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## A study on entrepreneurship development with reference to small scale industries

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**Abstract**

The Small scale sector constitutes a critical part of the Indian economy. Its contribution to the national GDP, to creation of employment opportunities, especially for low/ semi-skilled workers and producing low cost goods and services, are crucial for a developing economy like India. By identifying and making use of small niches and opportunities for independent work the sector also helps in reducing regional imbalances. Hence, the small scale sector remains high on the agenda of government, academics and policy makers. Globalization and resultant socio-cultural and economic changes have created enormous opportunities for small scale industries.

Entrepreneurship in recent times has become an important area of study. It is considered to be a solution for creating wealth, generating employment and providing new and better goods and services. Developing the spirit of entrepreneurship among the young has become vital because the government cannot provide jobs for all kinds of unemployed youth and the corporate sector will provide limited jobs only to the best and that too without any job security.

**Keywords:** Entrepreneurship, Economic Development, Small scale industry (SSI), Opportunities, MSME.

### 1. Introduction

The economic development of a Nation depends on its industrial development. The industrial development is based on the entrepreneurial competencies of the people. Hence, the concept of building entrepreneurship Promotion is need of the hour. The term "entrepreneurship" comes from the French verb "entreprendre" and the German word "unternehmen", both means to "undertake". Bygrave and Hofer in 1891 defined the entrepreneurial process as „involving all the functions, activities, and actions associated with perceiving of opportunities and creation of organizations to pursue them“. In simple, entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods".

There are so many institutes and organizations which are involved in entrepreneurship development activities and there are people who join these programmes as a stepping stone to become entrepreneur. It is a known fact that so many management institutes are coming up to cater to the growing need of industries by supplying traditional managers/corporate managers. The scope of this study is to find out the perception of management students about the entrepreneurship and compare it with those people who have become entrepreneur. The researcher feels that this study will reveal the facts which are important to develop entrepreneurship as a career option among management students. A manager is one who manages all the resources to match with the organizational needs. In the managerial role resources are allocated to solve problems and improve the administrative efficiency. The entrepreneurship is very an old concept according to which anyone who runs business is called an entrepreneur. The more precise meaning of entrepreneur is; one who perceives a need and then brings together manpower, material and capital required to meet that need. Entrepreneur is one who understands the market dynamics and searches for change respond to it and exploit it as an opportunity.

### 2. Small Scale Industries in India

In India the definition of small scale sector has been changing since the 1950s. The official definition for this sector is provided by the MSME Act 2006. As per the Act, industries are defined in terms of investment, employment or output, or a combination of these three variables.

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Small scale sector is a significant contributor in the growth of the Indian economy. There are nearly 4.5 million MSMEs in India (MSME Third Census (2001–02)). Employment in the registered MSME sector was estimated to be 6.16 million indicating an average employment of 4.48 persons per unit (Ministry of MSME, 2010). It contributes about eight per cent of the GDP of the country, about 45 per cent of manufactured output and about 40 per cent of exports (Economic Survey Report, 2009–2010). There are over 6,000 products ranging from traditional to high-tech items, which are being manufactured by MSMEs in India. These include food products, beverage, cotton textiles and wool, silk, synthetic products, jute and jute products, wood and wood products, furniture and fixtures, paper and paper products, printing, publishing etc. Since the 1990s this sector has also seen a large growth of service industries (Annual Report, 2008–2009, Ministry of MSME). MSMEs in India are slowly changing from low technology orientation to users of modern technology; however, the sector continues to be characterized by a large diversity in technology base.

### 3. Evolution of small- Scale industries in India

A significant feature of the Indian economy since independence is the rapid growth of the small-scale industrial sector. Over the past five decades, successive governments have framed policies to protect the interests of the small-scale industrial sector and facilitate its rapid development. In pursuance of their policies, Governments have initiated various support measures from time to time, which include reservation, revision of investment ceilings, modernization of technology, marketing assistance, fiscal incentives etc. The small-scale sector owes its definition to the Industries (Development and Regulation) Act, 1951. The sector is defined in terms of value of investment in plant and machinery (original value). 1

#### 3.1 Profile of small-scale industries

- 95% of industrial units in the country.
- 39.92% of value added in the manufacturing sector.
- 34.29% of national exports.
- 6.86% of Gross Domestic Product (GDP).
- Employment to 193 lakh persons.
- Over 7500 items are produced in the small-scale industrial sector.
- 749 items have been reserved for exclusive manufacture in the small-scale industrial sector.
- 358 Items have been reserved for exclusive purchase from the small-scale industrial sector.

Industrialization has been a striking feature of Indian economic development since 1951. Industrial production has gone up by about five times, making India the tenth most industrialized country in the world.

Small-scale industries play a vital role in the development of the national economy. India is facing the problems of unemployment and paucity of capital resources. “The built in characteristics of small scale industries, such as relatively small size of initial capital requirement, entrepreneurship and employment generation potential, etc., render them the ideal for balanced and decentralized development.” The employment generated in small-scale factory units is nine times that of large establishments for an investment of Rs.1 lakh in fixed assets.

The small-scale industries assume great importance in mitigating the problem of unemployment, in facilitating the

growth of the industrial sector and in ensuring all round development of the economy.

“Cottage and small scale industries are of very special importance in India. If we lack capital, we do not lack manpower, and we must use this manpower both to add to the wealth of the country and to reduce unemployment”, Jawaharlal Nehru said. Besides, small-scale industries avoid regional imbalances and facilitate decentralized development in various parts of the country, including the remote areas, by effectively utilizing the locally available raw materials and other resources, including work force.

Small scale industries have emerged as a vibrant and dynamic sector of the Indian economy that contributes around 40 per cent of the total industrial production and over 34 per cent of the national exports. At present the Small Scale Industrial sector is providing employment to over 250 lakh persons. The captains of our economy are more than aware of the importance of the small scale industries in terms of employment potential, productivity, utilization of indigenous resources, balanced regional development etc. In the words of Dr. Manmohan Singh, “the key to our success of manufacturing in the small scale sector”. The small scale sector is important not only for its contribution to GDP but also for its stellar performance in exports and in generating employment.

The small scale industrial sector is endowed with certain special features, which are especially beneficial to our economy such as employment potential, indigenous nature, balanced development of regions etc., when compared with large scale units. This sector facilitates speedy development of the economy by providing employment opportunities to rural and less skilled masses and caters to the consumption requirements of these people by resorting to indigenous production making use of local resources.

The entrepreneurs involved in running small-scale units are generally termed small entrepreneurs. It is evident that small entrepreneurs outnumber large entrepreneurs in every country. The “small sector”, as the name implies, consists of small-scale industries. We can divide the small-scale industries into the following three categories, viz.

1. Cottage Industries,
2. Agro- based industries,
3. Small industries.

In India, since the inception of planning, industrialization has been given priority and the Second Five Year Plan (1955-60) laid a firm foundation for industrialization. In the subsequent five-year plans, with the aim of achieving self-reliance and sustained economic growth, diversification of industries, both in the private and public sector was envisaged.

Small-scale industries were also given importance along with large scale and medium scale industries. The small-scale sector received a boost in the Third Five Year plan (1960-65). The small-scale sector experienced a phenomenal growth then. In terms of employment generation, this sector is next only to agriculture and accounts for about 25 per cent of the total exports of the country. In terms of value added, it contributes about 40 per cent of the manufacturing sector. About one third of the total industrial production is contributed by the small-scale sector. It also provides employment opportunities to 12 million people (Kurien 1991). Thus, small-scale industries constitute a vital area in developing countries like India.

The number of small-scale units was 5.50 lakh during 1975 – 76 and had increased to 19.40 lakh, small-scale units in the

year 1990 – 91. With the increase in the number of units, the problems associated with the small-scale units have also increased (Dahotre 1994). The various Committees appointed by the Government of India from time to time, to study the problems of the small-scale units, have come out with various findings, the principal among them being about marketing. Based on the recommendations of the Industrial Conference held during 1947, the Small-Scale Industrial Board was formed in 1952. This Board was vested with the power of overall control of industries in the country. Later during 1955, the National Small Industries Corporation (NSIC) was started to assist small-scale units.

The Corporation was also assigned the role of hiring high cost machines to the small-scale units; Setting up of Small Industries Service Institutes (SISI) during the Second Plan period marked another important step taken by the Government in tackling the problems of small-scale industries. The Small Industries Development Corporation (SIDCO) set up in each state, also helped the small-scale units. They procure orders from government departments and pass their on to the small-scale units.

The general problems, which affect the viability of these units, are many, such as high cost of production, poor quality of products, inadequate working finance, lack of supporting infrastructure, use of old and obsolete technology, deficiency in entrepreneurial skills, difficulty in marketing etc. Tamil Nadu seems to have the dubious distinction of having the second largest number of sick small-scale industrial units in the country, next only to West Bengal. Working capital inadequacy, managerial deficiency, delayed payments from customers, lack of facilities for diversification, marketing problems, inadequate institutional credit, technological obsolescence, non-availability of raw materials, difficulties in power supply etc., are said to be the major causes of sickness among small scale industrial units in Tamil Nadu. Though sickness is an unenviable deformity that has to be accepted as an aftermath of rapid industrialization, it is a throne on the industrial scenario of our country.

However Small Scale Industries provide immediate large – scale employment and have a shorter gestation period and relatively smaller markets. They, occupy an important place in the national economy. In the highly developed countries of Western Europe, the U.S and Japan, the total number of small firms make up over-whelming majority of business enterprises. A rewarding feature of economic development in India has been the impressive growth of modern small-scale industries. The small enterprises by now have established their competence to manufacture a wide variety of sophisticated goods in different product – lines requiring a high degree of skill and precision.

They have made a notable contribution in realizing the principal objectives of expanded employment opportunities, adoption of modern techniques and dispersal of industries in small towns and rural areas. Starting a business requires boldness even in the best of times. Throughout the world, millions of entrepreneurs display such boldness as they create new business. This creative process is the lifeblood of the strong private sectors that drive the growth and prosperity of nations.

The small entrepreneurs who have a high level of administrative capability, flair and ability for decision-making, computational skills, delegation, organizational and communication skills and sound technical knowledge stand a

much better chance of success than their counterparts who possess lower levels of these basic qualities.

The development of small-scale industries would be beneficial to the developing countries and assist them in improving their economic and social well-being. India is ranked among the ten most industrialized countries in the world. The country has derived its economic strength from the growth of small industries. The small-scale sector's total production is more than 55% of the national profits.

Industrialization is a sine-qua-none of economic progress. All the rich countries of the world are industrialized countries. The seeds of industrialization, in the 21st century in England and other parts of Western Europe, have now blossomed into full-fledged plants. Industry is the one area, in which man has benefited most by scientific and technological development.

Industrialization in the Western hemisphere has drastically changed not only the living standards of people but also their social customs, traditions and beliefs. In the developing regions of Asia and Africa, the seeds of industrialization have already been sown. The small-scale industrial and business sectors are left completely too private entrepreneurs. There is the need to speed up the process of industrialization to improve the standard of living of the weaker sections of the society and involve them in the process of growth. Small-scale industries and entrepreneurship are the two faces of the same coin industrial development.

- a. Mobilization of resources of capital and skills and their optimum utilization.
- b. Creation of greater employment opportunities and increased output, income and standards of living.
- c. Meeting a substantial part of the economy's requirements for consumer goods and simple producer goods
- d. Provides employment and a steady source of income to the low-income groups living in rural and urban area of the country.
- e. Provides substitutes for various industrial products now being imported into the country
- f. Improves the quality of industrial products manufactured in the cottage industry sector.

Small business is the Open University for entrepreneurs to translate their vision innovative, ideas into a reality and stand out distinctively in society. In the process, they not only produce wealth and services, but also create employment opportunities for others. Small business is thus the seed of the entrepreneur's dreams. Today entrepreneurs remain the backbone of society.

The small-scale sector is manufacturing over 7,500 items involving very simple to highly sophisticated technologies and offering opportunities for the utilization of local resources and skills. Apart from handicrafts and other traditional products, small-scale units manufacture some of the high value added and sophisticated products like electronic typewriters, electronic survey equipments, Security and fire alarm systems, television sets and other consumer durable products. The modern small-scale industrial segment includes tiny units, power looms, traditional industries like khadi and village industries, handlooms, handicrafts, sericulture, and coir industry.

The small-scale industrial classification based on the size, structure of manufacturing units in terms of the monetary value of paid – up capital or fixed assets or plant and machinery is problematic for a number of reasons including difficulties of measurement and poor data availability. Smallness by itself does not identify any set of unique problems common to all small businesses. The identification of problems common to such widely differing business entities is difficult. The concept as it has developed in India also shows confusion and lack clarity. Before independence, the term “small scale industry” was meant to denote the village based and / urban cottage industries, manufacturing handicrafts.

### 3.2 Innovation in Small Scale Industries

Innovation process in small scale industries is not a linear process of technological development. Many socio-cultural factors mediate the process of technology generation. As small firms are embedded in their social environment, most of their innovative behavior and processes are guided by their social relations (Cooke and Wills, 1999; Murphy, 2002).

Innovation in small firms is rarely targeted towards acquiring knowledge from research and advanced technology producers. It basically involves identifying existing gaps in the market; assimilating available knowledge and fitting it to the specific requirement of the market (Subrahmanya, 2005, Edwards *et al* 2005). Studies on innovation in small scale industries have explored various dimensions of innovation, such as the relationship between firm performance and innovation (Verhees, 2005); innovation and social environment of the small firm (Subrahmanya, 2005; Rothwell, 1991); and, social networks and small firms (Murphy, 2002; Freel, 2005; Cooke and Wills, 1999). It is observed that in general MSMEs do not innovate formally, learning by doing being a more common style of innovation. Hence, scholars have studied innovation in MSME as informal processes of innovation (Abereijo *et al.* 2009). Innovation in MSMEs has also been studied as an attribute of the entrepreneur, deriving from the vision and motivation of entrepreneur (Kristiansen, 2003).

The major reasons for innovations in small firms are to reduce costs, improve quality, improve product shapes/dimensions, increase the range of products, and to respond to market challenges. Hence incremental innovation is more common in small firms than radical innovation (Kharbanda, 2001; Vyas, 2005; Subrahmanya, 2005; Subrahmanya *et al.*, 2002). In small firms only a small proportion of innovation is carried out in formal R&D setup by specialised engineers (Romijn, 1997) whereas most part of the technology development depends on shop-floor problem solving methods, which involve setting up, running, maintaining, repairing and making minor changes to technology in response to local conditions.

An important source of innovation in the MSME sector is the ability of an entrepreneur to create an environment of learning out of the social relations between innovating partners (Harmaakorpi, 2006). Social network of firm impacts the ability of firm to innovate. Kristiansen (2003) reported in his study of small scale businesses in rural Java, that the areas at the forefront in innovative processes possess some common properties such as some kind of specialization, a strong interactive, synergetic atmosphere, internal dynamism, a capacity to exploit external information

and resources, a collective learning process, and a strong local identity. All these sources form the innovation system in which social environment of the firm is more important than individual entrepreneur’s knowledge. R&D capacity of the firm is an important variable in studying sources of innovation. R&D activities carried out by small firms are largely in-house (Subrahmanya *et al.* 2002). Klomp and Van Leeuwen (1999) show that firms which perform R&D on a permanent basis have a significantly higher innovation output than firms not performing R&D on a continuous basis. It is also shown that internal R&D leads to product innovation while acquisition of machinery leads to process innovation. There are certain common patterns visible in MSMEs, for instance, they are mostly managed by owners / entrepreneurs, and hence are less bureaucratic and more flexible in organizational and decision making matters. The information system is relatively simple and most of the innovations are owing to the efforts of the entrepreneur. Entrepreneurs in small scale firms are generally not very qualified persons (technocrats are an exception) (Hausman, 2005), they do not have much legal expertise and often this obstructs their way of acquiring patents for innovations. Long term planning is almost absent in this sector of the economy (Clancy, 2001). Lack of awareness of existing technologies (Tewari and Pandey, 2010), and market mechanisms (Subrahmanya, 2005), weak management skills (Clancy, 2001), collateral problem in acquiring finances are some of the stumbling blocks for MSMEs (Freel, 2005; Kharbanda, 2001). These factors explain why MSMEs usually engage in incremental innovation

### 4. Role of Government

Small enterprises assume special position in India because of their role as creators of large scale employment opportunities apart from contributing significantly to industrial production, exports and regional dispersal. In the next 9-10 years, there may not be drastic changes in the structure of SSIs but some changes may be expected in the composition of the SSI sector in India. In the changed environment only the efficient, viable and competitive SSI units will survive. The contribution of this sector which is currently 40percent of industrial production and 35 percent of exports, will further improve. The SSI sector currently provides employment to 192 lacs persons. According to Working Group on 10th Plan on SSIs, 44.1 lacs additional employment opportunities would be provided by the end of 10th Plan. This has also been accepted by Dr. S.P. Gupta Special Group Report (May 2002) on Targeting 10 Million jobs per year during 10th Five Year Plan. At present our share in the world trade is only 0.67 percent, which is very low by any standards. This will have to be improved to 1.5 percent in the next 10 years. The target by the end of 10<sup>th</sup> Plan is to raise share to 1 percent. The SSI sector is expected to be contributing significantly to our national exports; may be to the tune of 50 percent. For this, the sector will need certain support so that it is able to overcome the handicaps due to inaccessibility to economies of scale and the use of somewhat obsolete technology, inadequate and delayed supply of credit, poor infrastructure etc. Though the policy of reservation in the present form may not exist but the sector will need some support which will help it to attain a level playing ground. The Comprehensive Policy Package announced by the Prime Minister on 30th August 2000 may be able to improve the situation with regard to the availability of credit and infrastructure and in

technology up gradation. The role of the Government will also undergo changes from one of the protector to facilitator. In fact, during the last ten years i.e. after the introduction of economic reforms, one can discern a change in the role of the Government. In the developing countries, where the infrastructural facilities for development are inadequate and entrepreneurial activities are limited, the promotional role of government assumes the special significance. The State will have to assume direct responsibility to build up and strengthen the necessary developmental guidance on promoting technologies through Tool Rooms, Process cum Product Development Centers, Testing Centers etc. The role of the Government in ensuring a level playing field to SSIs will continue and hence fiscal, monetary and other incentives will continue. The present study is an attempt in that direction with the main purpose to locate the problems and practices prevalent in these industries. It is a study of problems and prospects of exporting and non-exporting small scale industries. So, it will also helpful to boost the export of country.

## 5. Conclusion

Entrepreneurship is the lifeblood of any economy. Indian entrepreneurs are more about overcoming barriers, obstacles, inspiring & surmount in their fields. Entrepreneurship is one of the important segments of economic growth. Innovation is a key factor that an entrepreneur brings in an overall change through innovation for the maximum social good. The growth of entrepreneurship particularly in the small scale sector can be traced to the Second World War boom which brought many enterprising people from various walks of life. As someone said — failures are the stepping Stones for Success. If we observe the way any entrepreneur, their life is not a bed of roses. They faced many obstacles in the way of entrepreneurial achievement.

The level of unemployment is a mirror image of the state of a nation's economy. Suffice to also say, youth unemployment is highly dependent on the overall status of the economy. Economic activity, measured by GDP growth, is probably the single factor that most influences the chances of young people finding a job. Low or negative GDP growth, economic recession and low investment are direct causes in the shrinking demand for labour. entrepreneurship education by helping youth to access small loans that are needed to begin business operation and by providing more individualised attention to the development of a viable business idea.

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