Table 6.2
Descriptive Statistics for Small Firms (sales turnover <=5 Cr.)

Variable	*Mean*	*Std. Dev*	*Min*	*Max*
LEV	0.173652	0.252374	0	0.90672
LEV2	0.297394	0.287451	0	0.919225
Salest	2.818816	1.353319	0.21	4.96
ERT	0.123306	0.345492	–1.4	1.75
Cashbegin	0.234857	0.537614	–0.98	2.36
Intcov	–0.02461	5.959717	–21	24.25
Pblty	–0.33122	1.422017	–6.26415	6.333334

Higher debt levels lead to an increase in the return on equity to shareholders, which of course would not happen in the Modigliani-Miller world. The debt levels are high for young firms because of the ordering priorities similar to the pecking order models. The industry-wise analysis (Table 6.6) of LEV and LEV2 brings out interesting facts. In terms of both mean LEV and mean LEV2 the highest ratios (0.65 and 0.72) are that of the car manufacturing and lowest (0.05 and 0.11) of the engine manufacturing industry. The year-wise trend of the industries for LEV and LEV2 is provided in Table 6.7.

Table 6.3
Descriptive Statistics for Large Firms (sales turnover >5 Cr.)

Variable	*Mean*	*Std.Dev*	*Min*	*Max*
LEV	0.310611	0.266611	0	0.98472
LEV2	0.405468	0.270785	0	0.988886
Salest	696.5205	1979.991	5.06	24137.02
ERT	0.187915	0.400633	–5.83333	3.222222
Cashbegin	21.85567	72.89442	–26.33	696.4
Intcov	11.94697	59.39978	–125	1022.34
Pblty	–0.0056	0.259905	–2.64076	2.602473

The aluminium industry faced a declining trend in leverage from 0.32 in the year 2000 to almost 0.17 in 2004 indicating a declining role of debt in the capital structure decision. The same trend continues in the auto LCV-HCV, bearings, engineering and steel industries. One of the sharpest falls is recorded in the engine manufacturing industry from 0.13 in 2000 to almost 0.007 in 2004, which indicates the increasing role of equity. This can be expected due to increasing

technical collaborations and foreign investment taking place in this sector for the last five years. India's specialization with regard to auto components in global markets has triggered an inflow of foreign capital. Increasing collaborations often would favour the firm that has lower debt levels and due to the increasing adoption of management norms of foreign firms, it would make the domestic firm align itself to higher equity and go for lower debt levels. This issue, however, would be considered for future work.

Table 6.4
Descriptive Statistics for Young Firms (age<=15 years)

Variable	*Mean*	*Std. Dev*	*Min*	*Max*
LEV	0.314694	0.275953	0	0.97066
LEV2	0.402204	0.267337	0	0.975192
Salest	152.1498	388.1817	0.24	3561.69
ERT	0.194841	0.344836	–0.49038	3.222222
Cashbegin	2.317059	5.777436	–13.25	39.67
Intcov	3.827225	10.16161	–20.25	63.38
Pblty	–0.09097	0.523967	–4.73684	0.358071

The industries that showed an increasing trend in leverage ratios were car manufacturing and petroleum. The scooter manufacturing industry showed a stable pattern, whereas with respect to current liabilities it showed an increase in the year 2002 and then fell once in 2003, coming back to a stable level as compared to 2000 (0.22) in 2004. The steepest ratio was observed in the tractor manufacturing industry from 0.15 in 2000 to almost 0.45 in just two years. The fact that the GDP growth in agriculture and allied sectors had dipped in 2002–03 to –3.1 per cent (Economic Survey 2002–03) may have triggered the increased reliance on debt. But we cannot assume this since, in 2003–04, the GDP growth in the sector increased to 9.1 per cent (Economic Survey 2003–04) but the debt levels remained high. The most unstable trend was observed in the tyre manufacturing industry. The constant increase-decrease pattern indicates unsteady capital structure decision making. This evidence indicates the need for more study of the determinants of capital structure in terms of firm and industry characteristics.

Table 6.5
Descriptive Statistics for Old Firms (age>15 years)

Variable	*Mean*	*Std. Dev*	*Min*	*Max*
LEV	0.295135	0.265914	0	0.98472
LEV2	0.394969	0.275491	0	0.988886
Salest	767.4105	2114.799	0.21	24137.02
ERT	0.179835	0.409447	–5.83333	2.727273
Cashbegin	24.82826	78.14744	–26.33	696.4
Intcov	12.8336	63.74715	–125	1022.34
Pblty	–0.01509	0.458165	–6.26415	6.333334

A keen observation would indicate that we have included even the loss-making firms in the sample. These firms cannot be left out from the sample since we also need to find out what role firm characteristics play in the capital structure decisions of small firms. If we leave out the loss-making firms, there would be a selection bias in the sample and, thus, the result would be representative of only profitable firms. Loss-making firms have been considered only if they are still in business. The issue of entry-exit needs careful study in order to help analysts decide the levels of debt at which firms usually enter or exit the industry.

The aspect of taxation that is indicated by the variable, ERT, shows an interesting trend. Across different categories of the sample, except for small firms, all others had the same mean ERT level of 0.18 or close to it. This shows that the effect of taxes, or more so the pressure of taxes on the earnings, is almost the same on all the groups.

Small firms had the lowest average cash at the beginning (Rs 0.23 Cr.) of the period, followed by young firms (Rs 2.31 Cr.), large firms (Rs 21 Cr.) and the highest being old firms(Rs 24 Cr.). Liquidity constraints are expected to be highest in small firms and lowest in old firms.

Results

In this section, we first discuss the effect of size, ERT, Intcov, Lcash and Pblty on LEV and LEV2. The category of young and small firms

Table 6.6
Industry Statistics

Industry		*LEV*	*LEV2*	*Salest*	*ERT*	*Intcov*	*Cashbegin*	*Pblty*
Aluminium	Mean	0.20	0.258653	661.8697	0.119701	9.140769	46.90769	–0.12729
	S.D	0.29	0.298766	1297.806	0.138745	41.03554	145.1216	0.671716
	CV	1.47	1.155087	1.960817	1.159102	4.489288	3.09377	–5.27718
Auto: LCV-HCV	Mean	0.28	0.422678	3017.272	0.279483	4.9268	81.0872	0.032014
	S.D	0.13	0.120329	3993.241	0.247285	5.471322	124.2428	0.034304
	CV	0.48	0.284682	1.323461	0.884795	1.110522	1.532213	1.071523
Auto-Motorcycles	Mean	0.36	0.426118	1765.234	0.243878	90.422	16.5045	0.036349
	S.D	0.18	0.225869	1840.441	0.160218	185.0018	32.75238	0.10605
	CV	0.49	0.530063	1.042604	0.656957	2.045982	1.984452	2.917551
Auto-Cars	Mean	0.65468	0.722778	1327.32	0.181229	–0.042	31.516	–0.06082
	S.D	0.059907	0.04692	406.4615	0.179329	0.484634	7.404082	0.034236
	CV	0.091506	0.064917	0.306227	0.989518	–11.5389	0.234931	–0.56291
Auto-Scooters	Mean	0.148734	0.23004	999.8216	0.15987	106.2712	15.704	0.068963
	S.D	0.113386	0.138999	1734.441	0.257147	242.2384	19.17044	0.070172
	CV	0.762338	0.604241	1.734751	1.608476	2.279436	1.220736	1.017526
Auto-Tractors	Mean	0.276685	0.333608	1478.934	0.163514	7.6665	75.5005	0.018815
	S.D	0.298457	0.281469	1887.746	0.208743	12.7897	98.76598	0.15577
	CV	1.078689	0.843711	1.276424	1.276602	1.668258	1.30815	8.278936

Bearings	Mean	0.22078	0.336681	139.6664	0.224482	6.5748	5.590204	0.017356
	S.D	0.216473	0.236387	161.8588	0.168594	10.9333	11.47702	0.142554
	CV	0.980494	0.702109	1.158896	0.751038	1.662911	2.053059	8.213702
Engineering	Mean	0.224191	0.350201	68.45712	0.18307	7.322107	5.218076	–0.03414
	S.D	0.235994	0.258825	186.4626	0.54317	31.11032	24.41493	0.565887
	CV	1.052648	0.739076	2.723786	2.967006	4.24882	4.678914	–16.5742
Engine Manufacturing	Mean	0.058121	0.112969	530.614	0.271337	29.788	8.3055	0.110564
	S.D	0.086479	0.108954	388.8403	0.130784	31.55726	10.99293	0.054011
	CV	1.487906	0.964459	0.732812	0.481997	1.059395	1.323573	0.488506
Petroleum	Mean	0.346063	0.403107	630.7984	0.12195	2.508933	21.69827	–0.12975
	S.D	0.263998	0.276122	1569.107	0.187824	6.846098	78.05439	0.787827
	CV	0.762861	0.684986	2.487493	1.54017	2.728689	3.597264	–6.07179
Steel	Mean	0.500581	0.574436	1227.799	0.186356	3.583247	28.59253	–0.02959
	S.D	0.258104	0.254742	3212.356	0.335848	9.763295	87.96434	0.166939
	CV	0.515608	0.443464	2.616354	1.802182	2.724706	3.07648	–5.64165
Tyres	Mean	0.353193	0.458813	1003.995	0.220477	3.0105	32.584	0.052057
	S.D	0.218145	0.2104	941.7255	0.171731	2.582463	35.58334	0.093291
	CV	0.617637	0.458575	0.937978	0.778906	0.857819	1.092049	1.79209
Total	Mean	0.299222	0.396481	638.8386	0.182928	10.95152	20.18703	–0.03074
	S.D	0.268008	0.273679	1905.454	0.396855	56.99547	70.25956	0.473175
	CV	0.89568	0.690269	2.982684	2.169453	5.204343	3.48043	–15.3953

Table 6.7
Year-Wise Trend in Leverage—Industry-Based Statistics from 2000–04

Industry	*Variable*	*2000*	*2001*	*2002*	*2003*	*2004*
Aluminium	LEV	0.320029	0.169188	0.169715	0.185069	0.174932
	LEV2	0.368685	0.211877	0.22386	0.242852	0.245989
Auto-LCV-HCV	LEV	0.315436	0.30392	0.294032	0.254924	0.234792
	LEV2	0.471844	0.466754	0.472857	0.39675	0.305187
Auto-Motorcycles	LEV	0.365253	0.326958	0.348458	0.389953	0.377835
	LEV2	0.422559	0.397259	0.421382	0.451696	0.437694
Auto-Cars	LEV	0.66667	0.64413	0.57806	0.64029	0.74425
	LEV2	0.74026	0.719888	0.661017	0.704142	0.788584
Auto-Scooters	LEV	0.142122	0.147462	0.15481	0.145862	0.153414
	LEV2	0.229924	0.212642	0.240338	0.228734	0.238562
Auto-Tractors	LEV	0.141168	0.107233	0.333943	0.397298	0.403783
	LEV2	0.192686	0.165503	0.432675	0.459213	0.417966
Bearings	LEV	0.34162	0.226509	0.206637	0.180725	0.148409
	LEV2	0.450801	0.331566	0.318558	0.301815	0.280667
Engineering	LEV	0.249942	0.229012	0.209911	0.21851	0.21358
	LEV2	0.373435	0.361032	0.338381	0.332536	0.345623

Engine Manufacturing	LEV	0.13081	0.078435	0.044818	0.02926	0.007283
	LEV2	0.223221	0.146359	0.096732	0.068089	0.030446
Petroleum	LEV	0.368803	0.344563	0.32763	0.308753	0.380568
	LEV2	0.424455	0.410528	0.38335	0.37773	0.41947
Steel	LEV	0.524327	0.546137	0.480363	0.490567	0.46268
	LEV2	0.595508	0.619868	0.552821	0.564685	0.540464
Tyres	LEV	0.348963	0.325379	0.421943	0.405988	0.263695
	LEV2	0.443478	0.442027	0.538807	0.504433	0.36532

that we have used here is incorporated using a slope dummy interacting with the rest of the explanatory variables. Slope dummies precisely convey the information with respect to each category in general and their importance with the explanatory variables in particular (Narayanan 1998).

Table 6.8
Regression Results—FGLS Estimates of Equation 1

Variable	*LEV*	*LEV2*
Constant	0.148***	0.250***
	(0.02)	(0.016)
Size	0.849***	0.091**
	(0.20)	(0.017)
Sizesq	0.001	–0.003
	(0.005)	(0.004)
Ert	–0.018***	–0.010**
	(0.004)	(0.003)
Intcov	–0.0003***	–0.0003**
	(0.00006)	(0.00008)
Pblty	0.018**	0.015**
	(0.005)	(0.006)
Lcash	–0.00007	–0.00004
	(0.0005)	(0.00006)
Dyngsm	0.696***	0.397***
	(0.210)	(0.101)
Dsize	–1.279**	–0.748***
	(0.441)	(0.197)
Dert	–0.408**	–0.145
	(0.181)	(0.1453)
Dint	0.056***	0.014
	(0.004)	(0.012)
Dpblty	0.067	0.005
	(0.0735)	(0.067)
Dcash	–0.048	–0.011
	(0.021)	(0.112)

***1% significance; **5% significance; Standard Errors in Parentheses.

The results of the poolability test (equation 2) showed an F-value of 7.15 which indicates the presence of group effects and use of panel data method. The next step was to test for heterosckedasticity and autocorrelation at the panel level. For this purpose, the Breusch-Pagan heterosckedasticity test was carried out, the results of which are as follows.

Breusch-Pagan/Cook-Weisberg test for heterosckedasticity
Ho: Constant variance
Variables: fitted values of LEV
chi2(1) = 39.34
Prob > chi2 = 0.0000

For testing autocorrelation on panel data, one of the methods used is the Arrelano-Bond test that regresses the dependent variable on its lag, panel-wise, and tests for residuals thereafter. The result of the test is as follows.

Arellano-Bond test for AR(1): z = 2.47 Pr > z = 0.0133

Thus we find the presence of panel-wise heterosckedasticity and autocorrelation. After testing for panel-wise heterosckedasticity and autocorrelation, the FGLS procedure was used to estimate the parameters of equation 1. The FGLS results were better when compared to the cross-section and pooled OLS analysis.

The FGLS results showed that size was positively related to both measures of leverage. In both cases, the firms that were young and small showed a positive and more important effect on leverage, as is evident in Table 6.9. There was no threshold level found with respect to size. As expected, the effective rate of taxation had a negative effect on both measures of leverage, which shows that the Modigliani-Miller proposition, which states that firms tend to prefer debt for tax shielding purposes, is not true in the present case.

Interest coverage affected both the measures of leverage negatively, a finding that contradicts our hypothesis that firms with higher capacity to pay for debt will go for higher debt. This result shows that capacity to pay for debt need not always be a priority for the debt option. In the case of young and small firms, the result is the same and we find that there is no lower or higher priority for the interest coverage ratio to affect leverage in both cases.

As expected, the profitability of a firm has a positive effect on both measures of leverage which shows that there could possibly be a tax shielding mechanism in place.

Since the ERT shows a negative effect on leverage, an interaction term of profitability and ERT could be used to test whether there really is a debt-based tax shielding process taking place. In the case of young and small firms, the result turns out to be statistically insignificant.

Table 6.9
Slope Dummy analysis for LEV

Dependent Variable LEV	*Estimated Coefficient Value (1)*	*Slope Dummy Coefficient for Young and Small Firms(2)*	*(1+2)*
Size	0.849	–1.279	+
ERT	–0.018	–0.408	–
Intcov	–0.0003	0.056	unchanging
Pblty	0.018	0.067	+

Table 6.10
Slope Dummy analysis for LEV2

Dependent Variable ***LEV2***	*Estimated Coefficient Value (1)*	*Slope Dummy Coefficient for Young and Small Firms(2)*	*(1+2)*
Size	0.091	–0.748	+
Ert	–0.010	Not significant	
Intcov	–0.0003	Not significant	
Pblty	0.015	Not significant	

Cash at the beginning of the period was not significant in determining any of the measures of the leverage. However, it shows a negative effect on leverage, which indicates that having more cash at the beginning of the accounting period decreases the chances of taking the debt option. This is particularly supportive of the pecking order argument that firms consider retained earnings as the first priority.

This result however can be tested again using a larger data set.

Conclusion

Based on evidence from the Indian manufacturing sector, we get an idea that the most important factor determining leverage and, hence, the capital structure is firm size. This is in confirmation of other similar empirical work carried out for countries like Japan and the United Kingdom. An important observation here is that leverage decreases with an increase in ERT. Size and profitability were found to be more important to young and small firms whereas ERT was found to be less important in determining capital structure. Further study would include the analysis of the dynamics of capital structure on a larger dataset and formalizing a methodology for small and young firms.

End Notes

1. STATA Command: xtgls depvar indepvar panel(hetero) corr(psar1) by (condition), if (condition) (has to be done after data is TSSET)
2. STATA command: . hettest
3. STATA Command: . abar (works only on regress, ivreg commands)

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7

Growth Strategy in Small Manufacturing Organizations: A Study of Madhya Pradesh and Maharashtra

Satyajit Majumdar

Introduction

The emphasis placed on the small-scale sector in the industrial development is due to its high employment generating capacity and low investment requirement. This led to many policies for promotion in this sector. The promotional policies included, among others, product reservation, infrastructure support, directed and concessional credit, tax concessions, special assistance in procurement of equipment and material in short supply, quality control and market network. Since the process of liberalization, the small-scale sector has witnessed a major shift in government policy to de-reserve items earlier exclusively reserved for this sector. The trend is continuing with 108 items de-reserved in the year 2005/06, while the number of de-reserved items in 2004/05, 2003/04, 2002/03 and 2001/02 was 85, 75, 50 and 14, respectively.

In the year 2005/06, the government targeted a 12 per cent growth in this sector which would contribute 7 per cent to the Gross Domestic Product (GDP) of the country.[1] Small manufacturing companies support the large-scale sector as suppliers offering quality, flexible and

small quantities, which help them in achieving competitive strength. Small companies also cater to the needs of the niche market.

Extensive literature is available on the causes of failure of small organizations and the factors influencing them as compared to success and growth in this sector (Ibrahim and Goodwin 1996). In this chapter, an attempt has been made to address this gap and to identify the strategic differentiators between growth and non-growth in small manufacturing organizations. While establishing the need to develop a set of criteria to measure success of small firms with strong export orientation, Buckley et al. (1988, 1990) suggested that performance in profitability and market share should not be the only factors that decide the success of such firms, but potential factors such as management focus, internal functions and integrations should also be analyzed.

The chapter addresses two research questions—'Are there factors that are important for growth of small manufacturing organizations in India?' and 'Are these factors of equal importance for growth?' In this chapter, success, that is, growth has been defined based on the performance parameters of a firm with some amount of benchmarking with respect to the performance of the particular industrial sector to which it belongs. Then strategies which differentiate growth-oriented small organizations from others were identified. The chapter also takes a view of the strategy formulation process. Quinn (1978) argued that this process is evolutionary, fragmented and intuitive in nature. The impact of the entrepreneur's vision and motivation substantially influences the strategy formulation process. Mintzberg (1978) also explained that strategy emerges over a period of time and the decision maker approach eventually becomes the strategy. De Geus (1988) concluded that the strategy planning and development process becomes the primary source of learning and adaptation. In this context, the impact of strategies on the growth of a small manufacturing organization is one of the generalizations this chapter may lead to. The chapter also looks at the nature of variables considered to be important, in varied degrees, by the growing small manufacturing business units.

Literature Review: Small Organizations

In India, small-scale industrial units are those engaged in the manufacture, processing or preservation of goods with an investment

in plant and machinery not exceeding Rs 1 crore. These include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery should also not exceed Rs 1 crore. Investment limit is Rs 5 crore for toys, hosiery, packaging materials, auto components and hard tools sectors. Small firms are defined differently in various parts of the world. Largely, these firms are accepted as owner (entrepreneurs) managed. In Europe and many other countries, demarcation is based on number of employees.

Carland et al. (1984) explained that entrepreneurial firms have higher goal orientation and are more future directed. Roth (1992) is of the opinion that typical small organizations are characterized by high influence of entrepreneur's personality, quasi-formal planning and control and a relatively loosely structured administrative system. This often results in problems in acquiring market information and actual management of the organization. Dean, Brown and Bamford (1998) found that small size and niche filling capabilities with speed and flexibility are the distinctive advantages of small organizations. In spite of the variation in classification size, resource and control of the owner/manager are the common aspects of small organizations which differentiate them from large organizations. In this chapter, entrepreneurial intensity has been assumed to be present in small organizations. Entrepreneurial intensity is related to higher levels of task motivation and greater degree of control of the environment by the owners (Matthews and Scott 2001).

Nooteboom (2002) explained the strengths and weaknesses of small organizations. The core characteristic of a small firm—the economies of scale occur not only in production and management, but also in marketing, particularly in utilization of channels of communication, distribution and in transaction costs. He said that the core characteristic of personality indicates intertwining of private and business affairs in housing, working and living in the same premises; capital, private and public sources; income, wage and profit; labour management; and internal and external contacts, friends and family members involved in the business bringing emotional and rational motives together. This also goes together with informality of authority, communication and procedures. According to Mintzberg (1983), in a small organization we may find a 'simple structure' with direct, centralized supervision

by the owner-manager or an 'adhocracy' with a federative, decentralized structure and process on mutual adjustments. Nooteboom (2002) further argued that the weight of the derived characteristics, and strengths and weaknesses vary with conditions and with capabilities, motives and goals of the entrepreneur. As a firm grows, the characteristics turn to the opposite. As a firm grows, the entrepreneurs will have to delegate more which results in bureaucracy, as additional layers of hierarchy are added and formal procedures are adopted for planning, coordination and control. Also, functional specialists appear, communication becomes more structured, formal and documented, and knowledge becomes less tacit and more explicit and formal.

Growth

The literature on industrial economists' approach to growth of firms primarily addresses large firms and their development. It does not differentiate the owned and managed small firms. The small firms' growth is explained by other theories and there are varied approaches used by the researchers while defining the dimensions of growth. They mostly refer to employment, turnover, profit, value added and total asset as growth parameters. O'Farrell and Hitchins (2002) argued that the theoretical framework changes according to the parameters of interest. Storey et al. (1987) found that many small business owners own more than one firm. In a study, they reported that about 80 per cent owners of small businesses own another business. They concluded that the three key influences on the growth of small organizations are the background and access to resources of the entrepreneurs, the firm and the strategic decisions taken. Each of these influencing factors has many components influencing it. Curran (1996) gave a different view that there are many firms for whom growth is not an objective. A similar explanation was also given by Rogoff et al. (2004) who indicated that success of internal factors contributes significantly to the success of small firms. A study conducted in UK concluded that the number of small firms seeking growth is higher than those that actually achieve growth. This is due to several reasons. First, the reluctance of the entrepreneurs to admit that growth was overestimated. Second, the definition of growth is also not uniformly understood. Third, the growth of firms may be constrained. Lastly,

the entrepreneurs think that growth may lead to higher exposure to risks (Storey 1994).

Stages in Growth in Small Organizations: The Lifecycle Concept

According to Beverland (2000) owners and/or managers of small business organizations often face problems in deciding on growth issues. Government support, finance, working capital and collaboration are some of the important issues that directly influence the decision making by the entrepreneur on growth strategies. The models developed by academicians and researchers assume that an entrepreneurial organization takes birth, grows and achieves maturity before death. Beverland (2000) put forward the concept of lifecycle in the context of small businesses as can be seen in Table 7.1. Churchill and Lewis (2002) characterized the stages with the help of five management factors, namely, managerial style, organizational culture, extent of formal system, major strategic goals and owners' involvement in the business.

Existence is the first stage of the entrepreneurial venture. At this stage, the venture struggles to get customers and establish the processes to deliver products and services to customers. The organizational structure remains informal as the entrepreneurs directly supervise the activities. Identity of the business and the owner is inseparable. At the survival stage, companies are able to attract and satisfy many customers, and to enter into this stage they need capital. Those who are unable to do that generally close or make a fresh attempt. Due to the need to grow in terms of turnover or volume, the owner may need one or two trusted persons to supervise the activities. Sometimes family members or close friends join the owner to take up this responsibility as they have limited expectations in terms of salary. The key issue at the survival stage is cash generation in the shortest possible time to achieve breakeven point to meet the repair and replacement of machines and equipment. The other need for cash flow is to fund the growth needs of the company. Although formal planning is generally in place, in case of any such incidence only cash flow planning is done. Petty and Bygrave (1993) explained that those businesses that elect to remain a closely-run family affair without any ambition for further growth are

Table 7.1
Stages of Growth in Small Firms

	Stage I	*Stage II*	*Stage III (D)*	*Stage III (G)*	*Stage IV*	*Stage V*
	Existence	Survival	Success – Disengagement	Success – Growth	Take off	Resource maturity
Management Style	Direct supervision	Supervised supervision	Functional	Functional	Divisional	Line and staff
Extent of Formal System	Minimal to non – existent	Minimal	Basic	Developing	Maturing	Extensive
Major Strategy	Existence	Survival	Maintaining profitable status quo	Get resource for growth	Growth	Return on investment
Separation of Business and Ownership	No distinction	Low distinction	Moderate distinction	Low distinction	Moderate distinction	High distinction

Source: Churchill and Lewis (2002)

D: Disengage, G: Grow

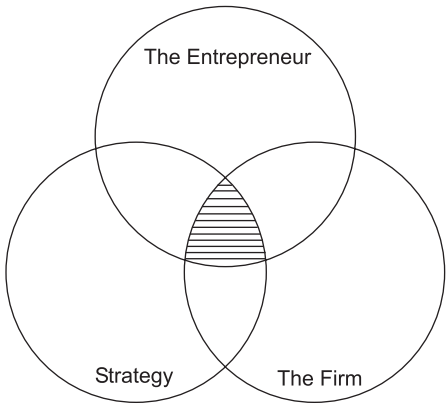
called 'lifestyle companies' as the firm decides to remain purely an extension of the life of the owner.

At the success stage, the company becomes profitable and also has adequate cash flow to invest for growth. The entrepreneur also takes a critical decision about one of the alternatives, whether to let the company to grow, or to disengage partially or completely to pursue his hobbies outside. Disengagement is a stability strategy. The company chooses to remain in this state for any length of time as long as the changes in the environment do not affect it. At this stage, a part of functional responsibility can be shared by the functional managers. The control remains with the founder/entrepreneur and the family members, and the company may decide to remain private or become public limited but the directors are mostly selected from the insiders, such as family members, close friends. At the growth stage, the entrepreneur utilizes internal financial resources available or decides to borrow to gain financial strength for further growth. At this stage risk is also associated. Strategic and operational planning are the key issues which are carried out by the entrepreneur. Team effort and people development also remain under constant focus. Such strategies are driven by personal values and philosophy which ultimately influence the culture. But at the take-off stage, growth at a high rate is the focus, hence the need for finance to support growth is equally important. A formal organization is established to support various functions. Delegation of responsibility to professional managers as a means of systematic approach for vertical or horizontal growth is adopted. The organization undergoes a transition to become a larger organization. Professionals also join the board of directors to act as enablers. At the resource maturity stage the small company would have had established characteristics of a large organization and would have created a niche in terms of influencing the industry sector. The important issues at this stage are consolidation and control of financial gains and retaining flexibility and entrepreneurial spirit. The requirements are elimination of inefficiencies and adoption of tools and methods such as budgeting, strategy planning. Operational and strategic planning and drawing a clear line between ownership and management are important at this stage. Ossification is explained by lack of innovation and risk avoidance. Large companies which command a large market and financial power remain viable till no major change takes place in the environment; competitors may notice rapid growth in the market and make adjustments.

Growth Strategy

Storey (1994) explained that in general a number of small firms make no clear transition. But if they do, the transition is often in only one of the three dimensions, namely, resources of the entrepreneur(s), the firm and strategy. Figure 7.1 shows that each component can be considered as a variety of different elements. These components can be considered as overlapping or intersecting circles. They can not be considered as wholly independent influences. This means that less rapidly growing, no-growth or declining firms may have some appropriate characteristics in the entrepreneur, firm or strategy areas, but it is only where all three combine that the fast-growth firm is found.

Figure 7.1
Growth in Small Firms



Source: Storey (1994)

Table 7.2 lists the characteristics of business under the headings: entrepreneurs, firm and strategy. The characteristics listed in 'the firm' are related to the stage when the firm is set up. The operational decisions that are made once the business starts are included within 'strategy' component. The second common characteristic of 'the firm' is the factors which are generally held constant in examining the growth performance implications of entrepreneurial characteristics. The third factor 'strategy' is of prime interest. Strategy in this context can be considered to be the answer to the question—'given the characteristics

of the entrepreneurs and the firm, what managerial actions, once the firm has started, are likely to be associated with more rapid rates of growth?' (Storey 1997). Entrepreneurs' background and resource capability are the other characteristics influencing growth of the firm. Motivation, goal directed behaviour and perception of successful outcome are important elements of the entrepreneurial process (Goldsby et al. 2005).

Table 7.2
Factors Influencing Growth in Small Firms

The Entrepreneur/Resource	*The Firm*	*Strategy*
1. Motivation	1. Age	1. Workforce Training
2. Unemployment	2. Sector	2. Management Training
3. Education	3. Legal Form	3. External Equity
4. Management Experience	4. Location	4. Technological Sophistication
5. Number of Founders	5. Size	5. Market Positioning
6. Prior Self Management	6. Ownership	6. Market Adjustment
7. Family History		7. Planning
8. Social Marginality		8. New Products
9. Functional Skills		9. Management Recruitment
10. Training		10. State Support
11. Age		11. Customer Concentration
12. Prior Business Failures		12. Competition
13. Prior Sector Experience		13. Information and Advice
14. Prior Firm Size Experience		14. Exporting
15. Gender		

Source: Storey (1994)

Churchill and Lewis (2002) have classified the eight factors which determine the success of the company, change their status in terms of importance as the business grows. Four of them are related to the owner, a strategy in a small business, and four to the enterprise. The factors related to the owners are as follows:

a. Owner's goal for self and for the business.
b. Owner's operational abilities such as marketing, inventing, production and distribution management.
c. Owner's managerial capabilities and willingness to delegate responsibilities.
d. Owner's strategic abilities to look beyond the present and match the strengths and weaknesses of self with that of the organization.

The factors related to the enterprise are:

a. Financial resources including cash and borrowing power.
b. Personnel resources regarding quality of people at management and staff level.
c. Systems resources as sophistication of information, and planning and control.
d. Business resources including customer relations, market share, supplier relation, manufacturing and distribution processes, technology and reputation, all these factors provide a standing in the market and the industry.

Churchill and Lewis (2002) concluded that the importance of the factors changes from one stage of the cycle to the other. They classified the factors as essential variables to deal with highest priority, necessary variables which need attention in order to assure success and those which are of little importance to the top management. In the early stages of business, the owner's ability directly influences the business. The characteristic factors could be ability to sell, invent, distribute and so on. As the company grows, support from other employees is expected and thus the owner's operational skill become important but no longer remains essential. At this stage, his ability to manage and delegate become important. Cash management during business start up is extremely important and becomes manageable if the organization succeeds. It remains a major concern as the organization enters the growth stage but at the take-off and resource maturity stages it again becomes a manageable factor. As the company grows, matching business and personal growth of people becomes important. At survival stage this remains irrelevant. Owner's preference, whether he wants to reinvest into further growth or he would like to enjoy the benefit for self and the family, is also an important aspect. At initial stages building market share, customer relationship, vendor support and

technological strength are important. Any loss of these at growth stage could be compensated relatively easily. The issues of people, planning and systems gradually increase in importance as the organization transits from initial slow growth to rapid growth. Matching of business and the personal goals of the entrepreneur becomes important at 'existence stage' as he has to reconcile the time and financial resource needs of the new business. But at 'survival stage' this has already been achieved and so goal matching becomes irrelevant. However, goal matching becomes important yet again at the 'success stage'. At this stage the entrepreneur evaluates managerial ability to meet the growth challenges. Flexibility in management by transforming from 'doing' to 'delegating' gains importance as the organization moves to 'growth stage'. At 'take-off stage' everything is important except the 'doing' part of the entrepreneur (Churchill and Lewis 2002).

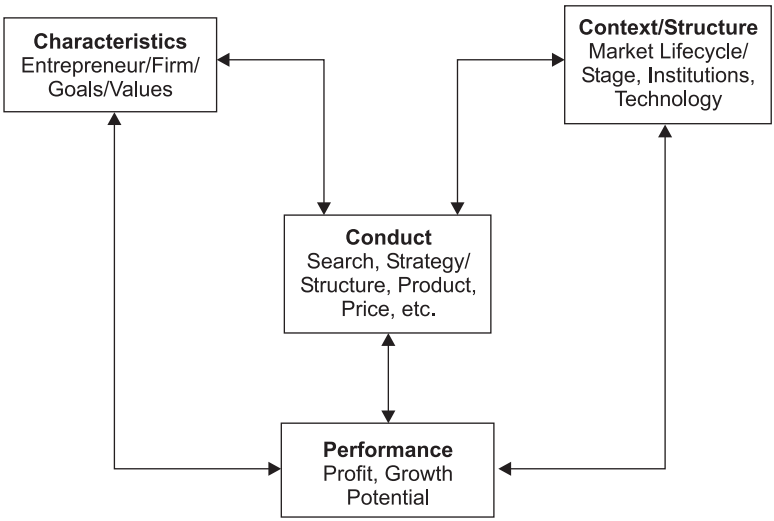
Strategic planning, strategy and strategy implementation play a major role in financial performance, survival and growth of a business (Schwenk and Schrader 1993). However, strategy in a small business organization is less formal in nature and the owner/manager may also have implicit rather than explicitly-stated strategies (Chan and Foster 2001). Kalantaridis (2004) has also drawn similar conclusions that the deployment of formal and informal plans is with an objective to achieve short-term (one to three years) objectives as shown in Figure 7.2.

Nooteboom (2002) explained that the strength and weakness of entrepreneur-managed small businesses are dependent on other characteristics. The idiosyncrasy of entrepreneurial perception and interpretation can yield highly original ventures on the one hand and may lead to gross misapprehensions on the other. Similarly, craftsmanship on the one hand could be a unique technical competence, but it could also lead to technical myopia with a gross lack of attention to commercial dimensions. Figure 7.2 shows the interrelationship among the different components of appropriate strategy leading to innovation in new products. The other strategy could be niche marketing with customized products. Both these strategies reduce the risks of lack of financial expertise and managerial resources because of captive customers. It is important to note that for innovation breakthrough is necessary which may not be required for niche strategy. Hence, innovation strategy applies to only a few small organizations. However, external contacts or networks are utilized by small

organizations for generation of awareness as well as for acquisition of specialized knowledge. Both the strategies i.e. niche as well as innovation exploit strengths in providing unique competencies and customized products, and associated proximity to customers. Innovation further exploits the strength of motivated management and labour and the strength of limited bureaucracy with internal flexibility.

Nooteboom (2002), with support from a group of other researchers, has derived a relationship between structure, conduct and entrepreneur's characteristics called 'contingency'.

Figure 7.2
Contingency



Source: Nooteboom (2002)

'Characteristics' of the entrepreneur include various personal characteristics such as cognitive ability. The firm indicates that the team, in which the entrepreneur works, also matters. Values and goals establish the preferences. Under 'context-structure', which focuses on effectiveness of the structure contingent upon the situation and context of operation, it is not only the technology that is important, but also the market in which the entry barriers, product differentiation, economies of scale, etc. matter. Institutions include banks, the

government, legal systems, employees' association and financial systems. Lifecycle relates to the stage of development of the product or the market in which the firm operates. Stage is the development stage of the firm which is not related to the lifecycle of product or market. Under 'conduct' not only strategy and choice of product are the necessary factors but also the structure and search. Structure refers to the organizational structure, procedures and systems, while search is the process of conduct involved in the acquisition of knowledge, including usage of external networks.

Hypothesis Formulation

The literature review was based on the factors influencing strategy of small organizations. Factors relating to competency of the firm and entrepreneur, which influence the strategy of these organizations, have also been reviewed. The strategic dimensions are reviewed in detail for hypotheses formulation.

Change Due to Market Conditions

Liberalized economic policies adopted in 1991 have affected almost every industry. The industry leaders responded to this in many ways. By understanding the company's assets and the particular characteristics of their industry, leaders can also anticipate the strategies for adoption (Dawar and Frost 1999). As the environmental state moves from turbulence to stability, one can in a similar way observe that a firm moves from the adaptive to the planning mode. To grow, the owners of small firms need to change the way they organize and manage their firms (McMohan 1995). According to North et al. (1992) motivation plays a major role in survivors and non-survivors, i.e. the desire to grow or contract. Smallbone et al. (1992) identified five broad types of adjustments or change—product and market adjustments, production process adjustments, employment and labour process adjustments, ownership and organizational adjustments and locational adjustments. Their research confirmed that the firms which were most active in making adjustment were most successful in terms of employing change and survival. Development of markets was essential for most firms for survival and growth. But for achieving real growth,

active market development in terms of both the identification of new market opportunities and increasing the breadth of the customer base is essential. The research also drew an interesting distinction. Survival was possible with relatively conservative market strategies, but managing product profile was apparently necessary for both survival and growth. Firms with very different performances made significant adjustments to the range or mix of their products. The declining firms, which undertook the fewest steps to improve competitiveness focused more on reducing costs, rather than upon other dimension of competitiveness, such as quality improvement. The researchers identified 'internal organizational adjustments' as the second most common type of adjustment characterizing surviving firms. High performing firms were most likely to point to organizational change which enabled top management to free them from operational decision and to delegate responsibilities more extensively. Similar explanations on change were given by Julien et al. (1997), Namiki (1988), and Kleinschmidt and Cooper (1984). As a result, four key types of strategy are defined—responding to changes in the external environment, enhancing competitiveness through changes in the price and quality of product/service, diversification and new market development.

A study by Kotey and Meredith (1997) concluded that highest performing clusters of small firms provide greater emphasis on product improvement, product quality, new product development and customer service. On market intelligence, Jaworski, Kohli and Sahay (2000) commented that product innovation can be the most appropriate response to it. However Zaltman, Duncan and Holbeck (1973) explained innovation on three dimensions—innovation as a process of developing a new product, the product itself and the process of adapting the new product.

Hypothesis 1: The factors leading to the initiation of change in small manufacturing organizations influence growing organizations more than the non-growing ones.

The factors considered for testing the hypothesis are as follows:

- Change process facilitation: by a consultant, by an external agent, by the CEO or by one of the family members (joined recently).
- Most important reason for change: value improvement, meeting the requirements of existing customers, manufacturing cycle time reduction or new opportunity in the country.

- Least important reason for change: implementation of a Business Excellence Model, implementation of Enterprise resource planning (ERP) or a similar package, anticipated change in global competition, system benchmarking, retaining skilled manpower, exploring new business opportunity abroad, process benchmarking, product benchmarking .
- Result of change process: favourable or unfavourable.

Effect of Government Policy

The process of liberalization of economy since 1991 has created many opportunities for growth as well as thrown many challenges for the small-scale sector. The sector is gradually exposed to the challenges of opening of the economy. To provide more focused attention on the development the Government of India created a new Ministry of Small-Scale Industries and Agro and Rural Industries in October 1999 and brought a comprehensive policy package for the small-scale and tiny sector. The policy package included support on policy, fiscal, credit, infrastructural, technological and quality improvement, marketing and measures for streamlining inspection/rules and regulations, entrepreneurs' developments, facilitation of prompt payment, rehabilitation of sick small-scale industry[2] units, promotion of rural industries and improving the database (Khanna 1998).

Hypothesis 2: There is no difference in perceptions of the owners/entrepreneurs of growing and non-growing small manufacturing organizations about the government policy decision on investment limit.

Fund for Growth

Availability of capital, rate of interest, exemptions, local and regional market conditions, and quality and skill of labour have substantial effect on growth (O'Farrell and Hitchins 2002). Gibb and Dyson (1984) agreed that resource availability is one of the factors which affects growth of small organizations but they also argued that resource scarcity is not of cash but of management. Churchill (1983) was of the opinion that growth (or take off) stage is the most crucial in an organization's lifecycle. He said that cash and borrowing power are

important at the growth stage as they influence profitability, liquidity, creditors and employees as part of short-term cash obligations. Patterson (1986) had a mix of both conclusions that the small firms' resource constraints and managerial time prevent them to respond to the environmental turbulence. Research studies on impediments to growth in small business identified access to finance as one of the major impediments (Sims et al. 2002).

Hypothesis 3: The owners/entrepreneurs of growing small manufacturing organizations arrange funds for future growth from different sources as compared to the non-growing organizations.

Technology, and Research and Development (R&D)

In order to study the technology and R&D success most of the research concentration has been on input. The intensity is measured in terms of total R&D spending, number of R&D personnel and R&D output. In some cases number of patents has also been included as one of the measures. There has been a lot of variation in research findings about relationship between size of the firms and the R&D effectiveness. Nooteboom (1991) argued that the reason of this variation is due to lack of clarity in posing the research questions. However, he concludes that most research leads to a conclusion that small firms' participation in systematic R&D efforts is lower as compared to the large ones. But research has also found that when small firms participate in R&D efforts they do so with great intensity and achieve greater productivity.

Small and large firms have different strengths in the process of innovation. Large firms are likely to be better in generation of fundamentally new and science-based technologies which require large and specialized teams and sophisticated infrastructure (Rosegger 1980). Small firms are likely to do better in small-scale applications of fundamental technologies, novel technology-product-market combination. In other words, small firms are likely to be more effective further downstream from fundamental science-based technologies. They possess better competence in application and development and introduction into the market. As the temporary monopoly of the inventor wears off and price competition increases, large firms gain an advantage in terms of economies of scale. But in residual niche markets too, the small firms have an opportunity (Nooteboom 2002).

Meredith (1987) also supported the argument and concluded that the small and medium organizations can capture the benefits of technology adoption quicker. But Zahra and Covin (1993) found that the strength of the relationship between technology policies and business performance differs across the types of strategies.

Hypothesis 4: The growing small manufacturing organizations manage technology and R&D in different way as compared to the non-growing organizations.

The factors considered for testing the hypothesis are as follows:

- Technology transfer: cost of technology.
- Awareness: about Small Industries Development Bank of India (SIDBI) scheme on the upgrading of technology.
- Scope of R&D in the light of the World Trade Organization (WTO): innovative product development, product development through reverse engineering, improvement in existing products, innovative manufacturing process development, and improvement in existing manufacturing processes.
- Reasons for innovation or improvement: self initiated quality improvement, cost reduction, product simplification or value engineering, or facilitation in product repair or servicing, reduction in manufacturing cycle time, quality improvement for meeting the additional needs of customers, cost reduction for existing customers, product simplification for customers, catering to a new market segment, or product or process benchmarking.
- Support from outside agencies for R&D: engineering or technical colleges, Council of Scientific and Industrial Research (CSIR), independent consultants, or others.
- Mode of technology search: through consultants, membership of industries association, or participation in trade missions or seminars or conferences abroad.
- Expectations from the Government: subsidy for in-house R&D, enhancing tax relief, creation of common facilities, or setting up of incubation lab.
- Preparedness to face WTO challenges: fully, partially, or not prepared.
- Product or process patents: those that are in possession.
- Gadgets used and knowledge preservation: Computer Aided Design (CAD) or similar technology, documentation to preserve the R&D efforts, indexed system for knowledge preservation.

Sales and Marketing

The relationship between market orientation and performance is based on sustainable competitive advantage (Lado et al. 1992). Pelham and Wilson (1996) gave an explanation that market orientation provides competitive advantage due to many scarcities in market oriented culture, understanding about nature and value to the customers, difficulty in understanding market oriented norms and also about establishing causal relationship between the norms and the implications. But they agreed that strategy, structure and the environment also play major roles. Verhees and Meulenberg (2004) also concluded about positive impact market orientation has on performance of small organizations, and market intelligence of these organizations help in better performance in terms of quality and service. Not having a sound knowledge of the market is one of the impediments to growth (Bridge et al. 1998, Maki and Pukkinen 2000).

Kazanjian (1988) reported that small organizations in the growth stage consider organizational systems and sales and marketing as the foremost concerns. But owners of small organizations find themselves less confident about their ability to conduct specific and formal research which is one of the important requirements for keeping pace with changes in the markets (Callahan and Cassar 2001).

Hypothesis 5: Management of sales and marketing activities in growing small manufacturing organizations is handled differently as compared to the non-growing organizations.

The factors considered for testing this hypothesis are as follows:

- Demand forecasting: without scientific techniques and based on targets of customers, or with the help of statistical techniques.
- Benefits of demand forecasting: budgeting and fund planning, material planning, manpower planning, and/or production planning.
- Frequency of wrong demand forecast: rarely, never, sometimes, very often, or every time.
- Assessment: of future demand growth.
- Data source for demand growth: standard literature, survey or similar sources.
- Adequacy of existing resources for export: adequate, inadequate or cannot comment.

- Sales incentives/commission: incentive, commission, after meeting targets, after getting new customers.
- Sales monitoring: linking incentive with travel bill.
- Sales personnel employment: full time—independent or full time—on contract.
- Selection of sales personnel: direct interview, or fresh MBAs selected and trained.
- Sales training: structured.
- Online selling: future plans.
- Awareness: about SIDBI scheme on marketing.

Government Support in Infrastructure

In India, the state governments have set up industrial areas with infrastructural support such as roads, power and water. In some states the government has constructed sheds to house small manufacturing units. In most of the states industrial development corporations have been established by the state governments which act as the developmental agency for building up such facilities. The organizations pay some kind of tax or maintenance fee for upkeep of these facilities. Hence, there is a lot of dependence on the government. Entrepreneurs have established their units in these industrial areas, also many large corporations have also created bases in these locations. Later, either the infrastructure bottlenecks started becoming visible due to lack of adequate funds or these facilities were inadequately maintained. In some cases, the local industries' associations participated in sharing the responsibility to maintain these facilities as their members were affected due to the poor infrastructure.

Hypothesis 6: There is difference in perceptions by the owners/entrepreneurs of growing and non-growing small manufacturing organizations about the government's role and support in providing infrastructure.

External Factors

Timmons (1994) explained that the existence of small firms largely depends on the entrepreneur, who acts as the driving force. Presence

of business opportunity, skill to implement the plans and resources are also important. Uncertainty in the external environment is viewed either as an objective dimension or as an interpretive or as the end of the perceptual process through which the decision maker assigns meaning (Milliken 1987). Milliken (1987) also described three types of uncertainties; (i) state—refers to the inability to understand or predict the state of the environment due to lack of information or understanding about the interrelationships, (ii) effect—refers to the consequences on the organization and (iii) response—refers to the response of the decision makers. Small organizations remain concerned about the effect of uncertainties of the external environment on the firms' performance. Matthews and Scott (2001) concluded that as an effect of the uncertainty in the entrepreneurial and small firms, the sophistication of strategic and operational planning decline with increasing environmental uncertainty.

Policy makers in independent India have felt that small-scale industries contribute to the material progress of the country. In the famous Mahalanobis Model, widely discussed and debated in the mid-fifties as a major contribution to planning for growth, village and small-scale industries were given a special place. It is also believed that small firms create employment opportunities. Implicit, also, is the assumption that small-scale industries are less capital intensive and more labour absorbing. This led to the adoption of policies for their promotion. The promotional policies included product reservation, infrastructure support, directed and concessional credit, tax concessions, special assistance in procurement of equipment and material in short supply, quality control and market network, etc. In 1991 the Government of India announced a separate industrial policy, which had measures for development of small, tiny and village enterprises, as a sequel to the financial sector reforms initiated in July, 1991. In subsequent years many measures have been taken for development of the sector. As discussed, the Government of India has also created a new Ministry of Small-Scale Industries and Agro and Rural Industries in October, 1999.

In spite of the deep involvement of the government the small businesses did not grow at the required rate due to red tape and corruption at various levels. Government regulations are seen as a barrier to growth (Bridge et al. 1998).

Hypothesis 7: There is no difference in perceptions of the owners/ entrepreneurs of growing and non-growing small manufacturing organizations about the influence of external factors.

The factors considered for testing the hypothesis are as follows:

- Protection: level of protection expected from the government.
- Promotional support expected: through R&D facilities, foreign technical collaboration, product standardization, or expansion of market, through financial assistance, or other methods.
- Duty barriers experienced: anti dumping duty, or countervailing duty.
- Impact on the performance: impact due to lowering of investment limit from Rs 3 crore to Rs 1 crore on the upgrading of technology.
- Expected investment limit: Rs 5 crore or Rs 3 crore.
- Competition from large scale industries: in India or at international level.
- Competition as barriers: domestic or international.
- Satisfaction on government policies: excise duty exemption, Credit Guarantee Scheme, Composite Loan Limit, Collateral Security, Credit Linked Capital Subsidy, or Back Ended Capital Subsidy.
- Satisfaction on existing infrastructure: telephone, link roads to Industrial units/clusters, general roads, power supply, water supply, effluent treatment, or space for expansion.

Human Resource Management

In small organizations, employee relations and control systems are informal. Formal communication systems are also non-existent. Emphasis on rules is also low in these organizations as entrepreneurs are the major decision makers and they tend to take speedy decisions in response to market needs (Wilkinson 1999). Technical skills and work ethics normally find high priority in growing small firms (Rowden 2002). Absence of the required right mix of employee-skill is one of the major barriers to growth (Maki and Pukkinson 2000, Bridge et al. 1998). In a study, Kotey and Slade (2005) concluded that as the firm grows, the need of qualified managers to fill the owner/ manager's skill gap becomes important. This results in the need for a

formal recruitment system. The researchers found that on-the-job training is the most predominant training method, however, other training methods gain prominence as the firms grow. This is important to improve the capabilities of the managers so that they can contribute better to the growth of the organization. On performance appraisal similar conclusions were drawn by Kotey and Slade (2005). They explained that as the firm size grows, formal appraisal system is developed. Many researches confirm that there is a strong positive influence of human resource management practices on firm's performance (Kotay and Meredith 1997, Heneman and Berkley 1999, Huselid 1995). However Baron and Kreps (1999) clarified that the implementation of a formal HRM system should not be aimed at establishing best practices, rather it should be aimed at harnessing the real benefit out of the human resources and create a synergetic effect in the organization.

Hypothesis 8: Management of human resource in growing small manufacturing organizations influence differently as compared to the non-growing organizations.

The factors considered for testing the hypothesis are as follows:

- Independent person: to look after welfare and training.
- Budget: provision of training budget.
- Employment: time rated, piece rated, contractual and/or casual or badli.
- Training plan: strategic training plan.
- HR forecasting: in practice, basis–business plan, skill forecasting and/or skill inventory.
- Functions performed by contractual workmen: unskilled work, skilled work, office work, security, canteen and/or functional specialists.
- Contractual employment for product demand: seasonal, export or sporadic.
- Contractual employees' training: on the job, formal induction and/or skill training.
- Data transparency on performance: product cost, process cost and/or profit and loss.
- Performance analysis: data-based performance analysis system in practice.

- Basis for pay rise: owner's discretion, data based performance of production, data-based performance of production and quality, annual sales growth or others.
- Method of performance evaluation: annual performance appraisal, group performance appraisal or general organizational performance.

Operation Planning

Small firm's competitive profile depends upon long-term orientation and also on capability to predict the industry trends (Covin and Slevin 1989). Robinson and Pearce (1984) added that small firms do not focus on planning and this happens due to lack of staff and time. But Perry (2001) found that although small firms do not lay emphasis on planning, those who plan perform better. Similarly, conclusion about positive relationship was established by many researchers (Bracker, Keats and Pearson 1988, Bracker and Pearson 1986, Shrader et al. 1989). While explaining the need Georgellis et al. (2000) and Perren et al. (1999) mentioned that growth of small business depend more on planning and explicit decision making routines. But they do not diagnose the nature of appropriate planning. A classification of sophistication of strategic and operational planning was suggested by Bracker and Pearson (1986) based on type of plan as well as time frame. The levels of sophistication proposed were: (a) structured strategic plan, (b) structured operational plan, (c) intuitive plan and (d) unstructured plan.

Hypothesis 9: The growing small manufacturing organizations give more importance to the factors influencing operations planning as compared to the non-growing organizations.

The factors considered for testing the hypothesis are as follows:

- Basis for assessment of manufacturing capacity: supplier's manual or Industrial Engineering study.
- Assessment: of critical factors affecting manufacturing process.
- Material or purchase planning: carried out once a month.
- Production planning: carried out once a month.
- Revision in production plan: sometimes, due to change in customers' schedule.

- JIT: in practice, reason could be customer's requirement or inventory control.

Operations (Manufacturing and Quality) Management

As discussed, Kazanjian (1988) concluded that in growth stage organizational systems are considered to be one of the most important aspects of an organization's performance.

Increasing internationalization of production, distribution and marketing of goods and services has given rise to global commodity chains. These chains are networks of business units of various sizes beginning from the stage of raw materials supply to production, marketing and retailing of any product being located across countries. In these chains, manufacturers of products are the major driving force. So far, Indian industrial units, especially the small units are operating in isolation. This can not continue any more. However, to get into the international production and trade networks, individual units have to satisfy the buyers' standards in terms of price, quality and delivery schedules (Siddiqui 1998). With the entry of major global companies primarily focusing on assembly, global practices too are being slowly infused in the value chain of production, both in upstream and downstream activities. The emergence of large MNCs in the last couple of decades, who have distributed different activities in their value chain to different parts of the globe and are operating in many nations, has prompted researchers to explore factors that have led to their competitive advantage.

Hypothesis 10: The growing small manufacturing organizations give more importance to the factors influencing management of manufacturing and quality assurance as compared to the non-growing organizations.

The factors considered for testing the hypothesis are as follows:

- Reason for IS0 9000/QS 9000/USFDA certification: requirement of customer, business from government, improvement, establishment of a documented system or first step towards TQM implementation.
- Quality control systems in practices: incoming inspection, vendor performance analysis, second party audit, machine set up

approval, first piece approval, patrol inspection during manufacturing, sampling inspection after manufacturing or customer inspection.
- Maintenance system: preventive, predictive or condition based.
- Reason for automation: value addition or quality check.
- Internal audit of manufacturing and quality system: in practice, planned.
- Audit conducted by customers: carried out, scope—manufacturing and quality control systems.

Information Management and Usage of Computers

Churchill (1983) has explained the criticality of two types of resources in the growth stage—financial and system resources. The systems resources include the degree of sophistication of information and planning and control to help the owner/manager to deal with complex and long terms concerns. This aspect is discussed in detail in this chapter while dealing with sales and marketing.

Hypothesis 11: The growing small manufacturing organizations manage information and use computers more as compared to the non-growing organizations.

The factors considered for testing the hypothesis are as follows:

- Usage of computers: in use, purpose—routine office work, inventory record, or day to day reporting.
- Usage of the Internet: in use, purpose—email or global data access.
- Usage of email: communication with customers and suppliers.
- Website: available, updated regularly.
- Usage of systems: such as ERP or similar systems.

Entrepreneur and Leadership Style

Small-firm strategy, structure and the personality of the CEO influence the overall performance (Miller and Toulouse 1986). The owners/entrepreneurs identify themselves with the organization. Researchers have concluded that attitude of entrepreneurs of small firms towards growth can be classified as stagnant satisfiers (to maintain status quo rather than pursue growth), thwarted expanders (they try but are

unable to grow) and capricious manufacturers (who regularly move in and out of a specific business) (Clark et al. 2001). After a study on leadership and administrative structure of small enterprises, Penrose (1959) mentions that the differences in the administrative structure of the very small and the very large firms are significant in many ways. Changes in a firm are associated with growth. Businessmen differ in their interest in the aspects of the functions in their organizations; some may find production and quality as the area of interest while others may be interested in marketing (O'Farrell and Hitchens 1988 and McMohan 1995). An illustration from Scot and Bruce (1987) is provided in Table 7.3. At each of these stages it is assumed that the role which top management plays, the management style and the organization of structure change, so that the butterfly as Stage 5 genuinely is fundamentally different from the caterpillar as Stage 1. In the growth phase, many decisions are made by the top management. At this stage they also delegate a lot of responsibility to the employees concerned (McMohan 1995).

In some research findings, lack of management expertise is seen to be one of the barriers to growth (Sims et al. 2002). Owners/managers of small organizations with highly entrepreneurial orientation, work on new product development and similar areas based on their close interaction with the market through market intelligence and customers (Verhees and Meulenberg 2004). High performance is found to be associated with high environmental uncertainty as well as low-cost strategy. Entrepreneurs encourage state of the art process design (Dess et al. 1997).

On entrepreneurial values and entrepreneurship related to growth, Bird (1989) stated that the entrepreneurial way is primarily a goal-oriented approach and entrepreneurs direct their efforts towards the attainment of these goals. The outcome would be either intrinsic (psychological) or extrinsic (tangible). Similar arguments were made by Kuratko, Hornsby and Naffziger (1997). They further explained that extrinsic goals can be personal wealth and family security, while internal goals may include recognition, challenges, excitement, growth, accomplishment and independence. Entrepreneurial motivation and attitude towards goal attainment significantly influences growth of the small organization. Gibbons and O'Connor (2005) argued that the owner-managers of small firms find it difficult to prioritize the development of their managerial skill while dealing with the pressures

Table 7.3
Management Role and Style in the Five Stages of Small Business Growth

	Stage	*Top Management's Role*	*Management Style*	*Organizational Structure*
1.	Inception	Direct supervision	Entrepreneurial individualistic	Unstructured
2.	Survival	Supervised supervision	Entrepreneurial administrative	Simple
3.	Growth	Delegation/coordination	Entrepreneurial coordinate	Functional centralized
4.	Expansion	Decentralization	Professional administrative	Functional decentralized
5.	Maturity	Decentralization	Watchdog	Decentralized functional/product

Source: Scot and Bruce (1987)

of business. However, Kets de Vries (1985) has also argued about negative factors, the influencing factors could be confrontation with risk, entrepreneurial ego and entrepreneurial stress.

Hypothesis 12: There is difference in styles and individual practices adopted by the owners/entrepreneurs of growing small manufacturing organizations as compared to the non-growing organizations.

The factors considered for testing the hypothesis are as follows:

- Organizational information: vision and corporate policy.
- Long-term planning: carried out, updated—every year or as per need.
- Medium-term planning: carried out, updated—every year, six months or as per need.
- Tactical planning.
- Customer relationship: communication every day, once in a week, once in a month, as per need, or rarely, reason—product marketing, exploring new market opportunities, exploring opportunities for new product, or settling complaints.
- Future leadership: son or daughter, brother or sister, other relative, or other person (not in relation).
- Transfer of leadership: in case no one within the family is found suitable or willing.
- Target: for self performance.
- Communication with departmental heads: any time, frequency—may be daily, once a week, once a month, or sometimes, as per need.
- Communication with shop floor employees: never, often, on every visit to shop floor, once in a day, once in a week, once in a month.
- Communication of business performance to the people: sales turnover, cost-related data, profit-related data, productivity-related data, other data, method—verbally and informally, verbally and formally, through the Notice Board.
- Socialization: by way of informal meetings, official lunch/dinner, and family gatherings taking place once in a month, once in a quarter, once in six months, once in a year.
- Review: of suggestions of quality circles.
- Resource identification.
- Computer literacy.

- Self planning: carried out, frequency—once in a day, once in a week, once in a month.
- Self-learning planning.

Methodology

Sampling Units

According to Third Census of Small Scale Industries conducted during 2002/03, 52.5 per cent of the closed units were from five states, namely Tamil Nadu, Uttar Pradesh, Kerala, Madhya Pradesh and Maharashtra.[3] The percentage of closed units varied from 0.002 (Lakshwadeep) to 16.212 (Tamil Nadu). The states which were reported to be better in terms of survival had fewer registered small units, but low survival rate cannot be considered to be the only indicator of better performance of small units in those states in the absence of an empirical study. There had been significant growth in ancillary units from 0.52 per cent (Second Census: 1987/88) to 34.3 per cent (Third Census: 2001/02), whereas there has been a sharp decline of other SSI units from 96.4 per cent (Second Census: 1987/88) to 4.5 per cent (Third Census: 2001/02). This shows a strong relationship between growth of small and large manufacturing units.[4] The Census Report also shows that the states with fewer industrial activities contributed less to sickness and closure of small units.

In this study, Madhya Pradesh and Maharashtra have been selected as sampling units. Maharashtra represents an industrially advanced state with low survival rate of small manufacturing units. Madhya Pradesh represents an industrially backward state with low survival rate of small manufacturing units.[5] The major reason for focusing on the manufacturing sector was that this sector was affected the most due to the liberalization process. The service sector has been excluded because the major growth in this sector started post-liberalization. Also, small units in the service sector are not very sensitive to the investment limit that forms the basis for classifying a unit as SSI in India.

Sampling Design

A sample size of 0.002 per cent of the population was selected for the study, which comes to 34 and 27 for Madhya Pradesh and Maharashtra,

respectively.[6] Due to the in-depth nature of the study and unwillingness of many small manufacturing units to participate a large sample was not possible. Support was also taken from the Confederation of Indian Industry (CII) to identify the units. Follow up was done via telephone calls and personal visits were made to collect filled-up questionnaires. In most of the cases, financial data was not provided for which the units were pursued. In many cases, the questions were clarified to the respondents through personal interaction. Twenty-eight and 21 questionnaires were received from units of Madhya Pradesh and Maharashtra, respectively. From Madhya Pradesh, 11 questionnaires were incomplete whereas four incomplete questionnaires were received from Maharashtra. Considering completeness of data, 17 small manufacturing organizations each from Madhya Pradesh and Maharashtra were found to be usable for the study.

Classification Criterion

The growth may be attributed to increase in sales, profit and assets, and reduction in liabilities. Increase in profit can be attributed to improvement in manufacturing or processing efficiency and thereby reduction in process losses. The reduction in liabilities can be explained by lowering of credit period and improvement in cash flow. Hence, asset creation is one of the most important reasons for growth. This is important because of the fact that assets will be further deployed for providing more productive output. Increase in sales is also important as this indicates success of marketing and sales initiatives in meeting the customers' requirements. When there is a need to increase capital employed in a small manufacturing unit, it shows its need to raise long-term funds, which may be either borrowed funds, or equity, or both. But if there is an increase in equity, it is an indicator that the capital employed has been raised with an increase in equity, which is also indicative of that the strengthening of financial stability.

There is another school of thought about the marketplace concept; which maintains that the companies which believe in excellence create their own market place. Such companies are driven by innovation and the learning approach (Peters and Waterman 2003). Market lifecycle provides a useful framework for studying strategic formulation because it provides the basis for establishing differences in strategic situations and the behaviour appropriate to each. There are two caveats attached

to this concept in the market lifecycle context. First, the market lifecycle is not intended to be used as a short-run forecasting device. Strategists find it more useful as a conceptual framework for understanding what changes might occur over time rather than forecasting when they are likely to occur. Second, industry lifecycles are reversible and repeatable. The growth stage of a market lifecycle is often associated with the demand for a product or service growing at a faster rate than the industry's ability to supply it (Dess and Miller 1993).Today, price pressure is not considered as limiting a factor as it was in the past. As a result, exciting advances are being made in new technologies leading to net increase of sales volumes and finally profits. For rapid growth, the entrepreneur, the firm and strategy, all three need to appropriately match with each other (Storey 1997). This indicates a major focus on growth-related strategies.

The sampled companies were segmented with respect to the growth reported in the respective industrial sector. The actual growth achieved in each sector, as reported in the Annual Report of the Reserve Bank of India, was referred to for determining the growth of a particular unit.

During the pilot study it was noticed that the companies were not in a position to indicate market size and its growth. In absence of this, the relative growth of the companies could not be compared with that of the growth in the market. In order to overcome this, growth in sales turnover and growth in assets were accepted as the indicators of growth as per the following criteria. As Sales Turnover = Activity + Profit, and activity includes the part of the resources used in the process of conversion of input into output; this includes that part of the asset which has been the part of the sales. In case the surplus generated as profit is ploughed back into the business then it would be reflected as increase in asset.

Analysis and Discussion

Discriminant analysis was carried out to test the hypotheses using SPSS software. The strategic initiatives were classified considering the discriminant function classifying the variables correctly as low (up to 60 per cent), medium (60 per cent to 80 per cent) and high (more than 80 per cent).

Workforce Training

Small businesses prefer to get trained workforce rather than training them. Although the likelihood of firms undertaking training of their workforce increases with the size of the firm, owner of a small business does not want to make huge investment in training. This is to avoid exposure to high risks since the returns on training investment can not be assured. The risk of labour turnover also leads to such decision. Although, external training deepens the skill base whereas small businesses look for greater flexibility, rather than specific skill base. The study failed to conclude about a relationship between growth and training. Relationship exists between firm size and training efforts.

Management Training

The most important competence of an entrepreneur is the ability to forecast and take decisions under uncertainty. This is highly contextual and time dependent. But these skills can be imparted to an entrepreneur. In many cases substantial support in terms of training is provided by the respective government and some non-government bodies, industries' associations, etc.

External equity—Many small firms do not want to share ownership with financial institutions or outside individuals. Hence they only go for short term-debt financing. This becomes a limitation in growth. Researchers concluded that the small organizations willing to share equity are more likely to grow. In this context it is also important to note that if the businesses have potential to attract the attention and willingness on the part of the outsiders then only equity sharing would be possible.

Table 7.4 shows the major discriminating variables based on the analysis.

Additional Resource

The additional capital needs for growing small organizations discriminate with low intensity. The growth needs are supported by internal savings and private borrowings. There could be two types of arguments to support this discriminating feature. Banks and financial

Table 7.4
Summary of Discriminant Analysis

Variable Group	*Percentage Correctly Classified by Discriminant Analysis*	*Level of Discrimination (High/Medium/Low)*	*Major Discriminating Variables*
Change Management	75	Medium	Value improvement Global competition Meeting requirements of existing customers Prepare to compete in global market Product benchmarking
Effect of de-reservation policy of the Government	52.8	Low	On marketing
Funds for growth	52.8	Low	Internal savings Private borrowing
Technology and R&D	83.3	High	Technology transfer Reverse engineering Quality improvement for existing customers Technology search through consultant Government support—subsidy for R&D Government support—common facilities Documentation for knowledge preservation —manual efforts

Sales and marketing	77.8	Medium	Usage of demand assessment—material planning Usage of demand assessment—manpower planning Incentive to sales team—commission based on sales
Government and infrastructure	81.3	High	Support from the Government—technology collaboration Support from the Government—R&D Support from the Government—product quality improvement Support from the Government—financial assistance Government policy – antidumping Satisfaction on Government policy—excise duty exemption and other financial assistance
External factors	65.7	Medium	Government policy
Human Resource Management	75.8	Medium	Profit and loss figures Performance appraisal—informal
Operations Planning	64.5	Medium	Production planning to meet the customer's schedule (to match with JIT supplies of the customers)

(*Contd.*)

Table 7.4 (*Contd.*)

Variable Group	*Percentage Correctly Classified by Discriminant Analysis*	*Level of Discrimination (High/Medium/Low)*	*Major Discriminating Variables*
Manufacturing and quality management	94.3	High	Second party audit (by customers) Internal audit on manufacturing processes Quality system audit
Computer usage and information technology management	68.6	Medium	Usage of computer—day-to-day work Usage of internet—general purpose of email and data access Website not regularly updated as it is expensive and very few visitors
Entrepreneurs and styles	97.0	High	Communication with customers – average once in a week/month/as and when needed for new product marketing opportunities Communication with employees—sales and profit data, method—informal and formal, both Occasional socialisation with employees Planning for self—once in week

institutions consider credit to small organizations as high risk, their confidence on such organizations is low. Small and medium organizations too contribute to their NPA significantly. The second argument is against this attitude of bankers and officials of the financial institutions. Due to the problem in getting adequate and timely credit the entrepreneurs of small manufacturing organization depend on their own sources of funds to support their growth. Since this kind of problem is not limited to the growing small organizations, the level of discrimination for growing organizations is low, in other words the non-growing organizations too face such problems.

Technological Sophistication

Technologically sophisticated businesses grow more rapidly. There is a need for defining the expression 'technological sophistication' due to this. In high technology areas the typical measurement could be expenditure on R&D or number of patents, but in the traditional sector this is difficult. Innovation is also closely related to this aspect of growth.

Technology and R&D

The small manufacturing organizations consider technology upgradation and R&D as the key drivers to improve competitive strength. Product quality improvement is one the major reasons for technology improvement and R&D which discriminated the growing organizations. These organizations do not invest on developing new technologies rather they rely on adopting the proven technologies; the inhouse R&D efforts support such adaptation. Such organizations document the knowledge and experience through manual efforts. The technology strategies adopted by these organizations are technology transfer or reverse engineering. They take the help of consultants to source available technologies and also expect the government's support in technological collaboration. In order to meet the investment needs for such improvement they expect financial and infrastructural supports. The expected financial supports are easy finances and subsidies. The infrastructural support includes establishing common facilities that could be used by a group of small organizations.

Market Positioning

Small businesses operate in niche areas. But many researches conclude that although there is dependence of sector with small business growth, small businesses are not uniformly affected by turbulence or other changes in the market places. This area needs further in-depth research.

Customer Focus

Growing small manufacturing organizations maintain strong communication linkage with existing customers. The core focus is on meeting the quality requirements of these customers. They do not follow a prescribed schedule for communication. Reasons for communication include marketing of new products. Website is not considered to be an important means for communicating with outsiders including the customers, the site is not updated on a regular basis; organizations find it expensive. The growing organizations are discriminated on using communication for the purpose of aligning with their internal processes. The projected demands of the existing customers are used by them for material and manpower planning. They also plan the production schedule to match the JIT supply needs of their customers. All these factors carry find medium focus. Those small organizations which are suppliers to large ones are also subjected to second party system audit, such audit finds high priority for discrimination.

Change and Competitiveness

The growing small manufacturing organizations are also discriminated by the need for adopting change. The intensity is medium. The need felt for change is mostly focused on product quality for existing customers. The other major reason considered important for change is value improvement. There is considerable focus on meeting the global competition and preparedness to meet the global market needs and match the product standards. Product benchmarking is also identified to be one of the factors for change.

Role of Government

Small-scale sector has been protected through many policy measures since long. Major protection was in the form of reservation of items manufactured by them. Such policies have insulated the sector from competition. In the advent of liberalized policies adopted by the government, this sector is gradually getting exposed to competition. Due to lack of confidence in facing competition the growth focused small manufacturing organizations continue to expect support from the government. Among the external factors the policies of the government discriminate them with medium intensity. The policy of de-reservation has affected these organizations and the major effect is in the area of marketing. The reservation policy creates monopoly and very few suppliers compete for a large market. Also in many government purchases small-scale units get preferential treatment. But the organizations sensitive towards growth gradually learn to face competition. However, these organizations have expressed satisfaction on excise duty exemption and various other financial support measures of the government. They also expect that the government should impose anti-dumping duties to prevent the unfair competition from imported goods in the Indian market.

Entrepreneur and Internal Processes

Organizations with growth focus work with a strong sales support team. The team members are paid incentives on meeting sales targets. The organizations use computers for day to day work and also for accessing internet. E-mail and general data access are the major uses. The performance appraisal of the sales team is carried out informally. All these factors find medium focus. The organizations give high priority to monitor their manufacturing systems. They carry out regular quality system audits which includes the manufacturing operations. The entrepreneurs also give high priority to internal communication. They communicate frequently with employees and share the profit and loss data formally as well as informally. They socialize with them occasionally. The entrepreneurs give high priority to self-management, they prepare weekly schedules for themselves.

Review of the Growth Imperatives

Many small organizations are not inclined to grow; neither do they possess expertise nor have adequate resources to grow. Basically, the entrepreneurs remain contented to stay small. They also prefer to maintain the current level of profit rather than expansion. In other words in small organizations the objectives of the business and owner are inseparable. The reason may be that the ownership and management reside in the same person, and personal lifestyles and family needs influence growth needs. Independence is the primary need and entrepreneurs do not want to relinquish control. The entrepreneurs who possess higher skills in craftsmanship do not want to grow as in such cases they need to take administrative roles. The personal competence of the entrepreneur in dealing with organizational matters and supervisory capability also influence growth of small organizations. Growth or expansion may mean increase in number of customers, change in type of customers or shift from old clientele obtained through some personal contacts or recommendation to large organizations. Some entrepreneurs resist such new relationships. Hence there are some inherent preferences and the propensity not to expand in many small organizations. These are proven additional barriers to growth. Even if such organizations achieve growth due to some reasons they may find it difficult to sustain the benefits due to reluctance from the entrepreneurs to formalize the organizational structure, delegate authority, change decision making patterns and develop new types of relationship with the employees (O'Farrell & Hitchins 2002). Milne, Lewis, Thorpe and Thompson (1982) have focused on the strategic dimension of growth. The business strategies of the small organizations are determined by the perceptions of the owner-managers about what they can achieve through their business in the light of opportunities and constraints seen by them. Personal characteristics also influence the aspirations and the perceptions. The researchers explained that there are two environments in which business takes place—external and internal. The external environment includes suppliers, buyers, competition, potential entrants, interest on credit, taxation policies, market conditions, social, legal and political issues. Internal environment consists of resources of the firms. Personal and leadership characteristics of the owner-managers are also major internal factors. Occupational background, education, training, personal objectives,

management styles are also the major factors. The values of the owner-manager, whether the organization should pursue the objective of survival, growth, diversification, or consider for technological leadership, influence decisions. Availability of competent people, the extent of control the owner-manager wants to exercise, financial strength, physical assets and owner's capability and willingness to deal with change are some of the other factors influencing growth. They collect and process a part of the total information of the internal and external environment and take strategic decisions to adapt and cope with the pressures from these environments. They develop new procedures, systems and managerial tasks to deal with change.

Liao et al. (2003) based on a study on responsiveness of growth oriented small and medium-scale organizations concluded that such organizations possess capabilities of external knowledge acquisition as well as intra-firm knowledge dissemination. This provided them opportunities to adopt proactive strategies.

Conclusion

Business growth aspects and performance are correlated in small manufacturing organizations. Growth in these organizations can be viewed from many perspectives. The perspectives are development orientation (business growth and performance outcomes), enterprise size, growth constraints, business influence (largely internally influenced performance), dependence on external finance and extent of external financial advice (McMohan 1995).

The entrepreneurs' style significantly influences growth in small businesses. Small manufacturing organizations consider technology and improvement in manufacturing capability as the key determinant for growth. Developing competence to manufacture better products at low cost is the major focus to meet the competition and to grow. These organizations are sensitive towards the need for change in product and processes to meet the market challenges but they continue to focus moderately on market intelligence and as a result they do not consider operation planning as one of the most important aspects of growth. In spite of major focus on process efficiency improvement the organizations have moderate focus on application of computer and information technology. The study could not establish a linkage

between growth and resource availability. The hypothesis that the organizations need more resources for growth could not be established as these organizations do not consider need for funds as a high priority issue. High dependence on government for infrastructure support is due to historical reasons. Most of the units are located in state promoted industrial areas in which infrastructure creation and maintenance is the sole responsibility of the government. Although they expect the government to create other support systems for them, the de-reservation of product initiated by the government has changed the thinking of growing small scale organizations. Now they are ready to face competitive challenges.

Limitations of the Study and Criticism of Stage and Lifecycle Theories

The stage theories on growth may be criticized on some major issues. First, this gives a heuristic classification rather than conceptualizing the process of growth. Second, the theories assume that the small businesses either grow to pass through all phases of the cycle or collapse. The other theories support the counter argument that the important difference lies in characteristics of the founders who strive for growth. Also theorists classify the small firms as fast growers, satisfiers, which constitute the majority, and those who attempt to grow but fail. Third, these models fail to capture the important early stage within the origin and growth. In short these theories do not capture the process of change; they take the view of transformation of a small firm to a large corporation. Fourth, there is no clear explanation whether all small firms necessarily pass through all the stages in a sequence or some of them may skip one or more stages. Fifth, they define the small companies in terms of sales turnover or number of employees and ignore factors such as value added, product mix, or innovation in product or processes. Sixth, the theories do not take into consideration the advantage or disadvantage of regional economies. Seventh, these literatures are wisdom based, and reflect symptoms of growth rates and not on the process underlying the phenomenon. Last, the stage model and corporate lifecycle theory both assume the validity of a stage or life cycle model rather than to prove by data support (O'Farrell and Hitchins 2002).

The other limitation is about generalization of conclusions. Firm size may have an impact on growth. Growth of small organization is also an industry-specific phenomenon, hence industry-specific studies may lead to better conclusions.

End Notes

1. Data sourced from the *Financial Express* dated 3 April 2005.
2. This term is commonly used in literature and many government documents to mean small manufacturing firms.
3. The Third Census was based on the SSIs registered up to 31 March 2001. Survey for the Census was launched in October 2002.
4. According to the Third Census (2001/02), 62.13 per cent units were reported to be engaged in manufacturing, assembly and processing activities.
5. According to the Third Census (2001/02), 7.371 per cent and 7.078 per cent of small-scale units are closed in Madhya Pradesh and Maharashtra, respectively.
6. According to the Census, 171376 and 137819 units were registered in Madhya Pradesh and Maharashtra, respectively.

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8

Entrepreneurial Ambience of Eastern UP: A Scanning

P.S. Tripathi

Introduction

Eastern Uttar Pradesh (UP), a people-abundant and resource-redundant region is one of the most backward pockets of our country. This region, densely populated with fragmented landholdings, subsistence agriculture, mass unemployment and a large percentage of population below the poverty line has, since independence, been the victim of intra-state discrimination. Since the region has consistently remained politically under-represented it has failed to take advantage of the 'pelf' that goes with the 'power'. Due to prolonged neglect and disfavour, the entrepreneurial, industrial and infrastructural development of this part of UP has suffered. Eastern UP today hardly has any industry running in good shape. No significant investment has come during the last 15 years' period of reforms (1991–2004), rather existing industries like sugar, cotton, carpet, handloom, etc., are facing a tough time in marshalling resources to upgrade themselves to face the new challenges. The government's efforts to create a climate of entrepreneurial development remained half hearted and have yielded very little on the ground.

The socio-cultural environment of eastern UP does not encourage the spirit of enterprise. People still have a predilection for jobs, specially government jobs, and prefer the security of a limited salary to wealth

creation with some risk. The vicious cycle of 'misfortune' on account of being born into a poor family, runs its full course, passing through poor health, poor education, poor earnings and culminates into poor opportunities for development. It is a self-reinforcing process, perpetuated from one generation to the next. A few other social characteristics like feudal culture, an inefficient support system, lack of local successful role models and the recent, but very disturbing, trend of regular threats, extortions and demands of ransom, by the ever increasing criminal groups, have immensely damaged the culture of entrepreneurship in this region.

Entrepreneurship is truly a community asset with wide and far reaching benefits. It is the only effective antidote to the problem of mass unemployment faced by the youth of eastern UP. For entrepreneurial culture to take roots in this soil, the government will have to initiate some specific short-term as well as long-term programmes of action in a sensitive and time-bound manner. The short-term action programmes should focus on:

- Capacity/skill building in prospective entrepreneurs.
- Ensuring an integrated and more responsive framework of support agencies, with a unified framework of responsibilities.
- Effecting improvement in infrastructure and investment climate.
- Setting up venture capital funds specially to promote young professional entrepreneurs.
- Establishing effective for a for interface between entrepreneur, investors and agencies providing the support systems.

In the long run, the approach has to focus on ensuring 'Equity' for the region and good quality education for every child, to transform eastern UP into a vibrant basin for entrepreneurs.

The Backdrop

Intra-state discrimination is not uncommon in free India, and wherever such discrimination and discontent (of a particular region) crossed a threshold line, people of that region agitated and a new state was carved out. The creation of Haryana out of the state of Punjab, Chhattisgarh out of Madhya Pradesh, Jharkhand out of Bihar, and Uttaranchal from UP have a similar genesis. The eastern part of UP, which has remained politically under-represented and economically

underdeveloped since independence, is currently experiencing a similar problem. The dictums of public administration like 'spoils belong to the victor' and 'the pelf goes with the power' appear to have played their role in creating an imbalanced development of the state of UP. This is clearly borne out both by resource allocations and indicators of growth and development. Most of the traditional industries of this region like sugar, cotton, carpet handlooms and fertilizer are either sick or dying. No fresh industrial investment is being made and the industrial and entrepreneurial activity is at its lowest. Against this backdrop, this chapter attempts to scan the entrepreneurial environment of eastern UP.

UP is ranked first in terms of population and fifth in terms of area among the Indian States. UP accounts for 16.17 per cent (166 million) of the total population of the country. The population of UP is higher than the total population of Pakistan (157 million). In fact, internationally, UP would be ranked sixth, after Brazil (170 million), in terms of population. A brief demographic profile of UP vis-à-vis India is set out in Table 8.1.

Table 8.1
Demographic profile of UP vis-à-vis India

Sr. No.		*India*	*UP*	*Relative Picture*
1.	Population	102.7 cr	16.6 cr	16.7% (1st)
2.	Area (Sq km)	31,66,414	2,40,928	(5th)
3.	Density of population (Per Sq km)	324	689	More than double the National Average
4.	Sex Ratio (females/ thousand males)	933	898	Much below the National Average
5.	Decadal population growth (1991–2001)	21.34%	25.6%	UP, Bihar, Jammu and Kashmir, Jharkhand and Arunachal Pradesh
6.	Literacy (overall)	65%	57%	Below National Average
	Males	76%	70%	Below National Average
	Females	54%	42%	Below National Average
7.	Percentage of Population Dependent on Primary occupations	N.A.	78%	Higher than National Average

Source: Census of India 2001

Eastern UP (eastern part of Uttar Pradesh starting from Faizabad and stretching up to borders of Bihar and Nepal) accounts for about

47 per cent of the total population of UP. The region is primarily dependent on subsistence agriculture and it is one of the poorest and most backward areas of the country. The industrial, investment and entrepreneurial activities continue to show a downward trend and unemployment and crime have been consistently on the rise. About 78 per cent of the population of eastern UP is engaged in primary occupations providing scope for a very high degree of disguised unemployment. Feeling the pressure of rising unemployment and population coupled with reduction in the size of landholdings, the Government of UP over the successive plan periods, has made efforts to give a fillip to promoting an entrepreneurial environment and industrial investment in the state. But when we look at entrepreneurial development vis-à-vis other large states, the picture appears very frustrating. Furthermore, it needs to be stressed that all the investments including Foreign Direct Investment (FDI) is concentrated in NOIDA and the regions nearer to Delhi. Virtually no proposal for investment in Eastern UP was signed during 1991–2004 through Industries Entrepreneur Memorandum (IEM) and consequently no significant employment has been created during this period of reforms in eastern UP, as depicted in Table 8.2.

Table 8.2
Comparative Scenario of Investment and Employment during August 1991–August 2004

State	*- Period - August 1991–August 2004*		
	Total Investment # (crore rupees)	***Foreign Direct Investment (crore rupees)***	***Employment proposed ('000)***
Maharashtra	2,40,660 (18.3)	36,602 (14.8)	1,816 (17.2)
Gujarat	2,12,826 (16.2)	11,177 (4.5)	1,086 (10.3)
Tamil Nadu	1,13,147 (8.6)	22,583 (9.1)	680 (6.4)
UP**	75,598 (5.7)	4,827 (1.9)	2,118 (20.1)
Andhra Pradesh	1,35,249 (10.3)	11,609 (4.7)	576 (5.5)
West Bengal	51,612 (3.9)	7,790 (3.2)	492 (4.7)

Sources: Ministries of Industry and Labour

Note: Figures in brackets indicate percentage share by the States in the all India total.

** Much of the FDI/Investment in UP in centered around NOIDA and adjoining areas bordering Delhi.

Total investment approved through IEM.

The asymmetrical patterns of development, investment and employment in different regions of UP point towards a more serious issue of equity and equitable distribution of benefits across the people of the state, as equity is the best antidote against poverty. In the World Development Report 2006, the World Bank chief noted that 'Equity is complimentary to the pursuit of long-term prosperity. Greater equity is doubly good for poverty reduction. It tends to favour sustained overall development and delivers increased opportunities to the poorest group in a society'. Therefore, some form of redistribution of access to assets, opportunities, services and political influence is called for to correct this growing imbalance between different parts of the state of UP to avoid the extreme possibility of carving another new state out of it (the state of Uttaranchal has already been carved out in 1998–99).

But the government/political set-up is only one of the factors that impacts the entrepreneurial environment of a region. There are examples of the regions which have developed entrepreneurially despite the 'government factor'. Therefore, while scanning the entrepreneurial ambience of Eastern UP we also have to look at such factors which arise out of the socio-cultural and economic environment of the region. These factors are equally responsible for supporting or impeding the growth of entrepreneurship in this region. Some of the questions that need to be answered in this regard are:

- Do the people of the region in general lack initiative and enterprise? If so, what could be the underlying reasons for this?
- Do the resources or infrastructure pose a major constraint?
- Is the socio-cultural milieu friendly conducive to entrepreneurship in the region?
- Are the support systems designed in a faulty manner with an unresponsive and poorly coordinated framework?
- Are actions of the Government of UP befitting and in keeping with its resolve of transforming 'Uttar Pradesh' into 'Uttam Pradesh'?

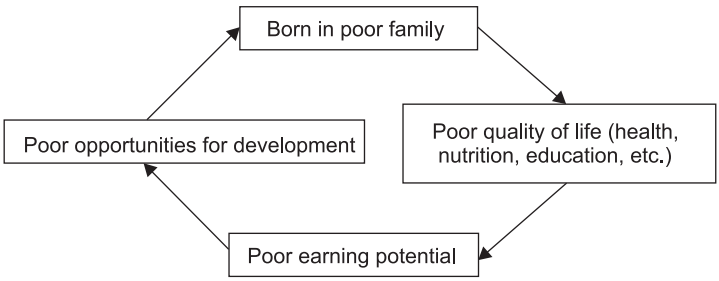
All these questions call for a perspicacious probe that falls beyond the scope of this chapter. However, it would be appropriate to highlight some of the issues that impinge directly on the entrepreneurial environment of the region.

The Socio-cultural milieu of Eastern UP

Entrepreneurship in its true sense is a community asset. The societies that had traditionally inculcated and nurtured entrepreneurial traits are more prosperous and developed today than those who neglected or suppressed the culture of enterprise. The fruits of entrepreneurship extend across the layers of society. Individuals, families, clans, the community, the region and ultimately, the country—all have their shares and they all may be treated as genuine stakeholders. But out of all these, the family is the most basic institution that serves as the nursery for entrepreneurship development. The family may rightly be considered as a miniature prototype of society and exhibits the characteristics prevailing in the social environment. The process of entrepreneurship development in this context may be viewed not only as a wealth creation process through some legitimate activity but also as a social phenomenon that supports a network of changes, impinging on the quality of life of the people. It also changes the demography and dynamics of the local society in a particular region.

The social life of the ordinary folk of eastern UP is caught up in the vicious cycle of misfortune as they are born into poverty. Due to this, they inherit a poor quality of life in terms of poor health, poor nutrition and poor education, etc. As poor members of society, they are vested with poor earnings and poor earning potential leading to poor opportunities for growth and development. This cycle of misfortune (Figure 8.1) is self-reinforcing in nature and is passed on from one generation to the next.

Figure 8.1
Cycle of Misfortune



Furthermore, the social environment of eastern UP exhibits the following primary characteristics:

- Low status/social recognition of self-owned business.
- Lack of dignity of labour.
- Overwhelming preference for jobs, particularly in the government sector. A hangover from the British Raj, where security and stability were preferred over wealth creation.
- Low self esteem (due to a long tradition of bonded labour and beggars during the rule of the British/Zameendars).
- Lethargy and tendency to remain content with whatever little one gets.
- Seeking feudal/political patronage for survival and livelihood.
- Spirit of mistrust and poor cooperation.
- Wealth creation is often seen as a diversion from the sanctioned goal of life (seeking salvation).
- Lack of successful exemplars (Role Models) in the immediate surroundings.
- Local credit institutions (primary cooperative credit societies, regional rural banks [RRBs], land development banks, commercial banks, etc.) work under the influence of power brokers/feudal lords and local politicians.
- Regular threats/extortion by criminals (a recent phenomenon).

Thus, the family environment coupled with the social environment clearly places a negative premium on seeking entrepreneurship as a career. The existing business families are compelled to seek patronage of local feudal lords (who often treat them as cash cows) and this further dampens the sprit of enterprise and wealth creation. The recent but growing trend of extortion and ransom has further de-motivated the enterprising people of the region.

Government Policies and Role of Support Systems

Another important element of the entrepreneurial environment is the framework of government policies and the role played by different support agencies in implementing these policies on the ground. The State Government along with the Central Government have over the last five decades tried, through a series of interventions and policy

initiatives, to promote development of small and medium enterprises but these steps have met with limited success. Given the policy framework, the real challenge lies with support systems, which have the responsibility of executing these policies. In fact, with the onset of the process of reforms, the situation has worsened as is evident in the following facts:

- Most sugar mills of the region are sick.
- Most textile mills are sick and need heavy investment in upgrading technology to compete in the free market.
- The carpet industry is also passing through a downward phase.
- The handloom and handicraft sector is facing an identity as well as a viability crisis.
- A very high percentage of loans to small industries assisted by the UP Financial Corporation (UPFC) have turned into non-performing assets (NPAs), forcing the UPFC to take the extreme harsh step of seizure of the units (under Section 29) and resort to public auction to recover the dues.
- In case of micro credit and small advances to entrepreneurs by cooperatives, land development banks, RRBs, etc., have disbursed credit under government schemes or otherwise, under the pressure to achieve their annual targets without adequately building the capacity/assessing the entrepreneurial capacity. In the process, they have not only created NPAs for the bank, but also burdened an already incapable and probably unemployed person with heavy debt which is difficult to repay. This situation at times is deliberately designed to serve the short-term gains of the local feudal power brokers and conniving bank officials, taking undue advantage of the illiterate, submissive and humble (poor) people.

Thus, we feel that there exists a clear case to redesign the policies with a view to fixing a direct responsibility and prevent their misuse, which works to the detriment of the poor and illiterate people of the region.

Again, the present model of having a coordinated (theoretically, because in practice such coordination is rare) network of several support agencies, each dealing with one specific input like term finance, raw material, consultancy, market intelligence, working capital, etc., is not

very appropriate for small business entrepreneurs. They have to run from pillar to post interacting with a plethora of institutions and meet their demands/requirements which at times turn out to be conflicting and, at times, ridiculous. For example, the same business proposal needed to be submitted and examined separately by State Financial Corporation (SFC) and bank for term finance and working capital. The two support agencies may easily coordinate to make a joint team for appraisal. This will make the task of the entrepreneur a lot easier, saving time and resources, which are lodged as security with both support agencies, separately. We feel that with better coordination and minor changes in their rules, the support agencies can adopt the approach of joint appraisal as both are equally interested in the success of an enterprise. We strongly feel that a support system should function as an integrated arrangement for small entrepreneurs with a maximum of one or two points of interface. They should be joined with a pointed responsibility of transforming units into successful enterprises as if they are adopting these units. For this to happen, we have to reorient the mindset of the officers of the support agencies to adopt a proactive and less bureaucratic approach. The current practice of fixing separate targets in terms of number of units registered, sanctions, disbursements, etc., has failed to make any impact on the ground in this region of eastern UP. Similarly each agency must adopt at least a few first generation young entrepreneurs (preferably coming from a non-business background) and make all out efforts to facilitate and establish them as success stories in entrepreneurship. This will reinforce faith, initiative and confidence in prospective young entrepreneurs.

Developing Young Entrepreneurs

The analysis of the experience of support agencies over the years has confirmed that those geographical regions where the prospective entrepreneurs were vested with appropriate capacities/skills, either as part of an assistance programme or even otherwise, have consistently performed better and also helped in creating secondary enterprises and this induction affects prospective entrepreneurs. Where input was provided without ensuring capacity, cases have invariably degenerated into NPAs for agencies and indebtedness for the parties availing the assistance. Therefore the stress on capacity building is as important and crucial as providing input assistance.

One strong area emerging in the past few years is the inclination of more and more professionally qualified youth (Doctors, Architects, Consultants, Export facilitators, Chartered Accountants, MBAs, Attorneys, Psychotherapists, Physiotherapists, Beauty Clinics and Astrologers, IT/Computers professionals, Engineers, Pharmacists, etc.) to set up their own service centres. In order to transform these into vibrant and successful enterprises, these professionals need active support from venture capitalists. This is because, for a start-up venture, a high recurring cost of a source such as loan would be a financial burden and the Indian stock market has failed to serve as a source of fund to new entrepreneurs. The Government of UP may play a more proactive role in making the capital available to new but sound businesses. This requires no major financial outlay but mostly involves putting in place appropriate measures to promote entrepreneurship and to further enhance the fairness and transparency of transactions between Investors and Entrepreneurs. A forum may also be created involving support agencies, Entrepreneurship Development Institute, technical/research institutions, university departments, existing entrepreneurs, venture capitalists and potential investors. Potential entrepreneurs can be asked to make presentations about their business plans, and obtain feedback and the opportunity to network with other entrepreneurs and investors. Given the high failure rate of new start-ups in this region, a good back-up plan offering some social security and insurance cover for loss of earnings (not only insurance of assets) should also be impressed upon the young entrepreneurs. Among other key input that may have long-term impact on capacity building is access to education. Even the poorest child should have access to quality education at all levels. In fact, quality education is the most potent intervention tool to effectively break the vicious cycle of misfortune. It will also arm potential young entrepreneurs with better manoeuvring capabilities while dealing with markets or government support agencies.

Conclusion

In conclusion we may say that eastern UP faces numerous socio-cultural and economic challenges in the process of entrepreneurship development. The overall ambience as it exists today is not friendly to entrepreneurs. Rise in crime is a recent but very disturbing feature

that may cause severe damage to the spirit of enterprise in this region. If the government takes some suitable policy initiatives that offer an integrated frame for support agencies to function with the single avowed objective of transforming people into successful entrepreneurs on the ground, this may help in creating an effective and positive environment for entrepreneurial development. Furthermore, the exercise of capacity building and back-up rehabilitation needs to be taken up in a sensitive manner before the support agencies identify and adopt a prospective entrepreneur. For capacity building, the state government may take recourse to short-term measures and the creation of a suitable agency for venture capital help, fewer number of support agencies (one or two) offering complete range of assistance, an appropriate forum for interface between entrepreneurs, investors and support agencies and a good social security plan. In the long run, the capacity building approach has to focus on ensuring equity for the region and quality education for every child to transform eastern UP into a vibrant basin of entrepreneurs.

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9

Perceived Constraints of Rural Entrepreneurs related with their Income-generating Enterprises: A Perspective of Bihar State

Ashok K. Singh

Introduction

Based on a systematic field study, an effort has been made to identify constraints in non-adoption of recommended beekeeping and dairy technologies. The constraints responsible for non-adoption of these technologies, as experienced by rural people, were found to be of a different nature and magnitude. Several constraints were identified and grouped into four categories: socio-personal, technological, economic and communicational.

India is in a peculiar situation, where poverty is not only acute but a chronic malady despite having abundant natural resources. The prevalence of chronic unemployment, underemployment, poor quality of human capital (because of mass illiteracy), inadequacy of skills to meet social problems, superstitions, social taboos, poor technology, and sick economic organizations are some of the important problems which the country is facing at present. Absence of an entrepreneurial class, willing to take risks and to undertake new ventures, is yet another reason for our slow economic development. The development of

indigenous enterprise, especially among the rural population, is imperative for the country embarking on socio-economic development programmes. Thus, the country is looking for more entrepreneurs to build a strong national economy.

In Bihar, rural people constitute more than 85 per cent of the population and they play a significant role in agricultural production. But they have not been assigned the importance they deserve in agricultural research, education and extension programmes. The problems of rural people are the amalgamation of social, political, cultural, economic and psychological factors. Hence, any effort related to alleviating their problems requires thinking and follow-up action with a much wider perspective. Though farmers are involved in almost all agricultural operations and animal husbandry practices, they have inadequate technical competence in these sectors due to their limited exposure to the outside world. This has compelled them to follow traditional technical practices which in turn result in inefficiency. Rural people have inadequate access to credit, technology, training and other facilities. They have not been recognized as producers in their own right. Now, the time has come to explore the attitude of farmers in small-scale enterprises and to sort out the various constraints. It is high time to bring rural people into the mainstream of economy for faster economic development and this is possible through entrepreneurial development among them. Within this framework, the present research endeavour aims to explore the important constraints in non-adoption of technology related to beekeeping and dairy enterprises as experienced by rural entrepreneurs.

Methodology

Keeping the research objective in view, four blocks, namely, Pusa and Kalyanpur of the Samastipur district, and Muraul and Mushari of the Muzaffarpur district were selected based on the assumption that these are leading blocks for activities of beekeeping and dairy enterprise. Furthermore, a list of entrepreneurs engaged in beekeeping and dairy enterprises was prepared. A total of 160 entrepreneurs were selected as the study sample using the stratified random sampling procedure. In order to assess the nature and magnitude of constraints associated with the non-adoption of scientific beekeeping and dairy enterprises,

a list of statements/questions was framed based on literature reviews and the expertise of specialist scientists involved with these professions. Entrepreneurs were asked to identify and rank the main constraints to the automating of beekeeping as well as the dairy enterprise. Responses were solicited by way of an open-ended questionnaire administered in a face-to-face scenario.

Results and Discussion

The important constraints experienced by respondents of this study were grouped into four categories: socio-personal constraints, technological constraints, economic constraints and communicational constraints. The findings related to these constraints have been discussed hereafter.

Socio-personal Constraints Experienced by Entrepreneurs

Table 9.1 lists various socio-personal constraints experienced by entrepreneurs in accounting for their non-adoption of recommended bee keeping and dairy enterprise technology. Lack of consumer awareness and motivation was ranked first by the entrepreneurs (88 per cent). The second ranking constraint, as perceived by entrepreneurs, was lack of pertinent knowledge about new innovations (85 per cent). The other constraints, in descending order of importance, were: low level of education (82.5 per cent), poor investment due to poor saving (80.6 per cent), lack of managerial capability (76.6 per cent). The 'fear of failure' is quite strong, ranked sixth in order of importance as perceived by 75.6 percent of the respondents.

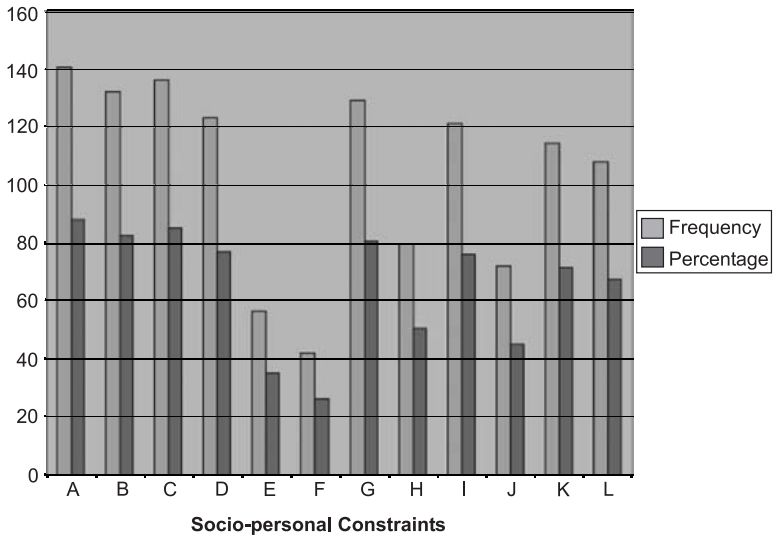
A perusal of Table 9.1 clearly reveals that the most important constraint perceived by the entrepreneurs was lack of consumer awareness. For higher levels of knowledge about new innovative technology and upgrading skills, entrepreneurs can be motivated through effective entrepreneurial development training. There is a need to create more awareness and interest among people about the benefits of beekeeping and dairy enterprise. People using traditional practices should be motivated to adopt modern practices. Entrepreneurs should

Table 9.1
Socio-personal Constraints Experienced by Entrepreneurs (n=160)

	Socio-personal Constraints	*Frequency*	*Percentage*	*Rank*
A	Lack of consumers awareness and motivation	141	88.1	I
B	Low level of education	132	82.5	III
C	Lack of pertinent knowledge about new innovation	136	85.0	II
D	Lack of managerial capabilities	123	76.6	V
E	Negative social attitudes	56	35.0	XI
F	Low exposure to business, hence less experience	42	26.2	XII
G	Poor investment due to poor saving	129	80.6	IV
H	Lack of family support	80	50.0	IX
I	Fear of failure is strong	121	75.6	VI
J	Problems of more competition	72	45.0	X
K	Dominance of males in the decision-making process	114	71.2	VII
L	Social custom and traditions	108	67.5	VIII

Figure 9.1 provides a graphical representation of the data presented in Table 9.1.

Figure 9.1
Socio-personal Constraints Experienced by Entrepreneurs



be educated about role of the quality of field crops, orchards, etc., in increasing the yield of honey. Bee keepers and dairy farmers need to diversify into products like royal jelly, propolis, bee venom, bee-bread, etc. These are valuable and nutritive substances. Beekeeping and dairy enterprise should be diversified as recreational and employment-generating activities for rural youth and women.

Technological Constraints Experienced by Entrepreneurs

Table 9.2 depicts the eight technological constraints experienced by entrepreneurs in perpetuating the non-adoption of beekeeping and dairy technology. Out of eight constraints perceived by them, the first rank was assigned to the constraint, lack of regular and effective training programme for upgrading know-how and skills related to beekeeping and dairy enterprises (90.6 per cent). The other constraints perceived by the entrepreneurs, in descending order of importance, were poor access to input (75 per cent); technology shown is beyond the means of common people (67.5 per cent); lack of scientific processing, storage and marketing facilities for honey and other beehive products, and milk (55.6 per cent); and lack of knowledge about diseases and pest management.

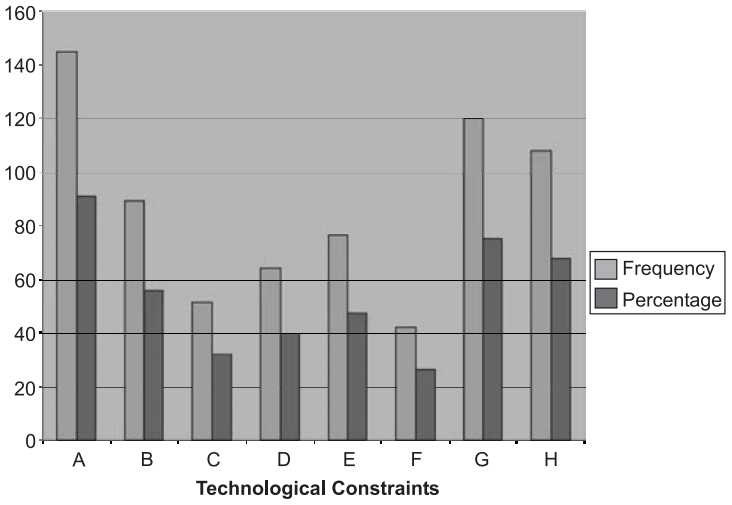
It is a fact that there is a lack of regular and effective training for upgrading technical know-how and skills related to scientific bee keeping and also dairy enterprise technology. Therefore, adequate skilled manpower and trained field workers should be developed for improving knowledge and upgrading the skills of entrepreneurs at the village, block and district levels. Graded training should be imparted in different organizations. Technical guidance and timely supervision should also be provided at block and village levels to entrepreneurs for the management of sophisticated beekeeping and dairy technology. Cooperative societies should be formed for the processing and sale of honey and dairy products because it is not possible for an individual entrepreneur to look after all these aspects since they are too expansive and time consuming.

Table 9.2
Technological Constraints Experienced by Entrepreneurs (n=160)

	Technological Constraints	*Frequency*	*Percentage*	*Rank*
A	Lack of regular and effective training programme for upgrading the know-how skill related to beekeeping/dairy enterprise	145	90.6	I
B	Lack of scientific processing, storage and marketing facility of honey and other beehive products/milk.	89	55.6	IV
C	Lack of adequate knowledge of seasonal management related to beekeeping/dairy.	51	31.8	VII
D	Difficulty in maintaining honey bee colony/ dairy animals during dearth period and also during extreme low and high temperature	64	40	VI
E	Lack of knowledge about disease and pests management.	76	47.5	V
F	Lack of know-how about the importance of artificial diet as stimulating feeding	42	26.2	VII
G	Poor access to input	120	75	II
H	Technology shown is beyond the means of common people	108	67.5	III

Figure 9.2 provides a graphical representation of the data presented in Table 9.2.

Figure 9.2
Technological Constraints Experienced by Entrepreneurs



Economic Constraints Experienced by Entrepreneurs

A perusal of Table 9.3 shows the various economic constraints experienced by entrepreneurs in perpetuating the non-adoption of scientific beekeeping and dairy technology. Out of six constraints perceived by them, the first rank was assigned to the constraint, lack of finance (87.5 per cent). The other constraints perceived by the entrepreneurs, in descending order of importance, were: non-availability of loan facilities for the purchase of input (76.2 per cent); high price of bee colonies and dairy animals (66.2 per cent); difficult and costly maintenance /management of bee keeping/dairy (47.5 per cent); and lack of Government/NGO support (38.2 per cent). However, involvement of middleman in getting loan from bank ranked sixth in order of importance, as it was perceived by only 34.4 per cent of the respondents.

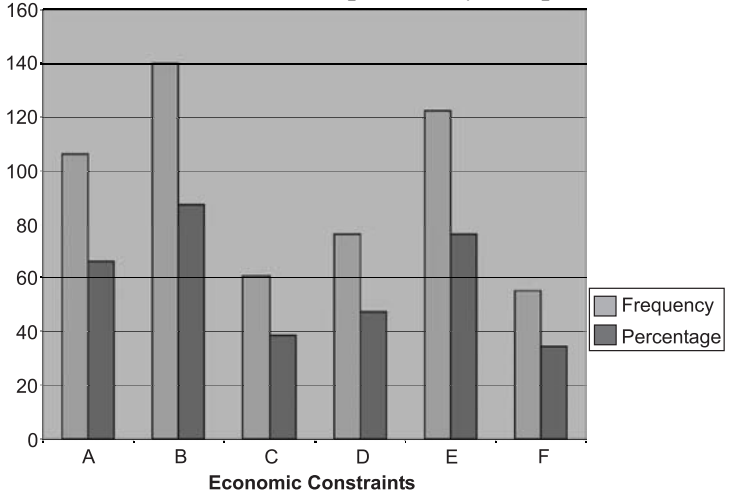
Table 9.3
Economic Constraints Experienced by Entrepreneurs (n=160)

	Economic Constraints	*Frequency*	*Percentage*	*Rank*
A	High price of bee colonies/dairy animals	106	66.2	III
B	Lack of finance	140	87.5	I
C	Lack of government/NGO support	61	38.2	V
D	Difficult and costly maintenance/ management of beekeeping/dairy practices	76	47.5	IV
E	Non-availability of loan facilities for the purchase of input	122	76.2	II
F	Involvement of middleman in getting loan from bank	55	34.4	VI

Figure 9.3 provides a graphical representation of data provided in Table 9.3.

The government, NGOs and educational institutions should come forward to popularize bee keeping and dairy enterprises through effective training, awareness creation through the mass media and financial assistance. Bank loans should be made available to entrepreneurs at easy interest rates and in time. Besides this, grants and subsidies should also be provided by the government for motivation and adoption of research-based technology. Only training of entrepreneurs is not enough. The entrepreneurs should be supplied with necessary input at reasonable cost and apprised of management techniques through effective training for rapid diffusion and adoption of beekeeping and dairy technology in rural areas.

Figure 9.3
Economic Constraints Experienced by Entrepreneurs



Communicational Constraints Experienced by Entrepreneurs

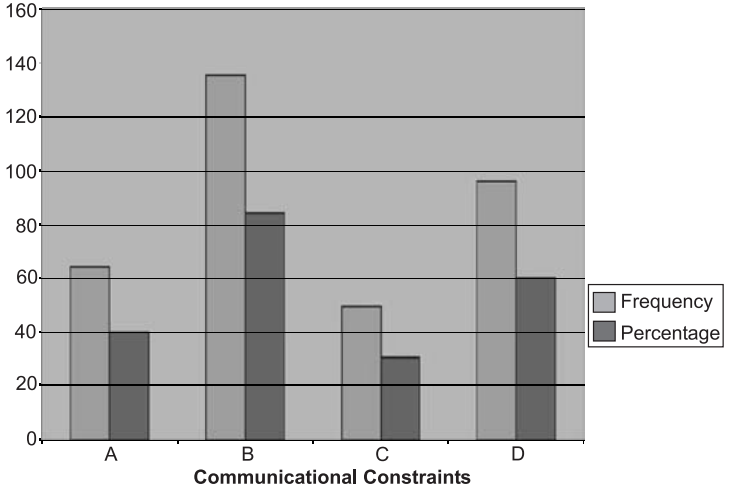
Table 9.4 displays several communicational constraints experienced by entrepreneurs in perpetuating the non-adoption of bee keeping and dairy technology. Inadequate access to training programmes was ranked first by the entrepreneurs. The second rank, as perceived by entrepreneurs, was assigned to the constraint, poor infrastructure, particularly transport and communication facilities. The other constraints, in descending order of importance, were: poor rapport with extension agencies and low social mobility of rural women.

Table 9.4
Communicational Constraints Experienced by Entrepreneurs (n=160)

S.N.	*Communicational Constraints*	*Frequency*	*Percentage*	*Rank*
1.	Poor rapport to extension agencies	64	40.0	III
2.	Inadequate access to training programme	135	84.3	I
3.	Low social mobility of rural women	49	30.6	IV
4.	Poor infrastructure particularly transport and communication facilities	96	60.0	II

Figure 9.4 provides a graphical representation of the data presented in Table 9.4.

Figure 9.4
Communicational Constraints Experienced by Entrepreneurs



Summary and Conclusion

Constraints which prevent entrepreneurs from taking to self-employment necessitate the need to design development strategies. The problems faced by entrepreneurs in rural areas are more serious and different in many respects than the problems faced by the entrepreneurs in urban areas. Urban entrepreneurs have access to better education, better facilities and a variety of opportunities as compared to the rural entrepreneur. There are several factors which act and interact in the process of emergence of entrepreneurship. None of these factors is favourable to rural people emerging as entrepreneurs. As individuals, rural people are not equipped with the necessary skill, knowledge, education and information. The kind of socialization they receive from childhood denies traits such as self-confidence, need for achievement, inclination to take risks and an independent outlook, which are essential for entrepreneurship. Government policies neither create specific opportunities for rural entrepreneurs nor do they have specific programmes of development for them. This is also true of the existing support system available in our country. Along with these unfavourable factors, rural entrepreneurs face social and technological risks. Therefore, any suitable strategy for development of entrepreneurship among rural people should be only successful if it can address all these aspects of constraints.

10

Towards a Model of Entrepreneurship: The SETWIN Model in Andhra Pradesh

Sita Vanka and S. Chandrasekhar Reddy

The challenges of the 21st century call for a rethinking of the development models and strategies for sustained development. The post-liberalization era is witness to the rightsizing and downsizing of organizations, rising unemployment and displacement of employees. The norm of the day is 'jobless growth' and not growth with a consequent increase in the employment. This calls for an approach that fosters employment generation for sustained economic growth. Entrepreneurship, in general, and entrepreneurial training, in particular, assume greater significance in this context. Entrepreneurship as 'a native and innovative response to the stimuli of doing things in a new way' was thought about as a possible solution in the 1960s. Evidence from the last four decades of experimentation in India provides sufficient proof that entrepreneurial potential exists and can be developed through appropriate training interventions. Entrepreneurial training was attempted in India by various organizations. The Society for Employment Promotion and Training in Twin Cities (SETWIN) model of skill and need-based training, with the objective of promoting entrepreneurial potential among the youth leading to employment generation, was initiated in Andhra Pradesh. This chapter broadly

aims at highlighting the student perspective, the opinions and perceptions of those who underwent training in some of the popular courses. Implications for entrepreneurial training in India and evolving models are discussed at the end.

The economy of any country substantially depends on the Gross Domestic Product (GDP) that the country is able to achieve and sustain over time. GDP is a direct reflection of the value of products and services provided by the manpower available in the country. This means the larger is the number of people employed, the higher the GDP and therefore, the ratio of unemployment to the total population is a key factor in determining the development prospects of any country. Efforts are being made by all countries to reduce their unemployment ratio. While addressing the problems of employment generation as essential for growth, a simultaneous approach to tackle unemployment is also required to achieve sustained growth. It is here that the concept of employment generation assumes significance.

Strategies at the Global Level

An attempt has been made to suggest strategies for employment generation by various countries. Almost all attempts reveal that the employment growth is inadequate and posing problems, contrary to expectations of all sections of the economy at a global level.

Japan's biggest electronics maker, Hitachi Limited, planned to eliminate 4,000 jobs in Japan by the end of the June, 2004, via an early retirement scheme, adding to 16,350 global job cuts planned for the year. This addition takes the sprawling industrial conglomerate's total domestic job cuts figure to 15,100. The Hitachi group's restructuring costs this business year by 70 billion yen bringing a corresponding rise in its projected group net loss for 2003/04 to 300 billion yen from 230 billion yen. Statistics show that 6.81 million people registered themselves as jobless in urban areas. This was the only group the ministry took into account in concluding the urban jobless rate to be 3.6 per cent at the end of 2004.

The British Government plans to bring sweeping changes in its employment and immigration laws, to flush out 500,000 illegal foreign workers. Immigration hit-squads concentrated on the foreign-dominated hotels, catering, construction, cloth manufacturing,

agricultural and IT industries to remove illegal immigrants, as part of its employment strategy.

According to the *China Daily*, the official urban unemployment rate in that country is expected to triple over the next four years, mostly due to the latter's entry to the World Trade Organization (WTO) in 2005. The unemployment problem has assumed a universal character and employment would be reducing considerably in the years to come unless strong and immediate measures are taken to ameliorate the same.

It can be inferred from the above that the unemployment problem has assumed a universal character and employment would be reducing considerably in the years to come unless strong and immediate measures are taken to ameliorate the same.

Employment Policy in India

When India declared independence in 1947, the economy had to be put on a trail to development. Employment generation and sustained growth rate in industry and agriculture has been considered most important. Employment generation was looked upon as a by-product of economic growth. It was clearly stated in the First Five Year Plan that full employment was not an end in itself and should be regarded as a corollary of development rather than as a direct objective. Development was equated with employment when it was observed that development is, in a sense, but another name for employment opportunities.

One of the principal objectives right from the First Five Year Plan has been the progressive reduction of unemployment in the country. Excessive emphasis on long-term projects did not yield adequate employment opportunities in the First Five Year Plan. Expansion of employment opportunities and creation of gainful employment opportunity was recognized as an important objective in the Second Plan but it was sought to be achieved only after a period of intensive development. The situation in the Third and the Fourth Five Year Plans again was no active effort on the part of government to link economic development with employment. The Fifth Plan made a radical departure from the previous plans so far as the employment strategies were concerned. It was the only employment-based plan that talked about self-generating growth. This shift continued in the

Sixth Plan, which aimed at a progressive reduction in unemployment in the country. The Seventh Plan laid major emphasis on employment generation in the country with focus on employment oriented growth and special employment programmes. Self-employment along with opportunities for wage employment was a thrust area in the Eighth Plan. The Ninth Plan focused on skill development to enhance employment opportunities while the Tenth Plan document emphasized the contribution of the unorganized sector for employment opportunities (The Tenth Plan Approach Paper 2002).

Employment Policy—The Tenth Plan

The Tenth Plan emphasizes the need for undertaking suitable policies and programmes in reversing the trends of the 1990s, many of which slowed down the growth of employment and aggravated the jobless growth in many sectors. The employment strategy proposes meeting employment goals by encouraging the use of labour-intensive technology and rejuvenating the growth of unorganized sector (The Tenth Plan Approach Paper 2002). The Tenth Plan has identified the sectors where there is a major potential of large job opportunities including self-employment opportunities. The target of the plan is to generate employment of up to 50 million jobs over the Tenth Plan period. It has taken care to avoid programmes, which generate one-time employment only. Thus, sustained employment generation, both through wage employment and self-employment modes, is the thrust area of the employment policy in the Tenth Plan. A positive employment policy thus goes a long way to fulfil the dream of employment, as employment is one of the major variables in deciding on the investment programmes in the country.

Employment in India—The Present Status and Emerging Trends

An examination of the major sources of information reveals that the unemployment rate in India has increased significantly since 1993/94 and was above 7.3 per cent in 1999/2000 compared to 6 per cent in 1993/94 on Current Daily Status (CDS) basis (*Alternative Economic Survey* 1999). The total volume in terms of persons unemployed in

the year 1999/2000 touched about 27 million of which nearly 74 per cent were in the rural sector and 60 per cent among them were educated (*Alternative Employment Survey* 2002). The rising unemployment could be attributed mainly to the declining job creating capacity or the unemployment growth of the Indian economy observed since 1993/94. In spite of acceleration of GDP growth from 5.2 per cent in 1993/94 to 6.7 per cent in 1999/2000, employment growth fell to 1.07 per cent from 2.7 per cent during the same period. The employment generating capacity of the organized sector came down to a near zero and was negative in the public sector (Planning Commission 2002). Rightsizing of the public sector, capital intensive sectors, increasing capital intensity sectors, increasing capital intensity per unit of output due to market competition, etc., are some of the reasons cited for the rising unemployment scenario. Considering the pluses and minuses of the emerging trends in the employment situation, it is obvious that there is need for a major shift from the past economic policies and launching of innovative pro-employment policies in the immediate future. The findings of several reports—the Planning Commission, the Census of India 2001, the Economic Census of 1998 (Central Statistical Organization), etc.—confirmed this and reiterated that if the experiences of the 1990s are extrapolated, that is, repeated in future, India will have to face higher incidence of unemployment, with an ever increasing gap between the demand for jobs and supply of job opportunities. The impact of this trend on youth employment reveals the facts of the situation. The National Sample Survey Organization (NSSO) survey on employment and unemployment in 1999/2000 throws light on the employment situation. The number of persons employed per 1000 population stands reduced to 417 in rural areas and 337 in urban areas down from 444 and 341 respectively between 1999/2000 and 1977/78 respectively. This decline in the working population is not a positive indicator. Several surveys conducted by the NSSO also show that the worker population ratio in 1999/2000 was the lowest, thus pushing up the unemployment rate. Comparison of data shows that in the post-liberalization era, the unemployment rate for males in rural areas has gone up in five years from 56 to 72 per cent in 1993/94 to 67 to 73 per cent in 1999/2000. The same survey report shows reduction in the unemployment rate among women in urban areas during the same period. The status of urban males and rural females reflected a similar trend during this

period. It is however, intriguing to note that there was reduction in the unemployment rate among women in urban areas as it fell from 104 per cent in 1993/94 to 94 per cent in 1999/2000 (NSSO 2000).

The trend also makes it clear that though there were genuinely high growth rates since 1993/94, there was stagnation in the employment scenario. The economy, therefore, has not generated any new jobs. In addition, 10 million new job seekers enter the market every year, thus adding to the existing unemployment problem.

The employment strategy for the future, thus, is rightly geared to encourage the use of labour intensive and capital saving technology, in general and to rejuvenate the growth of the unorganized sector in particular, as it contributes 92 per cent of the country's employment and enjoys more than seven times labour intensity per unit of production, as compared to the organized sector (Tenth Plan Approach Paper 2002). The Tenth Plan aims at generating employment to the tune of 50 million job opportunities and it identifies the potential of a large number of new job opportunities in agriculture, small and medium industries, tourism, construction, information technology, financial sector, education and health, etc. The Plan intends to implement it by launching employment generation programmes like Project Reach Youth, Rural Employment Generation Programme, Sampoorn Gramin Rojgar Yojna, Pradhan Mantri Gram Sadak Yojana and Swarnajayanti Gram Swarozgar Yojana thus making realizing employment generation 60 per cent from growth and 40 per cent from policy-based programmes and schemes. All said and done, the report concludes with a word of caution, 'Unless the cause of employment is taken on a high priority and not on business as usual basis, the unemployment problem would reach alarming proportion' (Tenth Plan Approach Paper 2002). The plan also proposes to modify the strategies for tackling unemployment among the educated. It proposes doing this through programmes aimed at employment generation by inculcating entrepreneurship in them.

Andhra Pradesh

The State of Andhra Pradesh (AP), owing to its size and population, reflects the problems and status of employment of the country in a comprehensive manner. It may be said that the employment/

unemployment scenario of the state symbolizes the employment/unemployment status of the whole country. Various developmental schemes have been initiated by the State Government to address the problems at the macro level and laid thrust on mass movement programmes (like Janmabhoomi) to generate employment at the micro level.

Employment in AP is largely unorganized, rural and non-industrial in nature. The labour market reflects some unique features (Parthasarathi 1995). Women in AP have the highest participation rates in rural areas. The state also records the highest proportion of agricultural labour households in the country after Tamil Nadu, of which casual labour represents a growing majority.

Employment growth in AP reflects a similar trend as in the country. Employment growth declined drastically in the 1990s. In rural AP, the decline was from 2.40 per cent per annum during 1983–93 to 0.29 per cent per annum during 1993–2000. Correspondingly urban areas registered 4.28 per cent and 0.01 per cent respectively (NSSO 2000). The problem appears more with the educated youth in AP, as is the case at the all-India level. The rate of unemployment among rural male youths has increased in the late 1990s in comparison to the early 1990s. To the policy makers, this trend points towards the need to increase jobs for the educated employed and also raise the job quality of those who are already employed.

These numbers are in a way pointing to the need to increase jobs for the educated unemployed and also raise the job quality of those who are presently employed. Thus, the task of generating employment is an urgent one and needs a range of concerted actions from the government, donors, banks, civil society and other institutions. The Vision 2020 document has identified growth engines for generating employment in AP by 2020, but sustained action is needed to achieve the goal of Swarna Andhra Pradesh by 2020 (Vision 2020 2002).

Self-Employment Schemes in Andhra Pradesh

The Government of AP offers many programmes to encourage self-employment. Some of the important self-employment schemes currently being implemented by the State Government are Chief Minister's Empowerment of Youth (CMEY), Development of Women and Children in Rural Areas (DWCRA), Andhra Pradesh Services for

the Poor (Velugu), Andhra Pradesh Society for Training and Employment Promotion (AP STEP), along with the miscellaneous schemes promoted by BC/SC/Minority Corporations, etc. CMEY targets the development of every village through the empowerment of youth. The DWCRA programmes reflect a perfect example of self-employment generation by women. The Andhra Pradesh Urban Services for the Poor (APUSP)-Velugu programme aims at sustained poverty reduction among urban poor of AP. The AP STEP provides training to various groups of the society and envisages implementing employment promotion programmes in technical fields along with providing a mechanism for inculcating entrepreneurial potential among people.

The Study

Educationists and employers have treated entrepreneurship as an alternative means of acquiring skills and attitudes necessary for entering the workforce (Tweeten 1992). It has been established beyond doubt that employment generation through wage employment is a near impossible task, and hence efforts were directed towards promotion of entrepreneurial skills among the educated all over the world including India. SETWIN, in AP, is precisely into this kind of activity; it attempts employment generation by encouraging the entrepreneurial potential among the youth in the twin cities of Hyderabad and Secunderabad. In its 25 years of existence, it has provided skill-based training to promote entrepreneurial culture in the twin cities. Primarily, it targets the youth by providing the skill base to stay competitive and sustain in the long run. SETWIN's students are important stakeholders in the process. It is they who ultimately determine the success or failure of the courses offered by SETWIN. A need thus arises to examine the utility/relevance of training from the student's perspective, more so in the changed economic context. This chapter is an attempt in this direction and seeks to evaluate the entrepreneurial training provided by SETWIN in AP. More specifically it examines the utility/relevance of the popular courses like computer science, management, beautician, radio and TV, and tailoring. Factual data and opinions were collected from a sample of 350 students who attended these courses between 1996 and 2000. The data collected was in terms of their personal

profile along with their opinions and perceptions on the various dimensions of the course. This was treated statistically in terms of frequency and percentages to arrive at inferences and conclusions. Implications for research and practice have been included at the end.

Entrepreneurial Training by SETWIN

SETWIN was established in 1978 by the government of AP to impart training in skill programmes for the educated unemployed to make them self-reliant. It started with two centres and six courses, and today it offers 68 short-term and need-based courses in 21 of its own centres and 120 franchise centres all over AP. It has successfully imparted training to 2,55,000 people till date and 50 per cent of them started their own business, 30 per cent have found jobs and 20 per cent were placed abroad. It has a tie up with the Boston group, COMP-U-LEARN, and AP Open University to offer demand-based courses in Computers, Radio and TV, Hotel Management, Refrigeration and Air-conditioning, etc. (SETWIN Records 2004). It continues its activity of offering courses of contemporary relevance, the latest being 'Training Course in Call Centres' (SETWIN Records 2005).

Analysis and Inferences

Empirical data collected from the sample of 350 students studying the most popular courses like Management, Computers, Radio and TV, Beautician, Tailoring, etc. has been analyzed in terms of their personal profile and their perceptions and opinions in two separate sections—Sections A and B.

Section A: Personal profile

The personal profile of students in terms of their educational background, caste composition, economic status and employment was collected to know their maturity and awareness level in the selection of courses. An attempt was also made to ascertain their opinion on the admission system, course content, pedagogy, infrastructure facility, examination pattern and relevance/usefulness of the course.

Students selected their courses based on their educational background. The students with a technical background preferred skill development courses, whereas students with a liberal educational background like B.A., B.Com., B.Sc. and Intermediate preferred management and semi-technical courses. The data reveals that these courses were chosen by students with lower educational qualifications to develop vocational skills to gain employability (Table10.1).

Table 10.1
Profile of Students—Educational Background (n=350)

Sl. No.	*Academic background*	*Number of respondents*	*Technical background*	*Number of respondents*
1.	B.A.	08	Polytechnic	37
2.	B.Com.	08	ITI	76
3.	B.Sc.	03	Vocational Intermediate Education	69
4.	Intermediate pass	62	Technical certificate Courses	12
5	Intermediate fail	57		
6	Xth class pass	16		
7	Xth class fail	02		
	Total	156		194

In terms of the choice of courses, electronic and hardware courses offered by SETWIN are in greater demand (36.86 per cent) than other categories of courses, followed by Management (29.14 per cent), Computer software courses (17.42 per cent) and courses offered for women (16.58 per cent) (Table 10.2).

Course duration also determines the selection of course. SETWIN offers both long-term (one year and more) and short-term courses (three to six months). The data reveals an overwhelming response towards the short-term courses (87.43 per cent) in contrast to the long-term courses (12.57 per cent) (Table 10.3).

An attempt was made to ascertain their status of employment to know the reason why students preferred SETWIN courses. A sizeable number of them (73.71 per cent) were unemployed and the rest of them were self-employed (7.45 per cent) and employed in petty jobs (18.86 per cent).

Table 10.2
Profile of Students—Course-wise (n=350)

Sl. No.	*Name of the courses*	*Number of respondents*	*Percentage*
A.	**Management Courses**		
1.	PPTTC	38	10.86
2.	Hotel Management	26	7.43
3.	PGDEIM	20	5.71
4.	PG DBM	18	5.14
B.	**Computer Software Courses**		
5.	MS-Office	27	7.71
6.	DTP	18	5.14
7.	C, C++	10	2.86
8.	PGDCP	06	1.71
C.	**Electronics and Hardware**		
9.	Refrigeration and air-conditioning	47	13.43
10.	Radio and TV	38	10.86
11.	CCM	26	7.43
12.	DCHT	18	5.14
D.	**Courses for Women**		
13.	Tailoring	23	6.57
14.	Beautician	20	5.72
15.	Soft toy making	15	4.29
	Total	350	100.00

Table 10.3
Profile of Students—Duration (n=350)

Sl.. No.	*Duration*	*Number of respondents*	*Percentage*
1.	Three months	224	64.00
2.	Six months	82	23.43
3.	One year	44	12.57
	Total	350	100.00

Economically, majority of them (86 per cent)had an annual income of Rs 40,000. This shows the service orientation of SETWIN working for the upliftment of unemployed youth drawn from economically weaker sections of the society (Table 10.4).

Table 10.4
Profile of the Students—Economic Status (n=350)

Sl. No.	*Annual income of the family*	*No. of respondents*	*Percentage*
1.	Above Rs 20,000 to 40,000	163	46.57
2.	Below Rs 20,000	138	39.43
3.	Above Rs 40,000 to 60,000	29	8.29
4.	Above Rs 60,000	20	5.71
	Total	350	100.00

The basic objective of SETWIN is to provide skill-oriented training for the downtrodden. The study confirms this objective as a majority of the students belonged to this section of society (61.43 per cent) (Table 10.5). The personal profile of the students reveals that students preferred technical courses of short-term duration and were mainly drawn from the lower strata of the society.

Table 10.5
Profile of the Students—Caste (n=350)

Sl. No.	*Caste*	*No. of respondents*	*Percentage*
1.	Other castes	135	38.57
2.	BC	85	24.29
3.	Minorities	70	20.00
4.	SC	41	11.71
5.	ST	19	5.43
	Total	350	100.00

Section B: Opinions and Perceptions

The opinions and perception of the students in terms of admission, course design, pedagogy, infrastructure, fee structure, exam pattern and relevance/usefulness of the course were ascertained to evaluate the working of the organization and apply corrective measures wherever appropriate.

Word of mouth played a greater role in informing the choice of the students at SETWIN as compared to formal means. The students got to know about the courses through alumni (20.57 per cent), friends (13.14 per cent), colleagues (6.86 per cent), neighbours (6 per cent)

and others (4 per cent). The rest (49.43 per cent) learnt about SETWIN courses through newspapers, advertisements and posters. This points to the need of stepping up promotion of SETWIN courses. Though the courses are offered in English medium, a good number of them chose to write the examination in the local languages—Telugu (41.71 per cent), Urdu (20.57 per cent) and Hindi (12.29 per cent). Admission-related problems such as lack of guidance, insufficient faculty at the time of registration, administrative and fee related issues were cited by some students.

Majority of the students indicated that the content matched the course and the relevant job (80.86 per cent and 84.87 per cent, respectively). It was also found to be application-oriented (82.89 per cent). The student preference was more towards the short-term (76.29 per cent) and part-time (83.14 per cent) courses (Table 10.6). This shows that SETWIN is making an effort to design part-time, short-term and application-oriented courses to meet the demand in this competitive era.

Table 10.6
Opinions and Perceptions—Course Content and Design (Percentage)

Course content	*Yes*	*No*	*Long*	*Short*	*Full time*	*Part time*
Content matches course	80.86	19.14	–	–	–	–
Content matches job	84.87	15.13	–	–	–	–
Practical application	82.89	17.11	–	–	–	–
Duration	–	–	23.71	76.29	–	–
Design	–	–	–	–	17.86	83.14

Vocational/skill-oriented courses could be handled by employing a wide variety of pedagogies. The response reveals the contemporary nature of the courses, yet the traditional lecture (75.43 per cent) method was relied upon in terms of pedagogy. The students naturally showed their dissatisfaction and suggested industrial orientation and project work as part of the learning method (Table 10.7). It is difficult to determine a superior method of teaching over another method, but it is beyond doubt that hands-on training and experiential learning would go a long way in imparting better skill-related knowledge.

Table 10.7
Opinion of Students—Teaching Methods (n=350)

Sl. No.	*Teaching methods/Aids*	*No. of respondents*	*Percentage*
1.	Lecture method	264	75.43
2.	Lectures by guest speakers	83	23.71
3.	Visual and audio-visual	46	13.14
4.	Practical demonstration	24	6.86
5.	Field visits	19	5.53

Note: Percentages do not total to 100 due to multiple responses.

Contemporary and market-oriented courses should have the basic infrastructure in place, for its utility and relevance to the students. While students agreed that there was a library, but they unequivocally stated that it was very small (87.43 per cent). The same opinion was voiced by them in relation to the computers, where the computer laboratory was very small and could not accommodate the students for the practical classes (75.14 per cent). The need for a well-stacked library and a computer facility hardly needs to be emphasized in skill development.

One of the features of courses in such institutions is the reasonable fee structure. The students perceived the fee structure to be on the higher side and equated with the other institutions like NIIT, BDPS, ECIL and Universities. The flexible approach of SETWIN to collect the fee in two instalments (90.57 per cent) and three instalments (9.43 per cent) was, however, a consoling factor for them.

They supported the centralized examination pattern (90.86 per cent) and expressed a negative opinion towards the system of internal examination (85.14 per cent). Thus, the students' preference was towards a centralized examination with the semester system without internals (87 per cent) in the examination pattern.

The acid test of any course is its relevance/usefulness to the client. It is interesting to note that a majority of them expressed their satisfaction over the relevance of the course as it provided them an opportunity to be self-employed (43.12 per cent) and get wage employment (56.88 per cent). This is an area where SETWIN needs to take appropriate steps in providing assistance for all the students who showed interest in taking up self employment. A placement cell and an active role for the cell in the organization for ensuring their employability is the need of the hour.

A number of suggestions have been put forth by them for the improvement of the courses and to provide better services to the students (Table 10.8). The suggestions included fee discount (68 per cent) and support of faculty (69.71 per cent). Some of the other useful suggestions are utilizing the services of old students as liaison persons to popularize SETWIN courses (62.29 per cent), updating the course content and design of computer and management courses (46.29 per cent), introduction of modern pedagogical methods in teaching (52.57 per cent), revision of the examination pattern (40.51 per cent), providing post-course services to students as facilitator (48.86 per cent) and improvement of infrastructural facilities at the training centres

Table 10.8
Suggestions Made by the Students to Improve Courses and Services (n=350)

Sl. No.	*Suggestions*	*No. of students*	*Percentage*
1.	Informal channels like door-to-door canvassing by faculty members should be encouraged to improve enrolment in different courses.	244	69.71
2.	Fee discounts should be provided to students who study more than one course in SETWIN in an academic year.	238	68.00
3.	SETWIN should use the services of old students as liaison persons to popularize its courses and improving enrolment.	218	62.29
4.	Modern pedagogical methods like business games, case-study methods, and information technology techniques like power point presentation should be introduced in place of conventional pedagogical methods to make teaching pragmatic and attractive.	184	52.57
5.	Post-course assistance like acting as a facilitator to provide wage employment or self-employment to the students.	171	48.86
6.	Courses content and design specifically computer and management courses need to update in view of changing scenario.	162	46.29
7.	Infrastructural facilities at the training centres should be improved.	156	44.57
8.	Examination pattern should be structured to test practical skills and knowledge of the students	142	40.57

Note: Percentages do not total to 100 due to multiple responses.

(44.57 per cent). The suggestions made by the students appear pragmatic and merit attention. Their opinions and perceptions, thus, were found to be relevant in terms of their employability and the course design but the student perception was in the negative as far as pedagogy, infrastructure, examination pattern and admission criteria.

Conclusion

The increasing competition and the cut-throat competition and the emerging market scenario in the post-liberalization era, require proper training and excellent skill base. SETWIN is one institution, which gave a ray of hope for millions of educated unemployed with its objective of providing training for self-reliance. In the two and a half decades of its existence, it has remarkable achievements to its credit. The dynamic role of SETWIN can be seen in its activities as well as the courses it offers, which are of contemporary relevance. The very fact that SETWIN courses helped a sizable number of students to secure either wage employment or self-employment confirms that well structured training ensures employment generation. This model of employment generation has not only helped the disadvantaged to acquire skills to stay competitive in the contemporary scenario but also succeeded in igniting the entrepreneurial spirit among them. Since a large section of clientele represented the marginalized youth with lower educational background, the institution has also taken care of its social responsibility, thus confirming that entrepreneurship development through training can be used as a vehicle to enable relatively unproductive human resources to function effectively in society. In future, since forecasts expect lower opportunities for employment in government departments with downsizing and rightsizing as the norm of the day, entrepreneurship assumes an alternate model of development (Pal 2004). Proper follow up and escort services would provide the much needed support for trainees to take up self-employment. However, a lot needs to be done in the most important areas of infrastructure, pedagogy, fee structure, etc. to create the mass base of skilled people with specialized skills for achieving the goal of *Swarna Andhra Pradesh Vision* in 2020. In this context, this model of employment generation merits recognition to harness the human resources of the state and the country more productively and profitably.

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11

Social Entrepreneurship in Eye Health: A Sustainable and Equitable Model

D. John

With 20 million blind people because they cannot afford and reach eye surgery, we need emotion. Emotion that will lead to action.

Prof. Allen Foster, Professor of International Eye Health, London School of Hygiene and Tropical Medicine, UK.

The entrepreneur, said the French economist J.B. Say around the year 1800, 'shifts economic resources out of an area of lower and into an area of higher productivity and greater yield' (Say 1997). Some other definitions of 'entrepreneur' do exist. For instance, the entrepreneur is defined as one who starts his own, new and small business. But not every small business is entrepreneurial or represents entrepreneurship. When a final product is the result of applying management concepts and management techniques, through standardizing the product, designing process and tools, analyzing the work to be done and then setting the standards it requires, thus creating new markets and customers, it is what is termed as entrepreneurship.

Michael Dell revolutionized the personal computer (PC) industry by skipping the middleman and selling directly to the customer. He also innovated PC manufacturing by developing a process to mass produce individually made-to-order computers. Today Dell's product line has diversified to include not only PCs and network servers, but

also storage systems, printers, hand-held computers, MP3 players and televisions, plus a wide selection of computer services (Dell 2005). Anita Roddick, the founder of The Body Shop, is one of the world's most successful retailers of cosmetics and related products. Today, The Body Shop has over 1,980 stores and more than 77 million customers in 50 different markets serving customers in over 25 different languages (Roddick 2005). What makes Michael Dell and Anita Roddick 'entrepreneurial' are specific characteristics like innovativeness, management and strategies, rather than just organizational size or growth.

Entrepreneurship rests on the theory of economy and society. The theory sees change as normal and indeed as healthy. And it sees doing something different, rather than just doing in a better way what is already done, a major task in society and especially in the economy. As Joseph Schumpeter indicated, an entrepreneur's task is 'creative destruction' (Schumpeter 1950). In his classic *The Theory of Economic Development*, Schumpeter postulated that dynamic disequilibrium brought on by the innovating entrepreneur, rather that equilibrium and optimization, is the norm of a healthy economy and the central reality for economic theory and practice (Schumpeter 1911). 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 (Drucker 1986). Entrepreneurs see change as the norm and as healthy. Usually they do not bring about the change themselves, but the entrepreneur always searches for change, responds to it and exploits it as an opportunity.

What business entrepreneurs are to the economy, social entrepreneurs are to change. They are, writes David Bornstein, the driven, creative individuals who question the status quo, exploit new opportunities, refuse to give up and remake the world for the better (How to Change the World 2005). Social entrepreneurs are individuals who identify a social problem and apply entrepreneurial spirit, business insight, leadership and non-profit principles to solve it. The designation 'social entrepreneurs' has gained popularity in recent years. These are people with new ideas to address major problems, who are relentless in the pursuit of their visions, people who simply will not take 'no' for an answer, who will not give up until they have spread their ideas as far as they possibly can.

The growing breed of social entrepreneurs in areas such as education, health, micro finance and disability rights has brought the 'citizen

sector' out of the single-shop initiatives into 'corporate' entities. This trend is changing and the way the society addresses its social problems has important implications for other sectors of society, especially business and government. For business, opportunities for collaboration with increasingly sophisticated and effective 'social entrepreneurs' are becoming plentiful. For governments, social entrepreneurs are providing a stream of new field-tested ideas and, in some cases, much needed competition. Various examples of social entrepreneurs exist; one such is Bill Drayton, founder of Ashoka: Innovators for the Public. Ashoka works like a social venture capital firm, making funds available to individuals with fresh ideas for social change, entrepreneurial spirit and strong ethical fibre. To date, it has funded 1,400 social entrepreneurs, providing them with approximately $40 million in direct funding (Bornstein 2005). Another example is Vera Cordeiro, founder of Associacao Saude Crianca Renanscer (Rebirth: Association for Children's Health), the flagship in a network of organizations that extend care to poor children after they are discharged from public hospitals. To date, Cordeiro has extended her work to 14 public hospitals in Rio de Janeiro, Sao Paulo, and Recife, bringing direct benefit to 20,000 children and influencing a growing circle of medical practitioners (Bornstein 2005).

As the cost of providing state-of-the-art health care increases and public funding dwindles, how does one establish a state-of-the-art health care facility that is pragmatically and financially stable and/or sustainable? To meet this goal, innovative methods of providing healthcare involving the private sector must be considered. L.V. Prasad Eye Institute (LVPEI) was established in 1987 to realize its mission to achieve excellence, equity and efficiency in eye care. This chapter looks into the entrepreneurial spirit of Dr Gullapalli Rao who founded LVPEI and made it a driving force in the field of eye health and healthcare delivery.

With 16.1 per cent of the global population residing in India, any health problems afflicting its inhabitants can be a significant cause of global morbidity. For example, it is estimated that 23.5 per cent of the world's blind population lives in India (Thylefors et al. 1998). An increase in population, especially those aged over 50 years (12.3 per cent of India's population in 1991) has resulted in an increase in the number of persons affected by cataract, glaucoma and diabetic

retinopathy (Thomas et al. 2005). Further, there is every possibility that the situation is going to get worse. The Andhra Pradesh Eye Disease Study (APEDS) was a large population-based epidemiological study conducted in the state of Andhra Pradesh in South India between 1996 and 2000 showed that the prevalence of blindness was 1.84 per cent, 80 per cent of which is treatable or preventable (R. Dandona, L. Dandona et al. 1997).

Establishing the Institute: A Collaborative Effort

In 1982, Dr Gullapalli Rao, a Clinical Associate Professor in Ophthalmology at the University of Rochester, New York, and Medical Director of the Rochester Eye Bank, returned to his home state of Andhra Pradesh to establish 'a model of high quality, comprehensive eye care to be delivered to patients irrespective of their ability to pay'. It was around this time that noted film producer Mr L.V. Prasad, based in Hyderabad, was looking for a good medical or educational project to lend support to. His Hindi film *Ek Duuje ke Liye* had been a great hit and he wanted to use the profits for a socially relevant cause. Mr Ramesh Prasad, Mr L.V. Prasad's son, met Dr G.N. Rao through a common friend, Dr Mullapudi, a successful cardiac surgeon in the United States. Dr Rao's proposal to set up an eye centre in Hyderabad was put forward to Mr Ramesh Prasad. The idea was accepted by Mr L.V. Prasad, who felt it was absolutely fitting that the profits from the movie (around Rs 1 crore) should be used to make it possible for people to appreciate the visual beauty of life. In addition, he offered Dr Rao five acres out of the tract he had acquired for Prasad Laboratories in Banjara Hills, a prime part of the city. In 1986, Dr Rao returned from the United States to break ground on the allocated land. Soon the new hospital was under construction. On 1 June 1987, a little over six months after the first spade hit the ground, LVPEI was ready for its first patients, one paying, and the other, non-paying. The first two patients were an industrialist's son and a gardener from Prasad Laboratories. This would become the model by which the hospital would operate. Fifty per cent of all services would be reserved for those who could not afford to pay.

Facing the Challenges: Establishment of Systems

The initial efforts to establish the Institute involved fund raising, building a physical facility that would embody the vision of its founder and recruiting and training personnel. Equipment purchases were made through donations from individuals overseas who were interested in promoting the advancement of their native community. The initial funding came from volunteers, and Dr Rao's friends and colleagues, who donated generously to support the cause. Over the years as the Institute grew vertically, it initiated volunteer and paid fund raising mechanisms who cultivated relations with philanthropic organizations and the ophthalmic industry. To avoid possible hidden agendas, the Institute only accepted donations given unconditionally. In order to maintain administrative autonomy the Institute has never sought governmental and international development funds which are often accompanied by regulatory constraints.

Table 11.1
LVPEI Income and Expenditure Statement for the Period April 2004–March 2005

Description	*INR (in lakhs)*	*Total (%)*
Income		
Patient Care Services	1,754.66	79.43
Training Fee	110.65	5.01
Recurring Grants	310.49	14.06
Donations	33.29	1.51
TOTAL	**2,209.09**	**100.00**
EXPENDITURE		
Capital		
Equipment	198.71	10.07
Building	73.52	3.73
Recurring		
Salaries	595.41	30.18
Medical Supplies	270.61	13.72
Administrative Expenses	654.70	33.18
Training Expenses	109.62	5.56
Maintenance	70.46	3.57
TOTAL	**1,973.03**	**100.00**
Surplus/(deficit)	236.06	10.69

The fees collected from the Institute's patient care services help cover most of the recurring expenses (Table 11.1). The proportion of paying to non-paying patients is around 1:1.The capital expenditure is usually covered by donations from local, national and international contributors (See Table 11.2).

Table 11.2
Donations Received by LVPEI from Various Local, National and International Contributors

Local	*National*	*International*
Mr L.V. Prasad	Mr B.R. Barwale, Mumbai	Bausch & Lomb, USA
VST Industries	State Bank of India, Mumbai	Institute of Eye Research, Australia
KLN Trust	Mr B.V. Rao, Pune	Sight Savers International, UK
Dr K. Anji Reddy	Mr B.D. Sureka, Calcutta	Christoffel Blindenmission, Germany

Attaining Fiscal Solvency: A Model for Compassionate Capitalism

Management at LVPEI is based on the philosophy of 'compassionate capitalism', that is, charging the lowest possible amount of money that allows growth and self-sufficiency, while still providing affordable eye care services. At LVPEI, 50 per cent of the patients pay and the rest are treated free of cost. The paying patients are further divided into three categories, based on a voluntary system of differential payment. General patients pay a base fee; 'Supporters' pay roughly twice the general fee and 'Sightsavers' pay three times the general fee. In return, these patients are given services such as priority appointments, minimal waiting times, air-cooled waiting lounges and concierge service for the time they are within the Institute. Revenues collected from these patients go into paying for the free patients and to meet all the Institute's recurrent expenditure and some of its capital expenditure.

Programmatic Focus: Spreading its Wings

As the changing world continues to throw up new challenges and new threats to health, LVPEI too continues, in the field of eye health, to search for ways in which these challenges can be overcome. LVPEI has realized its mission through establishment of six closely interwoven activities: patient care, education, research, rehabilitation, community eye care, and product development (Eye care 2003, LVPEI Annual Activity Reports).

Patient Care

Over the years the Institute has built up its services to include all sub-specialities of eye care from routine cataract surgeries to complex procedures such as brachytherapy for ocular tumours and laser assisted refractive and retinal procedures. The hospital has evolved into a resource centre in the area for retinopathy of prematurity, with LVPEI surgeons networking with several paediatric wards in the city. The hospital also houses an exclusive clinic for children, staffed by trained paediatric ophthalmologists. The Contact Lens Centre collaborates closely with the Cornea and Contact Lens Research Unit in Sydney, Australia. The VST Glaucoma Centre takes a long-term approach to managing glaucoma in patients, particularly for patients with developmental glaucoma. The LVPEI set up the Ramayamma International Eye Bank (RIEB) in 1989. It is now the nodal eye bank for the whole of South-East Asia, particularly the Indian subcontinent.

Education

Trained human resources represent a major need in developing countries. LVPEI has become a world renowned education centre for all categories of eye care personnel from all over the world, who in turn are providing the gift of sight to many thousands in their countries. The Institute runs short term and long term programmes for ophthalmologists, opticians, optometrists, ophthalmic nurses and eye care managers. Through its association with the Global Vision 2020[1] programme, which defines childhood blindness as a priority area, LVPEI has started a training programme for paediatric eye care teams. The Bausch and Lomb School of Optometry started in 1999 in

collaboration with BITS, Pilani, rolls out graduate optometrists each year, who support the work of ophthalmologists at LVPEI and other hospitals in India and abroad.

Research

The cornerstone of progress in medical science is research. LVPEI's robust research programme boasts of many successes. Research into stem cells and their transplantation to cure otherwise unmanageable eye diseases and conditions; innovative applications of laser to treat corneal and retinal diseases; an unconventional approach to understanding and dealing with glaucoma and frontline research in the area of the molecular genetic basis of eye disease, primarily cataract. In the area of stem cells, LVPEI is one of just three or four centres conducting research across the globe. Almost all research projects are funded by competitive grants from institutions such as Government of India's Department of Biotechnology, the Indian Council of Medical Research, the US National Institutes of Health, and the US-India PL 480 Fund.

Rehabilitation

Untreatable vision loss does not mean the end of the road at LVPEI. The rehabilitation centre offers patients with low vision as well as total blindness the hope that they can lead independent and productive lives. LVPEI's low vision programme is the first of its kind in South Asia, and is now considered a centre of excellence in that area. The IT Laboratory and Resource Centre for the Visually Impaired is the first such resource bank in the country, with materials ranging from magnifying software such as ZOOM to reading software that converts text from different sources to audio.

Community Eye Care

India is a country of villages, and with eighty per cent of Indians living in rural areas, it is to be expected that the number of persons affected by vision related problems is higher in these areas. LVPEI, through the establishment of its International Centre for the Advancement of Rural Eye Care (ICARE), is committed to making

the vision of an equitable eye care system a reality. ICARE conducts research into issues affecting rural and underserved populations and applies this knowledge to the design and development of eye care services to these groups. An important aspect of community eye care has been the establishment of satellite centres and affiliates in several districts across Andhra Pradesh.

Product Development

The product development activity of LVPEI emerged primarily as a means of creating sight enhancement products at low cost so that they are accessible to patients from socio-economically disadvantaged groups. The other major product development effort has to do with creating a better medium for the preservation of donor corneas. Since the year 2000, another significant development activity has been the processing of a large quantity of amniotic membrane for use in ocular surface surgery. Roughly two-thirds of this is used by corneal surgeons for reconstructive surgery in LVPEI and the rest is used for research.

Quality Management: A Work Culture

Understated efficiency might be considered the hallmark of LVPEI's work ethic. In all its activities, the single point of focus is the patient, whether it is clinical care, research, rehabilitation, education or community reach.

Patient care processes at the Institute are centred on the visually impaired. The flow is patient-oriented. Greeters welcome and escort each patient to a visiting room to which their caregivers come. Corridors and walkways are free of impediments and furnishings. Lighting and paint ensure maximum contrast to optimize patient mobility. Weekly patient surveys are administered at the Institute to track the success of the patient oriented programmes.

Retrospective analyses of incident reports, mortality and morbidity statistics and random chart reviews enable comparisons with national and international standards. Outcome measures that are routinely analyzed include success of cataract surgery and corneal transplantation and post-operative infection rates. Outcome of cataract surgery (ECCE/IOL) indicate that 97 per cent of patients at the Institute and 86 per cent of its rural clinics obtained good visual acuity (better than

6/60) at six weeks follow-up (Samandari et al. 2001). These results are similar to those from industrialized countries. For corneal graft operations, the outcomes compare very favourably with those published in developed countries (Dandona, Naduvilath et al. 1997).

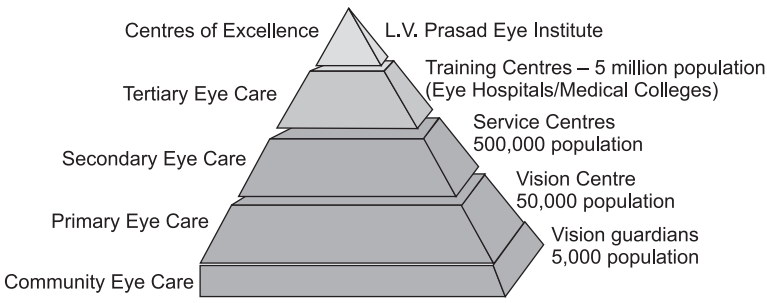
Detailed financial audits and policy studies are conducted annually to implement standards for cost containment and to maximize the Institute's efficiency. Institutional studies have shown that patients with adequate post-operative education did just as well at home as when hospitalized. This outcome prompted a reduction in bed numbers and an increase in outpatient procedures. The Institute has gone from a peak of 110 in-patient beds in 1989, to a present number of 60, despite an increase in total surgeries performed.

To promote the Institute's policies and enhance employee participation in the implementation of these policies, a hospital-wide meeting is held monthly. During this meeting members of the staff are publicly acknowledged for excellence and individuals are encouraged to raise questions and make recommendations to the administration. Competitive salaries and fair treatment with regard to annual reviews further promote employee excellence.

The Practice of Innovation: Service Delivery Model

Entrepreneurs innovate. Innovation is the specific instrument of entrepreneurship. LVPEI is the only institute in the world that has operations at every level in the eye care pyramid, from small rural vision screening centres to a world class tertiary centre with permanent infrastructure. Figure 11.1 shows the LVPEI service delivery model.

Figure 11.1
LVPEI Service Delivery Model[2]



Impact of Service: Vision at Work

LVPEI's focus on excellence coupled with efficiency at every level has resulted in a paradigm shift in the way eye care is approached, not only in Andhra Pradesh and India, but globally. The LVPEI strategy has been to develop contextually relevant approaches and solutions while bringing in the best of the global standards to eye care for all segments of society. Table 11.3 lists the impacts of LVPEI.

Table 11.3
LVPEI Impact

	LVPEI IMPACT
International	• Secretariat of International Agency for Prevention of Blindness (IAPB) • International Centre for Eye Care Education • International Association of Contact Lens Educators • High quality eye care model programmes for China, Egypt, South Africa and South America
National	• Trained over 8000 eye care professionals • Helped upgrade several eye care centres • Played a key role in forming the Eye Bank Association of India • Publication of the *Indian Journal of Ophthalmology* • Established the Eye Research Group • Helped develop and standardize medical education curricula
Communities	• Training a new type of professional—the 'para' eye care worker • Ensuring eye care for Re 1 per person per month, the CAFÉ (Community Assisted Financing for Eye care) Initiative • Offering eye care to those most in need.

The Way Ahead: Collaborations, Initiatives and Innovations

The vision of its founder, the support of its collaborators, the dedication of its medical faculty and researchers and the commitment of its staff has been able to maintain the Institute's focus on extending equitable and efficient eye care services to underserved populations in the developing world.

LVPEI through its community outreach programmes intends to establish more number of vision guardians and vision centres to reach out to the disadvantaged populations in the State. It has identified partners such as Sight Savers International, Lavelle Fund for the Blind and ORBIS International who will be supporting the Institute in this cause.

Operation Eyesight Universal (OEU), a Canada-based NGO, has agreed to support the establishment of eye care centres at Bhubaneshwar, Vishakapatnam and Madanapally, Chitoor District. This will help the Institute extend quality eye care to people around these areas.

An Indo–US agreement for Collaborative Research in Eye Care was signed in February 2004 to initiate and support research in various ocular problems. The Lions International, USA has agreed to support a three-year Diabetic Retinopathy project, the first of its kind anywhere in the world.

Conclusion: Continuing the Delivery of Equitable and Efficient Eye Care Services

Although the foundation of LVPEI was a collaborative effort between Dr G.N. Rao and Mr L.V. Prasad, it was the relentless pursuit and entrepreneurial spirit of its founder that brought it from being established as just another eye hospital to become a formidable force in the field of comprehensive eye care. As is known that sustainability is not just limited to financial viability or becoming self reliant or self-sufficient over the short term; it is in fact the process of building a patient-oriented organization with strong management systems to ensure financial viability and optimal utilization of resources over the long term (Thulsiraj 1993). LVPEI's reputation for delivery of high quality eye care enhances its ability to raise funds and foster new initiatives. The secret to the success of the Institute lies in its patient-oriented, multi-layered approach to self-evaluation and to the active implementation of corrective measures. These delivery management systems have enabled the Institute to see over 500,000 outpatients and perform over 250,000 surgeries till date (LVPEI Annual Activity Reports).

The National Health Policy (2002), states that any expectation of a significant improvement in the quality of health services, and the consequential improved health status of the citizenry, would depend not only on increased financial and material inputs, but also on a more empathetic and committed attitude in the service providers, whether in the private or public sectors, and also mentions the need for 'equity' in the health sector provision as an independent goal. Researches using the cost-of-illness methodology, calculated the cost of blindness in India, in terms of net loss of GNP for the year 1997 to be $4.4 billion, which is 14.5 per cent of the total GNP (Shamanna 1998). A recent review of the relation between the prevalence of blindness and economic development indicates a trend of higher prevalence of blindness in developing countries with lower capita income (Ho and Schwab 2001). In this context, the existence of institutions such as LVPEI with the mission of equity with excellence becomes important to impart quality health care at prices that the common man can afford.

Dr Rao's initial childhood years of living in a village made him sensitive to the needs of the poor, and this sensitivity is at the heart of the equitable care provided in the Institute. Further medical training at AIIMS and then the shift to USA exposed him to systems of highest quality of clinical care. His initiative in establishing an Eye Institute of highest repute in India brought him back to his home state. The establishment of equitable eye care services with highest quality brought a 'brand value' to the Institute, bringing forth patients for treatment, and philanthropists and funding organizations to support the cause. The management of eye care delivery using systems that are financially sustainable has been his foremost endeavour.

Expected or not, leadership succession is inevitable for any surviving business but successful succession is a reality that must be planned (Ritter 2003). After being in the helm of affairs for 17 years since the Institute's inception, Dr Rao stepped down as Medical Director and handed over charge to Prof. Ravi Thomas, Ex-Head of Department, Department of Ophthalmology, CMC Vellore. This successful succession planning was done in a phased manner in which Prof. Thomas spent around 18 months in the Institute understanding its mission, values and various processes. In the publication, *Using Succession Planning to Transform Organizations*, Barbara Ross-Denroche and Rosie Steeves explain that retention and succession planning is a combined process that should be recognized as a strategic imperative

for future success. Dr Rao had understood the need for having an ideal successor who would have the medical knowledge as well as leadership qualities to successfully guide the Institute into the new millennium.

There is an old saying that good intentions don't move mountains; bulldozers do. In social entrepreneurship, the mission and the plan—if that's all there is—are the good intentions. Strategies are the bulldozers. They convert what you want to do into accomplishment. Through Dr Rao's foresight, his resourcefulness in harnessing support, and his ability to innovate and establish equitable sustainable systems, he has been able to establish an Institute which lives up to the highest aims of a quality health care institution, to actualize the principles of equity, efficiency and efficacy.

End Notes

1. At the global level, a major initiative 'Vision 2020—The Right to Sight' was launched in the year 1999 with the objective of eliminating all avoidable blindness by the year 2020. This is a unique partnership between World Health Organization (WHO), International Association for Prevention of Blindness (IAPB), all International Non-governmental Development Organizations (INDGOs) involved in prevention of blindness, Government and Professionals to address the problem of blindness in a focused and coordinated manner. Please visit www.v2020.org for further details.
2. LVPEI has initiated a comprehensive eye care service delivery model. This pyramidal model of infrastructure for service delivery in eye care will meet the requirements at primary, secondary and tertiary levels. This model essentially envisages a decentralized system making a centre of excellence responsible for the eye care of an entire segment of approximately 50 million population in a four-tier pyramid. At the base of the pyramid are 'Vision guardians', one for every 5,000 population are trained volunteers from their respective areas who will be 'barefoot eye doctors' to check for basic eye problems, impart health education for eye and other diseases, referral agent for primary care doctors, etc. The second tier is the 'Vision centres', one for every 50,000 population staffed by 'Vision Technician' with activities such as screening centres, refraction and dispensing, linkage with Primary Healthcare and appropriate referrals. The third tier is the 'Service centres', one for every 500,000 population with an ophthalmologist and an eye care team of around 25 members essentially providing secondary eye care. The fourth tier is the 'Training centres', one for every 5 million population providing secondary and basic tertiary level care.

The fifth tier is LVPEI as a 'Centre of Excellence' concentrating on advanced and tertiary care, training of trainees, other training programmes, relevant research, low vision and community eye health training, and planning and policy formulation. This centre will have the responsibility for the effective functioning of the entire pyramid.

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