
UNIT 1 ENTREPRENEURSHIP AND SMALL SCALE ENTERPRISES ROLE IN ECONOMIC DEVELOPMENT

Objectives

After going through this unit you should be able to:

- explain the role and need for small scale enterprises in the Indian economy
- define a small scale enterprise
- describe the characteristics of small enterprise
- discuss the role of small scale enterprises in the economic development
- discuss the role of entrepreneurship in the economic development
- identify problems and support needs of small scale enterprises

Structure

- 1.1 Introduction
- 1.2 What is 'Small Scale'-Definition
- 1.3 Characteristics and Relevance of Small Scale Enterprises
- 1.4 Relationship of Small to Large
- 1.5 Employment Creation
- 1.6 Regional Balance and Rural Development
- 1.7 Role of Entrepreneurship in SSE and Economic Development
- 1.8 A Conceptual Model
- 1.9 Problems and support Needs of SSEs
- 1.10 Role of Government in SSE Development
- 1.11 Summary
- 1.12 Self-Assessment Questions
- 1.13 Further Readings

1.1 INTRODUCTION

Small scale enterprises (SSE's) constitute an important and crucial segment of the industry sector. This sector accounts for 40% of value added in the manufacturing sector and contributes nearly 35% of the total direct exports. Because of unique economic and organisational characteristics, SSE's play important economic, social and political roles in employment creation, resource utilisation and income generation. This may bring about change in a gradual manner, in the patterns of capital formation and employment creation in the country.

During the industrial revolution, the role of the individual for the first time was highlighted as a major factor contributing to SSE development. However, only during the last 2 decades have attempts been made to promote SSE's as part of national development plans. India has been among the first few developing



countries to design a significant role of SSE's to play from the first five year plan itself.

In India, as in most developing countries, only a fraction of the new job seekers can be employed in agriculture. The scarcity of capital severely limits the numbers of new non-farm jobs that can be created, because investment costs per job are high in modern industry. An effective development policy has to attempt to increase the use of labour relative to capital, to the extent that it is economically efficient. Efficient substitution of labour for capital is possible in a broad spectrum of manufacturing activities. The tendency in many developing countries, unfortunately, has often been to prefer capital-intensive methods for several reasons: the prestige and promotion of advanced country technologies, ignorance of alternatives, preference by the rich for imported or import-equivalent goods, difficulties of dealing with large numbers of inexperienced workers and governments policies that tend to favour the use of capital. These influences also affect non-manufacturing activities.

Small scale enterprises (SSEs) are generally more labour-intensive than larger organizations. SSEs include small but relatively modern manufacturing industry; organized non-manufacturing activity, such as construction, transportation and trading; and traditional or "informal" activity. In India, it must be emphasised, focus has been mainly on small scale industries (SSIs) and therefore policies and programmes to promote 'industry' rather than the broader spectrum of "enterprises".

As of March 2002, it is estimated that there are 34.42 lakh small scale units' all over India, giving employment to around 152.61 lakh people. Production at current prices is estimated at Rs. 6,90,316 crores in 2001-02. The volume of exports (direct) from this sector was Rs. 54,200 crores at current prices in 1999-2000 and increased to Rs. 69,979 crores in 2001-02. The small scale sector encompasses a wide range in terms of size, employment, technology and products. Over 7500 products are manufactured in the small scale sector.

1.2 WHAT IS 'SMALL SCALE'-DEFINITION

Small Scale Sector is defined in terms of investment ceilings on the original value of the installed plant and machinery.

Small Scale Industrial Undertakings

The following requirements are to be complied with by an industrial undertaking for being graded as small scale industrial undertaking:

- a) An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms or on lease or by hire-purchase does not exceed 1 crore (Rupees one crore).
- b) In case of an industrial undertaking referred above the limit of investment in fixed assets in plant and machinery shall be 5 crores (Rupees five crores) provided the unit undertakes to export at least 30 per cent of the annual production by the end of third year from the date of its commencing production.

Ancillary Industrial Undertakings

The following requirements are to be complied with by an industrial undertaking for being regarded as ancillary industrial undertaking:



An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services, and the undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase does not exceed Rs. 1 crores (Rupees one crore).

Tiny Enterprises

Investment limits in plant and machinery in respect of 'Tiny Enterprises' is Rs 25 lakhs (Rupees twenty five lakhs) irrespective of location of the unit.

Women Entrepreneurs

A small Scale Industrial Unit/Industry related service or business enterprise, 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% as partners/Shareholders/Director of Private Limited Company/Members of Cooperative Society.

Activity I

Do you think 'Small Scale' can be defined by using other variables rather than merely the upper limit on value of plant of machinery? Suggest some such variables.

.....

.....

.....

.....

.....

.....

.....

.....

.....

1.3 CHARACTERISTICS AND RELEVANCE OF SMALL SCALE ENTERPRISES

Small Scale Enterprises have many characteristics which make them pivotal in accelerating economic growth.

- Their flexibility 'makes them best suited to environment constantly changing. They adapt quickly to various factors, that play a large part in daily management.
- These enterprises use new materials, new methods of production, new markets, new sources of material and even new forms of organisations, making them in innovative in character.
- Since they are fairly labour-intensive, SSE's provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment.
- Decentralisation and dispersal of industries allows for a balanced growth of the economy as a whole. SSE's use indigenous raw material and promote intermediate and capital goods. So they contribute to faster economic growth in a transitional economy.



- Finally, because they are mostly set up by individuals they provide an *outlet for expression of the entrepreneurial spirit*.

The major benefits of SSE's are as follows:

1. Utilisation of locally available human and material resources and expertise/experience.
2. Creating jobs at relatively low capital cost
3. Diversifying the industrial structure.
4. Preventing the creation of monopolies.
5. Ensuring more equitable income distribution.
6. Attracting and utilising indigenous entrepreneurship, now a days encouraging women entrepreneurs especially.
7. Developing a pool of skilled semi-skilled workers as a basis for future industrial expansion.
8. Improving forward and backward linkages, contracting regional imbalances.
9. Optimum opportunities for adapting appropriate technological managerial approaches.
10. Export oriented units tend towards a favourable balance of trade.

1.4 RELATIONSHIP OF SMALL TO LARGE

The Industrial Revolution was accomplished largely through small scale industries (SSIs)-entities with modest capital, a few score workers at most, owned and managed by a single individual of family. Really large firms were slow to emerge. As late as 1900, the hundred largest British industrial firms accounted for no more than 10 per cent to 15 per cent of manufacturing value added, and the same held in the rest of Western Europe and North America. The explosive growth of really large scale organizations occurred in the next half century; large firms are now the dominant mode. Typically, the hundred largest manufacturing enterprises in developed economies to-day control at least half of total manufacturing assets, with a varying but comparable figure for value added. But their share of employment is smaller, relative to output.

Nonetheless, many small manufacturers continue to exist in these economies, showing a skewed distribution of manufacturing enterprises with the modal size being close to the smallest and a long rightward tail stretching towards the giants. Most of the small firms are service oriented, or produce for a circumscribed or specialised niche in the market. Many produce intermediate products for large firms; the development of the subcontracting relationship was particularly marked in the economic history of Japan.' As industrialization proceeds, small firms seem naturally to shift from activities that compete with large firms to complementary ones.

Besides the small firms involved in sub-contracting, why do so many other SSTs continue to exist? A simple answer is that they have distinct advantages in organisation and marketing flexibility. A more profound answer lies in the nature of the process by which firms grow. Even if, in the absence of direct or implicit government restriction, the ultimate size of the modern corporation may be unlimited, financial, organizational and marketing constraints affect its rate of growth. On the financial side, past profits limit future growth; as for

-
1. See Suzanne Paise, "Lessons for LDCs from Japan's Experience with Labour Commitment and Subcontracting in the Manufacturing Sector", Bulletin of the Oxford Institute of Economics and Statistics 33, No. 2 (May 1971), pp. 115-133, and Table 1:1.



organization, excessively rapid expansion, rather than excessive size, leads to the characteristic forms of managerial inefficiency.' Enterprises often play an important role in developing skills, especially in developing countries, but there is a limit to the number of people who can be effectively trained in any given period.

After World War II the model of industrial development in Eastern European and Western industrialised countries featured large, integrated plants; this is what was available for sale, conceptually and commercially. And it was what the new business leaders in the developing countries, or their government planners and managers wanted.

It seemed the modern way to catch up quickly, using imported technology and turnkey contracts. The big enterprises, public or private, enjoyed tax, tariff, import licensing and credit favours, while smaller units survived as best they could, often with serious handicaps in relation to the administrative and financial establishments.'

Such exotic industrial implants have a poor record the world over; nationalized industries, many corporate mergers, and state enterprises (e.g. public sector projects in India) provide familiar examples.

Activity 2

Survey 10-12 small scale industries in your vicinity/local area. Classify. them according to their area of operation i.e. whether producing intermediate products or service product or speciality products. Discuss with them to find out what are the specific strengths that they have in comparison to a large scale enterprise, which make them more adaptive.

.....

.....

.....

.....

.....

.....

.....

.....

.....

1.5 EMPLOYMENT CREATION

A more explicit case for encouraging SSIs lies in their employment creation potential.

Current interest in SSEs in developing countries stems largely from the widespread concern over unemployment. Large firms designed on western industrial countries' models have undoubtedly raised industrial production and productivity levels in many developing countries, but without reducing unemployment correspondingly, so that rising output is often associated with widening poverty. An alleged capital-intensive bias in large firm development is held partly responsible, while small firms are said to be more labour intensive without necessarily being too costly or unprofitable. Table one below will give you a comprehensive overview of the performance of this vital sector.

2. See for example Edith Penrose, *The Theory of the Growth of the Firm* (New York John: Wiley and Sons, 1969), p. 47ff. Mason Haire, *Modern Organization Theory* (New York: Krieger, 1959), p. 28 3; Peter Marris, *The Economic Theory of Managerial Capitalism* (London: Macmillan & Co. 1964), p. 114 ff.
3. World Bank, "Financing Small Scale Industry", Research Project ref. No. 670-77 (Washington, D.C.: World Bank, 1974).



Table 1: Performance of Small Scab Sector

Year	No. Of Units (lakh Nos.)			Production (Rs. Crores)		Employment	Exports (Rs. Crores)
	Regd.	Un-regd.	Total	At Current Prices	At Constant Prices	(Lakh Nos.)	At Current Prices
1994-95	19.44	6.27	25.71	2,98,886	2,66,054	146.58	29,068
1995-96	20.18	6.40	26.58	3,62,656	2,96,385	152.61	36,470
1996-97	21.53	6.50	28.03	4,11,858	3,29,935	160.00	39,248
1997-98	22.82	6.62	29.44	4,62,641	3,57,749	167.20	44,442
1998-99	24.06	6.74	30.80	5,20,650	3,85,296	171.58	48,979
1999-00	25.26	6.86	32.12	5,72,887	4,16,736	178.50	54,200
2000-01	26.14	6.98	33.12	6,39,024	4,51,033	185.64	69,797
2001-02	27.31	7.11	34.42	6,90,316	4,78,456	192.23	N.A.
2002-03 (Projected)	28.49	7.23	35.72	7,42,021	5,14,292	199.65	N.A.

Source: Economic Survey of India 2002-03 (Adapted)

Lower Investment Cost per Job: Comparative investment costs per direct job generated as seen in Table 1 above suggest that small enterprises use significantly more labour absorptive inputs. What is important is the relative labour intensity, roughly 4 to 10 times higher for small firms. Smaller firms also generally employ more labour per unit of capital. This conclusion corresponds also to the conclusions of some of the earliest studies on a number of developing countries "that smaller enterprises enterprises (excluding the smallest), with a lower level of investment per worker, tend to achieve a higher productivity of capital than do larger, more capital-intensive enterprises."

Poverty Alleviation: To what extent, however, do smaller industrial units contribute more to employment of poor people in urban or rural non-farm settings? Insofar as they create a greater number of job opportunities at the margin, it may be that the urban jobless will benefit. Moreover, according to a World Bank Study, small to medium enterprises sponsor projects with an appreciably higher proportion of unskilled workers than medium to large enterprises: 65 as compared with about 50 per cent. Creation of unskilled jobs certainly has a direct impact on the alleviation of poverty which is greater for small and medium enterprises than for larger ones.

Indigenisation: Further evidence to employment effect is linked to the inputs used by small and large firms. The latter usually have a much higher propensity to import raw materials and capital goods: Small firms buy more domestic inputs produced by indigenous labour. The size of firm, and/or the capital intensity of its operations, often is dictated by its products and technology available for their manufacture. Backyard blast furnaces may not have been efficient in overall use of resources. However, small foundries or metal-working plants may be both relatively labour intensive and competitive.

Use of labour-intensive techniques in large enterprises often pose special difficulties, e.g. labour union pressure or government regulations, which weigh much less heavily on SSIs. It is partly to avoid such problems that the large firms move towards capital intensity and less, "appropriate" technologies. So,

4 Keith Marsden, "Towards a Synthesis of Economic Growth and Social Justices", International Labour 10 Review 100, No. 5 (November 1969), pp. 389-418.

where an option exists, SSIs may be more inclined and better able than large firms to use resources efficiently.



Avenues for Indigenous Entrepreneurship

SSIs also make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development and by providing opportunities for these entrepreneurs to gain experience. The more successful ones will generally grow larger and doubtless more capital intensive, and in the process will fulfil an important incubating function.

Managerial and entrepreneurial abilities must however be distinguished. The latter is often neglected in development planning and policies, partly because it is hard to define. Yet its importance is evident in performance comparisons among countries and sectors where individual or collective initiative is encouraged, and where bureaucratic constraints discourage it.

SSEs provide productive outlets for the talents and energies of enterprising, independent people, many of whom would not fulfil their potential in large organizations. Small firms often flourish by serving limited or specialized markets that are not attractive to large companies. They provide a seed bed for entrepreneurial talent and a testing place for new industries. They supply dynamism and contribute to competition within the economy.

Tapping of Savings

The potential savings role of SSI development has not been adequately tapped. Quantitative data are scanty, but empirical evidence from many countries over the decades shows entrepreneurs are very highly motivated to save and invest: they reserve a greater proportion of their incomes for this purpose than does the general population. This partly reflects their inability to obtain financing from institutional sources; but it also stems from their psychological commitment to the enterprise, which is both their essential security base and their best hope for an easier, more secured existence. In rural areas, given conditions of confidence, funds may be mobilized from large farmers and channeled into rural industry.

Table 2: Capital Mobilization in SSI Sector

	2000-01	1999-00	1998-99	1995-96
No. of units ('000s)	3,370	3,212	3,080	2,658
Share in Total Exports (%)	30	34	35	34
Bank credit to SSI sector (Rs. crores)	48,445	45,788	42,674	29,485
SSI credit as % of net bank credit	14.2	17.3	17.3	16.0

Utilisation of Domestic Technology

SSIs are more likely than larger firms to use relatively simple, general-purpose machinery that is often obsolete by developed country standards. Such machinery can often be manufactured locally; small machine shops, themselves, quite labour intensive, exist in almost all countries, even the least developed, and are excellent training grounds for mechanical skills. Their machinists become intimately familiar with the customers' equipment, including SSIs. Perhaps originally imported, often second-hand, this equipment is likely to need frequent repairs or replacement parts which the original supplier probably no

Activity 3

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

In most developing countries, industry is highly concentrated in a few places. As a result, regional imbalances are aggravated between (1) the urban core and the peripheral areas, with the latter remaining relatively underdeveloped; (2) urban and rural populations, with migration of the more vigorous elements depleting the rural society and increasing urban unemployment; and (3) major regions within the nation, leading to political tensions. Both large and small industries contribute to these imbalances, the latter when stimulated by or dependent on the former. But SSI generally has more locational flexibility; it requires less infrastructure and usually caters to a narrower geographic market. Its relatively labour-intensive technology is appropriate for the lower wage rates prevailing outside the metropolitan centres, while helping in some measure to raise these rates. Comparative studies suggest that the profitability of SSI is higher in medium-size towns, away from the metropolis, so the promotion of SSI development in outlying towns helps individual entrepreneurs as well as the society as a whole.

12



farmers. But their peak demand for labour is likely to coincide with the peak agricultural season rather than complement it. Other types of small scale production, such as black-smithing, brick-making, lime kilns, tailoring, carpentry and furniture-making, are indispensable to rural development.

Environmental Impact

SSIs Just as their larger counterparts can pollute or otherwise affect the environment adversely. However, their smaller size and dispersion, lesser need for massive infrastructures, and generally simpler processes are likely to result in less and more easily remedied environment consequences.

Status Classification

According to second All-India Census of Registered Small Scale Industries for the base year 1987-88) the status classification of SSI units is given below.

1)	Locational Status	
	42.17%	Rural areas
	47.97%	Urban areas
	9.86%	Metropolitan areas
	62.19%	Backward areas
2)	Organisational Status	
	80.5%	Proprietary units
	16.8%	Partnership units
	2.1%	Limited companies
	0.8%	Other category units
3)	Activity Status	
	50.2%	Manufacturing/assembling activity
	15.2%	Processing
	12.1%	Job work
	14.3%	Repairing/servicing
4)	Ownership Status	
	6.8%	By Scheduled Castes entrepreneurs
	1.7%	By Scheduled Tribe entrepreneurs
	7.7%	By Women entrepreneurs.
5)	Investment (Plant & Machinery) Status (Rs. lakhs)	
i)	Tiny sector units (within the SSI sector)	93.8%
	with Investment in plant & Machinery less than Rs. 5 lakhs.	
ii)	Above Rs 5 lakhs and upto Rs. 10 lakhs	3.6%
iii)	Above Rs. 10 lakhs and upto Rs. 20 lakhs	1.6%
iv)	Above Rs. 20 lakhs	1.0%
6)	Ancillary Status	
	Percentage of registered SIDO working units	0.52%
7)	Factory Status	
i)	Number of units registered under the Act as % of SIDO registered working units	6.78%
ii)	Employment in (i) above (as % of the total SIDO registered units)	24.17%



1.7 ROLE OF ENTREPRENEURSHIP IN SSE AND ECONOMIC DEVELOPMENT

Effectiveness of small enterprises depends upon the entrepreneurial and managerial capabilities of those involved in the business. Because of its size and unique operating characteristics, a small enterprise requires a management approach which is also unique. Small enterprises are generally managed in a personalized fashion. The owner is also the manager until the firm grows to a certain level. They participate in all aspects of managing the business and there is generally no sharing in the decision-making process. As far as scope and scale of operations is concerned, small enterprises usually serve a local or regional market rather than a national or international market. These special characteristics must, therefore, be taken into account in planning for small enterprises development a national scale.

The entrepreneurial spirit, as described by recent studies and experiences on the subject involved not only a desire to gain monetary benefits but also an admixture of a **high need for achievement** and all the **motivations** evident in a high achiever. **Long-term involvement with a goal** which the entrepreneur has set for himself creates the need to persist with the undertaking even in the face of difficulties and hardships.

Since the entrepreneur is starting from scratch he/she must keep in mind all the factors involved and **take calculated** risks based on this knowledge. A **tendency to analyse the environment** on an ongoing basis holds the entrepreneur in good stead. He/she must also be positive and optimistic as there is no one to depend on but him/herself in times of doubt and uncertainty. .

Management and entrepreneurial skills must, therefore, be blended in the small enterprise owner's total make-up as these will spell the difference between success and failure. The ideal would be to find a man who **is both efficient and effective**. Without the latter capability a man may simply be a good manager. He still has to be developed into an effective manager by inculcating in him the entrepreneurial spirit.

Wide Ranging Contributions

There is a wide range of significant contributions that entrepreneurs and entrepreneurship can make to the development process. These include the following:

- 1) Entrepreneurship raises productivity through technical and other forms of innovation
- 2) Entrepreneurship is a powerful tool of job creation.
- 3) Entrepreneurship facilitates the transfer of technology.
- 4) Entrepreneurs play a strategic role in commercializing new inventions and products.
- 5) Entrepreneurs play a critical role in the restructuring and transformation of economy.
- 6) Entrepreneurs help reduce the ossification of established social institutions and the concentration of economic power.
- 7) Entrepreneurship and entrepreneurial behaviour can breathe vitality into the life of large corporations and governmental enterprises.
- 8) Entrepreneurs make markets more competitive and thereby reduce both static and dynamic market inefficiency.



- 9) Micro-entrepreneurs operating in the informal sector circumvent established government authority when governments and their programmes inhibit economic development.
- 10) Entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive without being politically disruptive.
- 11) Entrepreneurs improve the social welfare of a country by harnessing dormant, previously overlooked talent.
- 12) Entrepreneurs create new markets and facilitate expansion into international markets.

Cost-Effective Strategy

The unique feature of entrepreneurship is that it is a low cost strategy of economic development, job creation and technical innovations. Other agents of change may accomplish the same ends, but not as cost effectively as entrepreneurs. And this is accomplished by setting up enterprises, initially on a small scale. For entrepreneurs are individuals who bear the costs and risks of launching a new venture, developing a new product, commercializing an invention, adapting a technology and developing a new market.. Even when they receive governmental assistance through subsidized training or low.-interest loans, they add considerably more value through "sweat equity".

As risk bearers, entrepreneurs either succeed and make a developmental contribution or they fail and disappear from the market place. The market within which the entrepreneurs operate has little tolerance for miscalculations about a business opportunity, for a lack of commitment or laziness, or for incompetence. Entrepreneurs find resources and fill market gaps that would be missed by larger, more bureaucratic organizations. Entrepreneurs allow a country to extract every last bit of marginal capacity out of whatever resources exist within society.

According to the Entrepreneurial Development Institute of India, the two main ingredients in case of a real business opportunity are:

Good business scope ie, a gap between present supply and current or expected demand.

An attractive rate of return on investment.

Apart from these 2 criteria, business opportunity has to be analysed from a few more new points:

- Technical/production viability
- Commercial/Managerial viability
- Availability of raw materials
- Man power needs
- Power requirements
- Effluents/ Pollution problem
- Focational Considerations/constraints

Entrepreneurs and their families oppress themselves in a way that people are reluctant to accept in large scale organizations. This benefits society in two ways first by extracting extra effort from people and second by avoiding disruption and instability of labour conflict.

Finally, local entpreneurs offer a cost-effective strategy of development because they are an integral part of their community. Unlike foreign firms or plant

relocations from another region of province, small scale entrepreneurial firms are home grown, and available evidence shows that they remain in their community. Tax holidays and subsidies to attract plant relocations whether on a domestic or international basis are far more expensive than cultivating local entrepreneurs, and it is doubtful whether the results are real or lasting.

Activity 4

Contact two or three small enterprises which are family enterprises. Discuss the adjustments that member have personally made in order to make the enterprise more cost effective. Given a formal organizational set up, do you think people will be willing to make similar adjustments?

.....

.....

.....

.....

.....

.....

.....

.....

1.8 A CONCEPTUAL MODEL

If we recognize that economic development is an uneven process that has distinct phases over time, **four phases of development can be identified:**

1. Agrarian or resource society.
2. Early industrialization.
3. Mature industrialization.
4. Service and high-technology economy.

In terms of the relationship between entrepreneurship and economic development, Table 3 suggests two basic trends: first, the sphere of entrepreneurial activity expands with economic development; and second, innovation and early imitation become increasingly important as an economy develops and moves towards the frontiers of science and technology.

Table 3: Conceptual Model of Entrepreneurship and Economic Development

	Agrarian Society	Indusrtialization		Service economy
		early	mature	
Level of entrepreneurial Activity	Low	Medium	Medium	High
Small Business formation and	Low	High	Medium	Low
Entrepreneurship and innovation	Nil	Low	Medium	High

There is probably a sequence of strategies that developing countries might follow (see Table 4). When agriculture or resource extraction dominates, small business formation is probably the most appropriate strategy to be pursued. Small business formation at this phase of development means putting existing resources together in either new or old ways. As a country beings to develop, imitation of innovations established in more developed country becomes critical to the development process. Entrepreneurs during this period need to make more selective use of existing resources through (a) innovations in organization and/or (b) combining factors of production in new ways (for example, the introduction



of the power-loom to replace the hand-loom). As a country becomes more industrial, it becomes more important for entrepreneurs to identify and satisfy new wants. Early stage imitation becomes increasingly important if local entrepreneurs are to compete successfully for even domestic markets.

It is concluded, therefore, that entrepreneurial process begins in less developed countries with the formation of small businesses striving for effective management, but necessarily shifts to innovative and high technology entrepreneurship at some point along the development path.

Table 4: Entrepreneurial Strategy at different Phase of Development

Phase of development	Entrepreneurial Strategy
Agrarian Society	Small 'business formation
Early industrialization	Small business formation and late imitation
Mature industrialization	Increasing emphasis on early imitation
Service/high technology	Early imitation and innovation

1.9 PROBLEMS AND SUPPORT NEEDS OF SSES

Successful small enterprises do not emerge, and thereafter survive and grow unless the environment is conducive. Political, economic, technological and socio-cultural factors in the environment impinge upon the life of the small enterprises and generate much of the needs required for their existence.

Conducive Environment

The overall political climate in a country is important for the small scale entrepreneur to consider. He will need positive and encouraging measures by government and political constituencies to establish private investment. Such measures could include liberal or non-restrictive investment policy, creation of promotional agencies, creation of industrial estates and free trade zones and availability of low-cost loan capital for private investors. Policy commitment to SSE sector can go up to protection against imports, reservation of products as done in India.

The 'Political climate influences the economic direction taken by the country in question. An analysis of the economic environment is particularly helpful in investment decision, market measurement and in forecasting. The general state of the economy dictates what the small enterprise will need especially since it is handicapped in obtaining capital and credit owing to greater unit costs of small transactions, greater risks involved, etc. The small entrepreneur also generally lacks managerial and technical know how, or is weak in marketing, production or personnel management skills. These are needed so he can be economically viable even if he operates on a small-scale basis.

Technological advances in the environment create new needs for the small entrepreneur as far as adaptation and adjustment is concerned. He may need to learn how to adjust to the new technological environment surrounding him, or he may need to take a set of advance technologies and bring these to his own level in the small enterprise.. Either way, constant re-examination is needed for possible utilisation and improvement of existing technologies.

A very welcome development in the service sector small enterprise scenario has occurred on account of developments in the ICT sector. A large number of recently established SSI units fall under the category of IT and IT training



companies, media related enterprises and software development firms, as well as enterprises set up to take advantage of the business process outsourcing practices of multinational organisations.

Finally, the socio-cultural environment also creates a very important climate for the survival of the enterprises. They need several conditions to keep being alive:

1. tolerance for change in the society and culture
2. social mobility
3. tolerance of profit-making and
4. tolerance of private ownership

In the emerging scenario you could realise that the rate of economic development often revolves around the entrepreneur. Therefore, the factors responsible for their emergence and growth must be analysed and supported. India has been the pioneer in initiating Entrepreneurship Development Programmes, to identify, select, motivate, train and guide first generation entrepreneurs from all walks of life. Programmes for entrepreneurship development are now being introduced in school and colleges to provide the impetus for youth seeking self-employment opportunities.

Adequate Credit Assistance

Small enterprise development cannot be ensured without arrangement for financing. Adequate and timely supply of credit is critical for new entrepreneurs to emerge especially from a wide base. A great majority of small and medium business activities have come about because of special financing programmes offered to them.

Various financing programmes have been evolved in developing countries to meet specific needs of existing and prospective entrepreneurs. These usually take into consideration the difficulties and special needs that the prospective small enterprise borrower encounters. Thus, requirements are less strict in terms of (1) lower interest rates than the prevailing commercial rates, (2) less collateral requirements and lower equity ratio, (3) various assistance schemes such as preparing the project study etc. Special loan guarantee schemes have proved to be useful whereby the government guarantees the loan of a small entrepreneur by banks. Sometimes, the financing needs cannot be met simply through the provision of loans. Hence, other schemes for equity assistance have been evolved.

The Prime Minister's Rozgar Yojna was designed to create and provide sustainable self-employment opportunities to more than one million unemployed youth by setting up 7 lakh monoculture enterprises during the 8th plan. The scheme has continued through the 9th plan and has now been revised. You can find the details of the scheme in Appendix E of this block.

Promotion of Exports- Special efforts are made by government agencies to hold Trade exhibitions abroad. Various licenses/concessions are given to 100% EOU's set up in FTZ's and EPZ.

Markets and Marketing Support

Market for a small enterprise in a developing country can be quite a problem considering that the small entrepreneur will be in competition not only with locally mass-produced goods but even imports. Small enterprises must therefore prove that in quality and price of their product they are comparable, if not better, than that of larger, better-known brands. Small enterprises can band together



and sell their products as one body through closely-knit associations or organizations. The government too can take an active part in marketing specific Scale Enterprises Role in products or assisting small groups of entrepreneurs in selling their products. It can directly purchase products of SSIs on a preferential basis, even giving better prices as has been done in India. Other indirect marketing assistance programmes include provision of space for retailing of the small entrepreneurs' products, bulk burying for future selling, improvement of roads, communications and other infrastructure facilities to improve and hasten sales.

Both large and small enterprises stand to gain if complementarity between them is fostered especially in the marketing aspects of their businesses. A large number of small enterprises manufacture goods for direct sale to a large industry. The government can promote such complementarity as a strategy for small enterprise development.

Acquisition, Transfer and Adaptation of Technologies

Frequent problems are faced in acquiring "appropriate" technology that which is best suited to the specific cultural, economic social and political climate found in a particular country where the small enterprises are situated. E. R Schumacher coined the-term "intermediate technology" to signify technology of production by the masses, making use of the best of modern knowledge and experience, conducive to decentralization, compatible with the laws of ecology, gentle in its use of scarce resources, and designed to serve the human person instead of making him the servant of machines."

New industrial technologies which would be both modern and appropriate can be developed by (1) starting with traditional and using modem knowledge to improve on them; (2) starting with the modern methods of the highly developed countries and adapting them to the conditions the newly developing countries; and (3) analyzing the technological problems of the newly developing countries directly and coming up with novel approaches through fresh research and development. (4)Mobilising the indigenously development technologies or drawing upon the local R and D efforts in the country. Nations in the developing world are now looking for new forms of industrial equipment and manufacturing processes. The new class of technologies which are emerging from this search have certain characteristics in common: they are small scale, low cost, easily maintained, worker-controlled, and meet the basic needs of the people.

India became a party the Montreal protocol on June'92. As per the protocol, the office of the Development Commissioner (SSI's) has been charged with the responsibility of effecting phase-out of ozone depleting substance. Basic information, exposure, awareness and training is being given in this regard to SSI entrepreneurs.

Easy efforts along the lines of acquisition, transfer and adaptation of appropriate technology for small enterprises have provided a strong foundation for bringing about self-reliance in capital goods in India. Technical information and industrial extension centres play an important role in the "delivery" of technology to small enterprises.

1.10 ROLE OF GOVERNMENT IN SSE DEVELOPMENT

Direct assistance which government can lend 40 small enterprises can include advisory services (extension and potinselling), industrial research, developmental financial scheme, marketing aids and provision of basic utilities and services for



small scale entrepreneurs. Simplified export procedures for small enterprises can also be very useful as incentives for this sector of the business community. Unit 2 explains the institutional infrastructure for SSI. The government plays its most vital role for SSE development by way of policy formulation and implementation .

On a more indirect and general way, streamlining of the bureaucratic system and lessening of red tapes will create an overall atmosphere wherein professionalism and the spirit of service prevail. Such an atmosphere will, of course, be conducive not only to small enterprise development but to national progress as well. In as much as the role of government in developing countries assumes the major share in development as builder and catalyst; a healthy policy towards small enterprises, their need and requirements, will ensure life and growth of this sector of the economy.

A number of policy initiatives have been taken by the government of India. Some are:-

One major area is simplification of rules and procedures of various ministries (like Ministry of Industry for registration of Units)

Technical Department Trust fund set up for Technology Upgradation/acquisition/transfer in S.S.Sector.

Entrepreneurship Development Institutes set up in 92-93.

Large scale mobilisation of bank and other credit to the sector.

Computerisation of District Industries Centres to facilitate speedy collection, transmission and retrieval of data; to facilitate monitoring and evaluation of schemes like Prime Minister's Rozgar Yojana (PMRY)

Over the Counter Exchange of India, the single window nation wide stock exchange offers a chance to raise finance from the market cost effectively.

1.11 SUMMARY

There are several factors that govern the pattern and rate of economic development in a country. One of the important inputs is provided by the quantum and quality of entrepreneurship. Most of these entrepreneurs who owned and managed their enterprise in the early stages of development did so through ploughing back of profits. In the later stages of industrial development, technological changes favoured the growth of corporate enterprises.

In India, only a fraction of the total employment potential can be fulfilled in agriculture and as cost per job are very high for modern industry, development of small scale enterprise represents a cost effective developmental policy. Being more labour intensive and less capital intensive than large enterprises small scale enterprise in the Indian context seem to be an effective way to capitalize a country specific resources. The unit describes the relevance and need for small scale enterprises and discussed their role in the economic development of the country.

1.12 SELF-ASSESSMENT QUESTIONS

1. Which characteristics of small enterprises enable them to contribute to the economic development process in a developing country like India? Discuss.



2. Taking specific case examples discuss the employment generation potential of Entrepreneurship and-Small small scale enterprises vis-a-vis the large enterprises:
3. In the Indian context, explain the specific role that entrepreneurship has fulfilled in the development of small scale sector.
4. With reference to the support needs of SSE's outlined in the unit, do you think the Indian infrastructure and environment is conducive to the development. of small scale enterprises. Discuss, giving reasons for you answer.

1.13 FURTHER READINGS

- J.A. Schumpeter: Theory of Economic Development (Cambridge, Massachusetts, Harvard University Press, 1949).
- D.C. McClelland: The Achieving Society (Princeton, New Jersey, D. Van Nostrand Co., 1961):