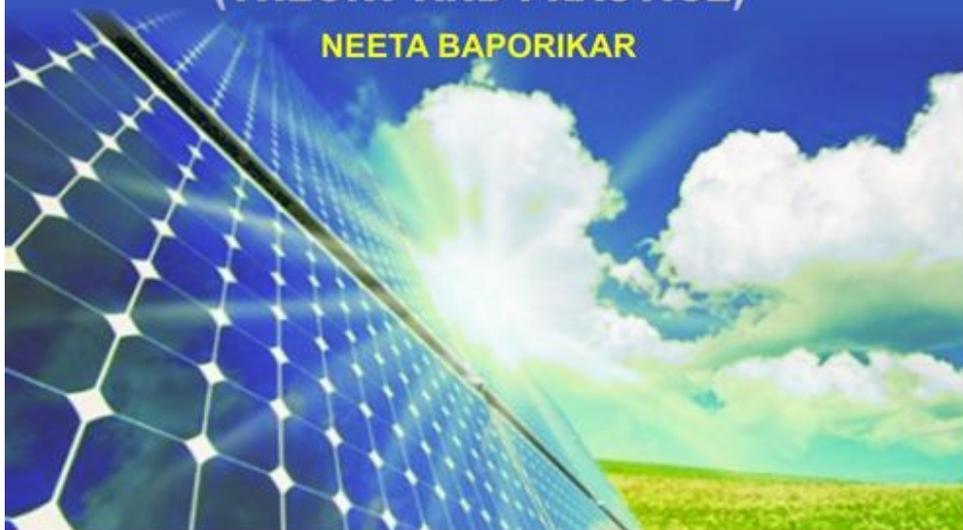


2nd Revised Edition

**ENTREPRENEURSHIP AND
SMALL INDUSTRY
(THEORY AND PRACTICE)**

NEETA BAPORIKAR



Himalaya Publishing House

ENTREPRENEURSHIP AND SMALL INDUSTRY (THEORY AND PRACTICE)

NEETA BAPORIKAR

*Professor (Entrepreneurship & Strategy)
Ph.D. Guide, Faculty of Management Sciences,
University of Pune.*

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- New Delhi** : "Pooja Apartments", 4-B, Murari Lal Street, Ansari Road, Darya Ganj,
New Delhi - 110 002. Phone: 011-23270392, 23278631; Fax: 011-23256286
- Nagpur** : Kundanlal Chandak Industrial Estate, Ghat Road, Nagpur - 440 018.
Phone: 0712-2738731, 3296733; Telefax: 0712-2721215
- Bengaluru** : No. 16/1 (Old 12/1), 1st Floor, Next to Hotel Highlands, Madhava Nagar,
Race Course Road, Bengaluru - 560 001.
Phone: 080-32919385; Telefax: 080-22286611
- Hyderabad** : No. 3-4-184, Lingampally, Besides Raghavendra Swamy Matham, Kachiguda,
Hyderabad - 500 027. Phone: 040-27560041, 27550139; Mobile: 09390905282
- Chennai** : No. 8/2, 2nd Madley Street, Ground Floor, T. Nagar, Chennai - 600 017.
Mobile: 09345345055
- Pune** : First Floor, "Laksha" Apartment, No. 527, Mehunpura, Shaniwarpeth
(Near Prabhat Theatre), Pune - 411 030. Phone: 020-24496323/24496333;
Mobile: 09370579333
- Lucknow** : House No 731, Shekhupura Colony, Near B.D. Convent School, Aliganj,
Lucknow - 226 022. Mobile: 09307501549
- Ahmedabad** : 114, "SHAIL", 1st Floor, Opp. Madhu Sudan House, C.G. Road, Navrang Pura,
Ahmedabad - 380 009. Phone: 079-26560126; Mobile: 09377088847
- Ernakulam** : 39/176 (New No: 60/251) 1st Floor, Karikkamuri Road, Ernakulam,
Kochi - 682011, Phone: 0484-2378012, 2378016; Mobile: 09344199799
- Bhubaneswar** : 5 Station Square, Bhubaneswar - 751 001 (Odisha).
Phone: 0674-2532129, Mobile: 09338746007
- Indore** : Kesardeep Avenue Extension, 73, Narayan Bagh, Flat No. 302, IIIrd Floor,
Near Humpty Dumpty School, Indore - 452 007 (M.P.). Mobile: 09301386468
- Kolkata** : 108/4, Beliaghata Main Road, Near ID Hospital, Opp. SBI Bank,
Kolkata - 700 010, Phone: 033-32449649, Mobile: 09883055590, 07439040301
- Guwahati** : House No. 15, Behind Pragjyotish College, Near Sharma Printing Press,
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PREFACE

The field of entrepreneurship has grown in recent decades into an interdisciplinary area of study that has found a secure niche in both humanities and business education. Credit for this development belongs to many individuals — both practitioners and academicians — who have succeeded in relating entrepreneurial theory to the various problems of entrepreneurship and small industry development. Today's students, in all their wonderful diversity, are tomorrow's entrepreneurs, leaders, and managers. They are the hope of 21st century.

Entrepreneurship and Small Industry second revised edition is designed for this time of transformation. It is comprehensive and up-to-date discussion of the most prominent issues in the field of entrepreneurship theory and small industry developments. It is intended to be used as a text in entrepreneurship courses for both the MBA and the graduate level. This book is designed for students in colleges and universities, as well in industry and government, who seek to learn the fundamentals of entrepreneurship and small industry. Preparation of this edition has provided an opportunity to incorporate new developments and increase its value. In this revised and updated edition, the major focus is to make the learning material student-centered so as to enable them to develop entrepreneurial spirits. With this aim in mind, the third part student support consists of exercises and interesting success stories mainly to guide and support students.

Book at a Glance

Entrepreneurship and Small Industry second revised edition presents the essentials of entrepreneurship as they apply within the contemporary work environment. Though the goal is to create entrepreneurial spirit and entrepreneurs, yet the subject matter has been carefully chosen to meet the university syllabi requirements while allowing extensive flexibility to fit various course designs and class sizes, including multidisciplinary and integrative curriculum settings. Importantly, this is done by blending the fundamentals of entrepreneurship with special attention to practical concerns.

Features

Preview: Each chapter opens with a preview that outlines its contents and objectives.

Principles: A set of fundamental principles are developed and defined throughout the book.

Examples: Examples of concepts are provided wherever required.

Chapter Sequence: The chapter sequence represents author's best efforts to organise the material in a format that can be used in various entrepreneurship courses.

Exercises: Exercises are given to facilitate the training of mind for undertaking entrepreneurial activities.

Success Stories: Some of the world's best success stories are provided to motivate and inspire the readers.

Model Questions and Review Exercises: Provided to prepare the student from examination point of view.

References: References along with valuable sources for additional information has been provided.

Organization

The book is organized into three parts: Entrepreneurship, Small Industry and Student Support.

Each part addresses an important issue for entrepreneurship development and project management and consists of various issue — based chapters. This is to facilitate the reader for using the book as per need and interest.

Part I deal with ENTREPRENEURSHIP: Introduction, The Entrepreneur, Entrepreneurial Motivation, Entrepreneurship, Entrepreneurship Development, Entrepreneurship Development Programmes and Emerging Areas of Entrepreneurship.

Part II deals with SMALL INDUSTRY: Role of Central and State Government, Government Procedures for Starting a Ventures, Forms of Organizations, Relevant Acts for Entrepreneurs, Government Policies – Small Scale Industries, Role of Agencies, Problems of Small Industry and Causes of Sickness in Small Industry.

Part III deals with STUDENT SUPPORT: Exercises, Success Stories, Appendices including Model (Review) Questions and Bibliography.

Author

ACKNOWLEDGEMENTS

The task of revising **Entrepreneurship and Small Industry** for second revised edition has been aided by advice of many instructors who have used it. To these contributors, whose names are too numerous to mention, I express my thanks. I also wish to express my gratitude to my student turned entrepreneurs who have been not only a constant source of inspiration but also facilitated in honing my skills — research, writing, and teaching entrepreneurship. Completed with the support of a great team at Himalaya Publishing House Pvt. Ltd., I would like to thank Mr. Anuj Pandey, Mr. Niraj Pandey and K.N. Pandey.

Finally, my deepest expression of appreciation goes to my husband Jayant and daughter Neha whose affection, patience, and support have been essential for the preparation of this edition. While thanking the readers for the feedback received earlier which has helped in making this book more robust, I once again welcome feedback and comments for improving the book further.



Neeta Baporikar
neetajb@rediffmail.com

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PART I: ENTREPRENEURSHIP

1. Introduction
2. The Entrepreneur
3. Entrepreneurial Motivation
4. Entrepreneurship
5. Entrepreneurship Development
6. Entrepreneurship Development Programmes
7. Emerging Areas of Entrepreneurship

2 Entrepreneurship and Small Industry Theory and Practice



1

Introduction

- ↻ *Introduction*
- ↻ *Objectives of Industrialization*
- ↻ *Plan Outlay for Small Industries, Developments*
- ↻ *Historical Development of Entrepreneur*
- ↻ *Emergence of the Entrepreneur*
- ↻ *Being an Entrepreneur*
- ↻ *Traits of a Successful Entrepreneur*

The functions of most of the people who participate in the process of producing goods and services are fairly self-evident. Inventors get the idea for new products or services. Capitalists provide the funds needed to produce them. Specialized workers provide whatever services are needed to turn an idea into a product or service for sale to public. Managers direct the workers day to-day. One might think every role in the productive process has been listed. It is not. One role is left over: that of the *ENTREPRENEUR*. It is hard to understand as well as one of the most controversial. Some inventors have a natural talent for business, but many more of them have been people who liked to make and discover things but did not know what to do when they succeeded. Capitalists may also be business executives, but their specific function is to provide the financial resources for an enterprise and many are content to do only that. Some specialized employees sometimes do go into business, but only by ceasing to be specialized employees. Managers obviously are in business, but a manager who takes over an existing operation is usually very different from a manager who starts one up.

Example: Mr. Narayan Murthy a genius at computers applied his knowledge to the founding of Infosys Technologies Ltd.

1

Introduction

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After the company began realizing its tremendous growth potential, jobs brought in professional managers to see the company's growth in a more structured manner. Many who start up firms find themselves with problems, if the founding entrepreneur lacks the combination of skills necessary to be both 'idea person' and 'manager' and to perceive the vital distinction between the two.

The landscape of entrepreneurship, from food service to biotechnology firms, is littered with the remains of companies/units whose founders could not function as managers or failed to enlist the services of managers when they became needed.

The primary objective of developing countries like India is to achieve rapid, balanced and sustained rate of economic growth. Hence, efforts are directed towards the creation of conditions in which a fast development of productive resources can take place. This inevitably necessitates the transformation of social and economic structures which will not restrain the potential productive forces and inhibit the development of resources. Economic development, if conceived without appropriate social changes becomes stagnated and fruitless. Social change can be achieved, only if political, technological and cultural aspects are combined and woven into the fabric of economic planning.

The objectives of planning obviously would be to ensure economic development in a balanced and equitable way. In a country like India, economic development must be consistent with the principle of democracy, ensuring that the economic task will be in full accord with the interest of the vast mass of humanity, grounded for ages in chronic and vicious poverty. Poverty obviously kills interest, initiative and enterprise. *The greatest social tragedy in a poor country is the loss of will.* The challenge before economic planning in countries like India lies in laying down the firm material foundations for a more equitable and equal society. There is an urgent need to overcome economic backwardness and cultural weakness and to promote intellectual advancement.

The first task, therefore, is to stimulate and arouse the people to action, aimed at improving their lot by undertaking productive, economic activity. The process of making individuals realizes that 'Self-help is the best help', then 'self-employment is the best employment' and entrepreneurship, the most exciting level of employment should be the core of economic development policies. In fact, economic development potential remains a dormant asset due to underdeveloped or undeveloped economic man. MAN is much more crucial to development than other economic factors. As such, when man wills to change, economic development rolls on. Other factors though important and necessary are ancillary. Sufficiency of other resources, without the necessary human 'development will' may not lead anywhere. Hence, the creation of development will is the key factor in the process of economic development.

It is the entrepreneur, who powers the process of economic development. The strength of an economy is in one way the strength of the entrepreneur class in the society. Entrepreneurship must acquire new management skills to succeed because mere mercantile entrepreneurship may not survive in this competitive world.

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Entrepreneur density, innovative propensity and managerial ability determine the character, strength and future of economic development. The World Bank's report, India — Poverty, Employment and Social Services, stresses that if India were to build on its improved economic performance, it would have to improve agricultural growth rate, continue her policy of industrial deregulation and rationalization of trade policies, improve public sector finances and increase efficiency in the social sectors.

In India, agricultural growth is still governed by seasonal rains. The phenomenal growth in agriculture is attributed to the entrepreneurial skills and hard work. Yet, industrialization is a *sine qua non* of economic progress effective instrument of growth and welfare and is recognized as one of the important means to usher individual and country in economic and social transformation.

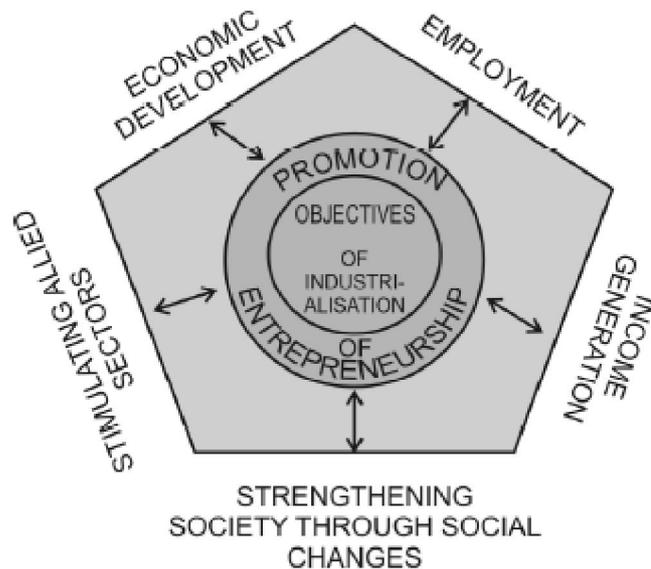


Fig. 1.1: Objectives of Industrialization

Industrial development or industrialization depends on a number of factors. The important factors are:

- (1) Government policies.
- (2) Natural Resources which include: (a) Mineral resources, (b) Energy resources, (c) Forest resources, (d) Marine resources, (e) Water resources.
- (3) Natural Factors: (a) Geographical, (b) Climatic, (c) Technical.
- (4) Entrepreneurship.
- (5) Human Resources.

- (6) Finance and Capital.
- (7) Market and Infrastructure.

CLASSIFICATION OF INDUSTRIES

Indian Industries can be classified into following ways:

- (a) Ownership basis: (i) Public sector, (ii) Private sector
- (b) Size basis: (i) Tiny sector, (ii) Small sector, (iii) Medium sector, (iv) Large sector
- (c) Nature of operation basis: (i) Manufacturing, (ii) Trading, (iii) Distribution, (iv) Infrastructure, (v) Service sectors
- (d) Jobs done basis: (i) Artists, (ii) Agents, (iii) Professionals, (iv) Agriculturists, etc.

Apart from the most important reason of self-employment through entrepreneurship, there are many reasons which substantiate the advantages of being an entrepreneur, which are given below:

- (1) It provides an opportunity to enter into a process which leads to the realization of an individual's passion for innovation and development.
- (2) To find a suitable employment, one has to knock many doors and soak many shocks and even then, one may not succeed. But to be an entrepreneur one has to knock only one door, that is one's own-self and if the qualities and competencies are therein whatever small quantity, the prospects to succeed are there. The shocks are there in entrepreneurship too, but they can be absorbed if one has decided to be an entrepreneur.
- (3) The Government of India and the states offer so many facilities, incentives and schemes to help new entrepreneurs and particularly qualified individuals, be it technical, managerial or otherwise in taking up entrepreneurial career. This career path is not as thorny as it used to be years ago.
- (4) As an entrepreneur, one is not only employed but creates employment for others; one is not only realizing the goal in his life but is also a source of livelihood for so many. The pride of being a lord of one's own destiny is coupled with the satisfaction of being the benefactor of so many.

It is not enough to be qualified and experienced; one has to let the society, nation at large benefit from one's competence and experience. Entrepreneurship provides an excellent opportunity to realize both the goals — the individual status as well as individual's contribution to the society.

Entrepreneurship is not a matter of heritage; it is entirely a manifestation of such potentialities that any individual born in any caste, community and class can have. As such, any person having a certain set of behavioural traits and mental aptitudes in him/her can become an entrepreneur.

Besides, there is no need for such a person to be groomed from the very childhood for

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becoming an entrepreneur. Even if he is grown up, has worked on a different line and has developed these traits or aptitudes, he or she can be groomed and developed as an entrepreneur through counseling and motivational measures.

Thus, a pool of capable people keeps the economic development on growth track. Industrialization is one of the important means to usher individuals and nations towards economic and social transformation. More so, when agriculture cannot sustain the burden of population growth, it is industry and the public sector which have to shoulder the responsibility and sustain as well as accelerate the rate of growth. Industrialization results from the interaction of technological change, innovation, entrepreneurial growth, specialization and trade. Large industrial units and business houses also have an important role to play in developing and sustaining new entrepreneurship.

In spite of India having abundant natural and human resources, we are not a prosperous country because of *ENTREPRENEURSHIP* being still a comparatively scarce factor, as indeed in all developing countries. In this connection, government's economic policies have an important impact on the growth of entrepreneurship. Among the prominent economic policies, to develop entrepreneurship has been the strategy by stimulating small-scale sectors (SSI) and to use it as a tool for economic growth.

The pivotal role the small industries played in the economic development of the country to rank India among the ten most industrial countries in the world can be judged by looking at the plan outlays provided in different five year plans.

Thus, the entrepreneurship development in India has received significant attention: borne out by the fact that small units/enterprises have made phenomenal progress during the last five decades and today occupy an important position in the industrial economy of India. Every new Industrial Policy Resolution (IPR) aims at entrepreneurship development through small-scale industry/ sector development.

HISTORICAL DEVELOPMENT OF ENTREPRENEUR

The classical economists led by Adam Smith recognized the importance of organizing land, labour and capital in a meaningful way to get the best out of them. By themselves these three factors had a tendency to be dormant. However, these economists give the organizer of these factors the dictum "factor of production." In fact, Ricardo had dealt in length about the capitalist farmer and his role in improving the "art of agriculture." But nowhere has the entrepreneur been recognized as a full-fledged factor of production in the writings of the English classical school.

EMERGENCE OF THE ENTREPRENEUR

The Industrial Revolution can be cited as the single big reason for the emergence of the entrepreneur. Nicholas Kaldor has observed that the Industrial Revolution was the result of "the displacement of production units governed by traditionalist outlook by business enterprises led by men who found risk taking and money making their chief interest in life."

These entrepreneurs did not suddenly appear in the British economy. The British society was slowly preparing a class of industrial leaders capable of leading the process of development. These persons came primarily from the wealthy merchant and trading classes that the 17th and 18th centuries produced. These merchants were highly prosperous and were great organizers combining in them the functions of the capitalist, financier, manager, merchant and salesman. It was from this class that men came who commercialized the great inventions of the 18th and 19th centuries. Thus, “the entrepreneur had arrived and had come to stay.” The economists of the latter half of the 19th century and the 20th century made “entrepreneur” the “fourth factor of production.”

In the emergence of the entrepreneur, it must be clarified that the entrepreneur is not an inventor. What he did was to use his immense wealth in putting new ideas into practice. The large number of inventions would have all gone waste, had they not been made commercially viable by these entrepreneurs. That is why the entrepreneurs are given the credit for the success of the Industrial Revolution. In Britain, the entrepreneurs did not confine themselves to industry alone, it was widespread and made its impact felt, in every branch of activity — manufacturing, agriculture, transportation and finance.

BEING AN ENTREPRENEUR

What qualities and traits are required to be a successful entrepreneur? While it is difficult to answer this question definitively, it appears that a successful entrepreneur has the following qualities and traits:

- 1. Willingness to make sacrifice:** A new venture is often plagued with numerous difficulties and unanticipated problems. To nurture it in such an inhospitable environment, the entrepreneur has to be prepared to sacrifice his time, energy and resources. He must be willing to struggle, sacrificing personal comforts and conveniences, against seemingly endless odds. An entrepreneurial job is not like a typical nine-to-five job, it tends to be far more demanding, requiring total commitment and sometimes, even an obsessive preoccupation — on the part of the entrepreneur.
- 2. Leadership:** Successful entrepreneurs generally have strong leadership qualities. They are able to inspire ordinary persons to accomplish great feats, even though outwardly they may show bizarre signs (they may be whimsical, timid, or even cantankerous), they are able to fire people with their zeal. They have the flair of galvanizing their team to successfully cope with the challenges and frustrations inherent in a new venture.
- 3. Decisiveness:** A fledging enterprise has to accomplish many things in an atmosphere of uncertainty. Numerous decisions have to be taken in quick succession on the basis of limited information. The firm does not have a history to fall back on or a well organized data base to rely upon. Unless the entrepreneur is decisive by nature, he would not be able to cope with the enormous burden of decision making. If he procrastinates, he may court disaster, if he dillydallies, he may miss valuable opportunities. The fluid situation of a new enterprise calls not only for an ability to

decide quickly but also an ability to revise the decisions to adopt the enterprise to an environment in which it has not established proper moorings.

4. **Confidence in the project:** An entrepreneur should have unbounded faith in his project. This helps him in instilling confidence in suppliers, creditors, customers, employees and others. Without unflinching conviction in the project, it would be difficult for the entrepreneur to withstand the failures and frustrations that form the new venture diet.
5. **Marketing orientation:** A strong marketing orientation is critical to a new venture. An entrepreneur who is skilful in exploiting market opportunities has the best chance of success. Irrespective of the professional guise he wears (whether it be that of an engineer, inventor, production technologists, accountant or any other) the entrepreneur must have, marketing talent. Edwin Land of Polaroid is widely recognized as an ideal example of distinguished marketing talent. Edwin Land had superior marketing skills and perhaps this was the most critical factor in the outstanding success of Polaroid. He could inspire the technical and financial world. If an entrepreneur lacks marketing skills, he must find a partner who can remedy this deficiency; otherwise the venture will be severely handicapped because of its inability to exploit the marketing opportunities.
6. **Strong ego:** Setting up a new enterprise is like riding on an emotional roller coaster. There are days which bring jubilation and there are days which cause despondency, as the enterprise is buffeted by environmental forces, which tend to have a strong influence on the nascent venture. The entrepreneur needs a strong ego to bear up with such ups and downs. To endure periods of adversity and to maintain proper perspective when events cast their shadow over the enterprise, the entrepreneur needs a strong identity and self-image.
