Chapter 1

Entrepreneurship Development in India

1.1 **Introduction –**

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 a old concept according to which any one 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.

1.2 The Evolution of Entrepreneurship

The word *'entrepreneur'* is derived from the French verb *'enterprendre'*. It means *"to undertake"*. [1]

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[1] For a compilation of definitions, Robert C. Ronstadt, *Entrepreneurship* (Dover, MA: Lord Publishing, 1984),p.28; Howard H. Stevenson and David E. Gumpert, "The Heart of Entrepreneurship," *Harvard Business Review* (March/April 1985):p.85-94; and J. Barton Cunningham and Joe Lischeron, "Defining Entrepreneurship:' *Journal of Small Business Management* (January 1991): p.45-61.

The Frenchmen who organized and led military expeditions were referred to as "entrepreneurs".

Around 1700 A.D. the term was used for architects and contractor of public works.

In many countries, the term entrepreneur is often associated with a person who starts his own new business. Business encompasses manufacturing, transport, trade and all other self employed vocation in the service sector.

Entrepreneurship has been considered as the propensity of mind to take calculated risk with confidence to achieve predetermined business objectives.

There are many views and opinions on the concept of entrepreneurship forwarded by some of the world famous management gurus and economists as mentioned below which will help in understanding this concept.

Oxford Dictionary

"A person who sets up a business or businesses, taking on financial risks in the hope of profit"[2]

International Encyclopedia

"An individual who bears the risk of operating a business in the face of uncertainty about the future conditions"[3]

Schumpeter's Definition

"*The entrepreneur in an advanced economy is an individual who introduce something new in the economy- a method of production not yet tested by experience in the branch of manufacturing, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like"*[4]

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[2] *Oxford Dictionary*, 3rd Edition 2005 New York, Oxferd University Press Inc, p. 476-477.

[3] Donald F. Kuratko, "*Entrepreneurship*," International Encyclopedia of Business and Management (London: Routledge Publishers, 1997), p.168-176.

Drucker's Views on Entrepreneur

"An entrepreneur is the one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or different service" [5]

Richard Cantillon

"A person who pays certain price for a product to resell it at an uncertain price thereby making decision about obtaining and using resources while assuming the risk of enterprise"[6]

Adam Smith

The entrepreneur as an individual who forms an organization for commercial purpose. He/She is proprietary capitalist, a supplier of capital and at the same time a manager who intervenes between the labor and the consumer.

"Entrepreneur is an employer, master, merchant but explicitly considered as a capitalist"[7]

Hoselitz

According to him, in an underdeveloped economy, not to speak of the Schumpetarian innovators, even imitator-entrepreneurs had a distinct role to play.

In underdeveloped economy resources are limited and can not be utilized for further developments of products. Developing or underdeveloped countries always have potential for imitated products because of huge demand in market. Imitating entrepreneurs have great opportunities in such market and can create more number of jobs for others.

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[4] Joseph Schumpeter, "Change and the Entrepreneur," in *Essays of I. A. Schumpeter, ed. Richard V. Clemence* (Reading, MA: Addison-Wesley, 1951),p.255.

[5] Drucker Peter F., *Innovation and Entrepreneurship,* UK, Elsevier Linacre House, 2006

[6] Richard Cantillon, "Essai surla nature du commerce on general, translated by H Higgs" Macmillon London, 1931 .

[7] Taneja S. and Gupta S. L. *Entrepreneurship Development* 2nd Edition, New Delhi, Galgotia Publication, 2006,p. 3-5.

The entrepreneur is the one who undertakes to organize, manage, and assume the risks of a business. In recent years entrepreneurs have been doing so many things that it is necessary to broaden this definition. Today, an entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these' efforts.

The entrepreneur is the aggressive catalyst for change in the world of business. He or she is an independent thinker who dares to be different in a background of common events. The literature of entrepreneurial research reveals some similarities, as well as a great many differences, in the characteristics of entrepreneurs. Chief among these characteristics are personal initiative, the ability to consolidate resources, management skills, a desire for autonomy, and risk taking. Other characteristics include aggressiveness, competitiveness, goal-oriented behavior, confidence, opportunistic behavior, intuitiveness, reality-based actions, the ability to learn from mistakes, and the ability to employ human relations skills.[8]

Although no single definition of entrepreneur exists and no one profile can represent today's entrepreneur, research is providing an increasingly sharper focus on the subject. A brief review of the history of entrepreneurship illustrates this.
Entrepreneurship is catalyst of business and economic development. The social and economic forces of entrepreneurial activity existed long before the new millennium.
In fact, as noted, the entrepreneurial spirit is linked with humanity’s achievements.

Eventually all of these theories proposes the role of entrepreneur as the "agent of change," the force that initiates and implements material progress. Today we

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[8] See 'Calvin A. Kent. Donald L. Sexton, and Karl H. Vesper, *Encyclopedia of Entrepreneurship* (Englewood Cliffs, NJ: Prentice-Hall, 1982): Ray V. Montagno and Donald F. Kuratko, "Perception of Entrepreneurial Success Characteristics," *American Journal of Small Business* (winter 1986): p.25-32: Thomas M. Begley and David P. Boyd. "Psychological Characteristics Associated with Performance in Entrepreneurial Firms and Smaller Businesses," *Journal of Business Venturing* (winter 1987): p.79-91: and Donald F. Kuratko, "Entrepreneurship," *International Encyclopedia of Business and Management* (London: Routledge Publishers, 1997), p.168-176.

recognize that the agent of change in human history has been and most likely will continue to be the entrepreneur.[9]

The recognition of entrepreneurs dates back to eighteenth-century France when economist Richard Cantillon associated the "risk-bearing" activity in the economy with the entrepreneur. In England during the same period, the Industrial Revolution was evolving, with the entrepreneur playing a visible role in risk taking and the transformation of resources.[10]

The association of entrepreneurship and economics has long been the accepted norm. In fact, until the 1950s the majority of definitions and references to entrepreneurship had come from economists. For example, Cantillon (1725), just mentioned; Jean Baptiste Say (1803), the renowned French economist; and Joseph Schumpeter (1934), a twentieth century economic genius, all wrote about entrepreneurship and its impact on economic development.[11] Over the decades writers have continued to try to describe or define what entrepreneurship is all about. Here are some examples:

Entrepreneurship consists in doing things that are not generally done in the ordinary course of business routine; it is essentially a phenomenon that comes under the wider aspect of leadership.[12]

In entrepreneurship, there is agreement that we are talking about a kind of behavior that includes: (1) initiative taking, (2) the organizing or reorganizing of social economic mechanisms to turn resources and situations to practical account, and (3) the acceptance of risk of failure.[13]

After reviewing the evolution of entrepreneurship and examining its varying definitions, Robert C. Ronstadt put together a summary description:

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[9] Kent, Sexton, and Vesper, *Encyclopedia of Entrepreneurship*, xxix.

[10] Israel M. Kirzner, "Perception, Opportunity, and Profit: Studies" in the *Theory of Entrepreneurship* (Chicago: University of Chicago Press, 1979).p.38-39.

[11] See Ronstadt, *Entrepreneurship*,p. 9-12.

[12] Joseph Schumpeter, "Change and the Entrepreneur," in *Essays of I. A. Schumpeter, ed. Richard V. Clemence* (Reading, MA: Addison-Wesley, 1951),p.255.

[13] Albert Shapero, Entrepreneurship and Economic Development, Project ISEED, Ltd. (Milwaukee, WI: *Center for Venture Management*, summer 1975), p. 187.

Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources.[14]

Entrepreneurship as a topic for discussion and analysis was introduced by the economists of the eighteenth century, and it continued to attract the interest of economists in the nineteenth century. In the twentieth century, the word became synonymous or at least closely linked with free enterprise and capitalism. Also, it was generally recognized that entrepreneurs serve as agents of change; provide creative, innovative ideas for business enterprises; and help businesses grow and become profitable.

Whatever the specific activity they engage in, entrepreneurs in the twenty-first century are considered the heroes of free enterprise. Many of them have used innovation and creativity to build multimillion-dollar enterprises from fledgling businesses-some in less than a decade. These individuals have created new products and services and have assumed the risks associated with these ventures. Many people now regard entrepreneurship as "pioneership" on the frontier of business.

In recognizing the importance of the evolution of entrepreneurship into the twenty - first century, we have developed an integrated definition that acknowledges the critical factors needed for this phenomenon.

Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks-in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skill to marshall needed resources; the fundamental skill of building a solid business plan; and, finally, the vision to recognize opportunity where

[14] Ronstadt, *Entrepreneurship*, p. 28.

others see chaos, contradiction, and confusion.

All the above definitions have focused light on entrepreneurship; on the basis of that one can differentiate between corporate manager and entrepreneur.

There are so many differences between traditional managers or corporate manager and entrepreneur. Traditional manager delegates and supervises the subordinates while having least direct involvement. The entrepreneur has more of direct involvement with lest delegation i.e. entrepreneur believe in direct involvement with least delegation. Traditional manager avoid risk while entrepreneur ready to accept risk.

The corporate managers are mostly concerned about the likes and dislikes of their senior managers, the entrepreneur serves themselves and for their organization. Entrepreneur builds strong relations with everybody around them whereas corporate manager follow the relationship as per the organization chart. The prime difference between them is related to their motivation, corporate managers are motivated by salary raise, promotion and other corporate rewards, while independence and scope of working creatively motivates entrepreneurs.

This study will focus light on how to develop more number of entrepreneurs instead of traditional managers/corporate managers.

1.3. History of Entrepreneurship in India

The history of entrepreneurship is important worldwide, even in India. In the pre colonial times the Indian trade and business was at its peak. Indians were experts in smelting of metals such as brass and tin. Kanishka Empire in the 1st century started nurturing Indian entrepreneurs and traders.

Following that period, in around 1600 A.D., India established its trade relationship with Roman Empire. Gold was pouring from all sides. Then came the Portuguese and the English. They captured the Indian sea waters and slowly entered the Indian business. They forced the entrepreneurs to become traders and they themselves took the role of entrepreneurs. This was the main reason for the downfall of Indian business in the colonial times which had its impact in the post-colonial times too. The colonial era make the Indian ideas and principles rigid.

A region of historic trade routes and vast empires, the Indian subcontinent was identified with its commercial and cultural wealth for much of its long history. Gradually annexed by the British East India Company from the early eighteenth century and colonized by the United Kingdom from the mid-nineteenth century, India became an independent nation in 1947 after a struggle for independence that was marked by widespread nonviolent resistance. It has the world's twelfth largest economy at market exchange rates and the fourth largest in purchasing power. Economic reforms since 1991 have transformed it into one of the fastest growing economies however, it still suffers from high levels of poverty, illiteracy, and malnutrition. For an entire generation from the 1950s until the 1980s, India followed socialist-inspired policies. The economy was shackled by extensive regulation, protectionism, and public ownership, leading to pervasive corruption and slow growth. Since 1991, the nation has moved towards a market-based system.[15]

Entrepreneurship is the result of three dimensions working together: conducive framework conditions, well-designed government programmes and supportive cultural attitudes. Across these three perspectives of entrepreneurship, two major conclusions are apparent. Firstly, the economic, psychological and sociological academic fields accept that entrepreneurship is a process. Secondly, despite the separate fields of analysis, entrepreneurship is clearly more than just an economic function.

1.3.1. Economy of India before British-Raj

The Indian economy in the pre-British period consisted of isolated and self-sustaining villages on the one hand, and towns, which were the seats of administration, pilgrimage, commerce and handicrafts, on the other. Means of transport and communication were highly underdeveloped and so the size of the market was very

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[15] Chernovskaya, Valentina, *Indian Entrepreneurship*, Delhi, Shipra Publication, 2005, p. 1-49.

small. To understand pre-British India, it is essential to study the structure of the village community, the character of towns, the character of internal and foreign trade, the state of the means of transport and communications.

1.3.2. The structure and organisation of villages

The village community was based on a simple division of labour. The farmers cultivated the soil and tended cattle. Similarly, there existed classes of people called weavers, goldsmiths, carpenters, potters, oil pressers, washermen, cobblers, barber-surgeons, etc. All these occupations were hereditary and passed by tradition from father to son. These craftsmen were paid a stipend out of the crops at the harvest time in lieu of the services performed.

Most of the food produced in the village was consumed by the village population itself. The raw materials produced from primary industries were the feed for the handicrafts. Thus the interdependence of agriculture and hand industry provided the basis of the small village republics to function independently of the outside world. Sir Charles Metcalfe writes in this connection: "The village communities are little republics having nearly everything they want within themselves; and almost independent of foreign relations. They seem to last where nothing lasts. This union of the village communities, each one forming a separate little state by itself is in a high degree conducive to their happiness, and to the enjoyment of a great portion of freedom and independence."[16] The villages did acknowledge some outside authority, who in turn may be under a Muslim Nawab or a Hindu king, by paying a portion of the agricultural produce varying between one-sixth to one-third or even in some periods one-half as land revenue. The land revenue sustained the government.

There were three distinct classes in village India: (i) the agriculturists, (ii) the village artisans and menials, and (iii) the village officials. The agriculturists could be further divided into the land-owning and the tenants. Labour and capital needed was either supplied by the producers themselves out of their savings or by the village landlord or by the village moneylender. These credit agencies supplied finance at exorbitant rates

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[16]Quoted by Iawaharlal Nehru, *Discovery of India*, (1947). p. 302.

of interest but since the moneylender and the landlord were the only sources of credit, the peasants and even the artisans were forced to depend on them. The village artisans and menials were the servants of the village. Most of the villages had their panchayats or bodies of village elders to settle local disputes. The panchayats were the courts of justice.

The villages of India were isolated and self-sufficient units which formed an. enduring organisation. But this should not lead us to the conclusion that they were unaffected by wars or political upheavals. They did suffer the aggressors and were forced to submit to exactions, plunder and extortion, but the absence of the means of transport and communications and a centralized government helped their survival.

1.3.3. Industries and handicrafts in pre-British India

The popular belief that India had never been an industrial country is incorrect. It was true that agriculture was the dominant occupation of her people but the products of Indian industries enjoyed a worldwide reputation. The muslin of Dacca, the calicos of Bengal, the sarees of Banaras and other cotton fabrics were known to the foreigners. Egyptian mummies dating back to 2000 B.C. were wrapped in Indian muslin. Similarly, the muslin of Dacca was known to the Greeks under the name Gangetika.

The chief industry spread over the whole country was textile handicrafts. The high artistic skill of the Indian artisans can be visualised from this account given by T.N. Mukherjee : "A piece of the muslin 20 yards long and one yard wide could be made to pass through a finger ring and required six months to manufacture."[17] Besides the muslins, the textile handicrafts included chintzes of Lucknow, dhotis and dopattas of Ahmedabad, silk, bordered cloth of Nagpur and Murshidabad. In addition to cotton fabrics, the shawls of Kashmir, Amritsar and Ludhiana were very famous.

Not only that India was also quite well-known for her artistic industries like marble-work, stone-carving, jewellery, brass, copper and bell-metal wares, woodcarving, etc. The cast-iron pillar near Delhi is a testament to the high level of metallurgy that existed in India.

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[17] Quoted by D.R. Gadgil, *The Industrial Evolution of India*, p. 34.

The Indian industries "not only supplied all local wants but also enabled India to export its finished products to foreign countries."[18] Thus, Indian exports consisted chiefly of manufactures like cotton and silk fabrics, calicos, artistic wares, silk and woolen cloth. Besides, there were other articles of commerce like pepper, cinnamon, opium, indigo, etc. In this way, Europe was a customer of Indian manufactures during the 17th and 18th centuries. It was this superior industrial status of India in the pre-British period that prompted the Industrial Commission (1918) to record: "At a time when the West of Europe, the birth place of modern industrial system, was inhabited by uncivilised tribes, India was famous for the wealth of her rulers and for high artistic skill of her craftsmen. And even at a much later period, when the merchant adventures from the West made their first appearance in India, the industrial development of this country was, at any rate, not inferior to that of the more advanced European nations."[19]

1.3.4. Economic consequences of British conquest

India had been conquered before the British too but the invaders settled in India. The difference of the British conquest lies in the fact that it led to the emergence of a new political and economic system whose interests were rooted in a foreign soil and whose policies were guided solely by those interests. Whereas the early invaders Indianized themselves, the British tried to keep a distance between them and the Indian people and thus created the distinction erstwhile not known to Indian history--the foreign rulers and the Indian subjects.

The British rule can be divided into two epochs, first the rule of the East India Company ranging from 1757 to 1858, and second, the rule of the British Government in India from 1858 to 1947. The establishment of the British rule itself was a slow and lengthy process, extending over more than a hundred years. The British conquest which started in 1757 with the Battle of Plassey was completed only by 1858. During this period England was passing through the period of changes in the techniques of production which revolutionised manufacturing. The coming of Industrial Revolution which synchronised with the period of British conquest helped the British to sell

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[18] Ranade, *Essays on Indian Economics*, p. 171.
[19] Industrial Commission Report, p. 1.

machine made goods in India in competition with Indian handicrafts. The British conquest led to the disintegration of the village community partly by the introduction of the new land revenue system and partly by the process of commercialisation of agriculture. The new land system and the commercial agriculture meant untold exploitation of the Indian peasantry and the country was consequently plagued by frequent famines. The British were not interested in developing India as such. The growth of railways or the spread of irrigation or the expansion of education or the creation of revenue settlements were all initiated with one supreme goal, i.e., to accelerate the process of economic drain from India.

1.3.5. Decline of Indian handicrafts and progressive ruralisation of the Indian economy

Before the beginning of Industrial Revolution in England, the East India Company concentrated on the export of Indian manufactured goods, textiles, spices, etc., to Europe where these articles were in great demand. The Industrial Revolution reversed the character of India's foreign trade. Tremendous expansion of productive capacity of manufactures resulted in increased demand of raw materials for British industry and the need to capture foreign markets. As a first step, attempts were made to restrict and crush Indian manufactures. On the other hand, efforts were made to commercialise agriculture so as to step up the export of raw materials. The Indian textile handicrafts were the first to be hit. The decline of this industry started a chain reaction leading to the speedy decline of other handicrafts. The process of decline of handicrafts was accelerated by the development of means of transport. The principal causes that led to the decay of handicrafts were as follows: - .

a) Disappearance of Princely courts. The growth of quite a number of industries and towns was possible owing to the patronage of nawabs, princes, rajas and emperors who ruled in India. The British rule meant the disappearance of this patronage enjoyed by the handicrafts. Cotton and silk manufactures suffered especially. Besides, the artisans who manufactured specially designed articles for display and decoration of courts also suffered because of a decline in the demand for works of art.

b) Hostile policy of the East India Company and the British Parliament. The British were always guided by their own interests and never bothered to consider the effects of their policies on the people of India in terms of unemployment, human suffering, famines, etc. They formulated certain policies, and propagated them but when conditions changed in England they were quick to reverse or suitably alter them. The British economists always tried to provide the theoretical basis of these policies and behind the theoretical formulations were the British interests. For instance, in the first half of the 18^{th} century, the British used tariff with the object of protecting their woollen and silk manufactures on the one hand and of raising additional revenues to finance continental wars, on the other. The period 1882 to 1894 was one of complete free trade. By this time, England had developed industrially to such an extent that unrestricted competition of British manufactures with Indian handicrafts led to their decline. It was only when England rose to the position of industrial supremacy that free trade was advocated by the British economists and administrators. Thus, the British manufacturers employed the arm of political injustice in order to exploit the Indian market. The selfish policy of the British imperialists crippled Indian industries and helped the process of industrialisation in Britain.

c) Competition of machine-made goods. The large-scale production that grew as a result of Industrial Revolution meant a heavy reduction in costs. It also created a gigantic industrial organisation and, consequently, the machine-made goods began to compete with the products of Indian industries and handicrafts. This led to the decline of textile handicrafts -- the largest industry of India. Whereas the British emphasized the free import of machine- made manufactured goods they did not allow the import of machinery as such. The decline of Indian handicrafts created a vacuum which could be filled by the import of British manufactures only. Thus, India became a classic example of a colonial country supplying her imperialist rulers raw materials and foodstuffs and providing markets for the manufactures of her rulers. The development of roads, railways and telegraphs, intensified the competition between indigenous and foreign goods and hastened the process of the decline of handicrafts. The opening of the Suez Canal in 1869 reduced transport costs and thus made the exploitation of the Indian market easier.

d) The development of new forms and patterns of demand as a result of foreign influence. With the spread of education, a new class grew in India which was keen to imitate western dress, manners, fashions and customs so as to identify itself with the British officials. This led to a change in the pattern of demand. Indigenous goods went out of fashion and the demand for European commodities got a fillip. Besides, there was a loss of demand resulting from the disappearance of princely courts and nobility. Thus, the British rule, silently but surely, alienated the Indians not only from Indian culture but also diverted in its favour their form and pattern of demand for goods.

The destruction of Indian handicrafts had far reaching economic consequences. It led to unemployment on a vast scale. Since textile industry was the worst sufferer in this process, the weavers were hit the most. Lord William Bentinck reported in 1834 : "the misery hardly finds a parallel in the history of commerce. The bones of cotton weavers are bleaching the plains of India."

Another consequence of the decline of handicrafts was the compulsory back-to-the-Iand movement. The British destroyed the institution of Indian handicrafts but did not care to provide an alternative source of employment. The unemployed craftsmen and artisans shifted to agriculture and increased the proportion of population dependent on land. This trend of the growing proportion of the working force on agriculture is described as 'progressive ruralization' or 'deindustrlalization of India'. In the middle of the nineteenth century, about 55 per cent of the population was dependent on agriculture, in 1901 it was about 68 per cent, the proportion went up to about 72 per cent in 1931. Thus, the increased pressure of population on land was responsible for progressive sub-division and fragmentation of holdings. It led to an increase in land-rents charged from tenants. It meant an increase in the number of landless labourers. Thus, the crisis in handicrafts and industries seriously crippled Indian agriculture.

1.3.6. Process of industrial-transition in India.

The process of industrial transition in the British period is broadly divided into industrial growth during the 19th century and industrial progress during the 20th century. It was mainly the private sector -- whether indigenous or foreign -- that carried industrialisation forward. Only after the First World War some protection was granted to Indian industries otherwise Indian industry had to weather all storms and face world competition on its own strength. This explains the slow growth of industrialisation.

A) Private enterprise and industrial growth in the 19th century : The outstanding industrial events of the 19th century were the decline of indigenous industries and the rise of large-scale modern industries. This change was brought about by private enterprise. The rise of large-scale industries was slow in the beginning but by the close of the 19th century, the movement was more rapid.

The period 1850-55 saw the establishment of the first cotton mill, first jute mill and the first coal mine. In the same period, the first railway line was laid in India. In a period of 25 years, that is, by the last quarter of the 19th century, there were 51 cotton mills and 18 jute mills. During the same period, India produced one million tonnes of coal per annum and the Indian railways had a mileage of 8,000. By the end of the 19th century there were 194 cotton mills and 36 jute mills, and coal production had risen to over 6 million tonnes per annum. In spite of the very rapid increase in industrialisation and the fact that the foundations for the development of modern industries for the utilisation of coal and iron resources were laid by the end of the 19th century, India was being gradually converted into an agricultural colony of the British. By 1900, India had become a great exporter of rice, wheat, cotton, jute, oilseeds, tea, etc. and an importer of British manufactures. In this way India had become an appendage of the British colonial system.

During the 19th century, it was but natural that British business should pioneer industrial enterprise in India. The Britishers had experience of running industries at home. British enterprise received maximum state-support. Besides, much of the business developed in India was related either to the Government or interests in some way connected with Britain. Though industrialisation was started by the British in the 19th century, the Britishers were more interested in their profit and not in accelerating the economic growth of India.

Apart from the British, the Parsis, the Jews and the Americans were also prominent first as merchants and later as industrialists. They were close-knit and highly progressive communities. The Parsis were particularly progressive to rapidly adopt European business methods.

Within the Indian community, conditions were not favourable for the emergence of industrial leaders, partly because of the peculiar way in which factory industry came to India, as compared to its development in England. In the West two principal groups were ready to set up factories: the merchants and the master craftsmen. The merchants had capital, marketing ability and capacity to manage labour. The master craftsmen did not have capital but had understood the materials and their proper handling. Because of certain peculiar features, neither Indian merchants nor Indian craftsmen took interest in the factory system. Most Indian merchants belonged to the Baniya or moneylending community. They possessed capital and were always eager for its security and profits. But when the factory system was introduced in India by the British, the merchant class found greater opportunities for trade. The development of shipping and the building of railways resulted in larger trade, both external and internal. Besides, there were more opportunities for lending money. Thus, the merchants found greater scope for profits in their traditional occupations and hence did not give them up and take to the factory industries.

At the same time, Indian craftsmen too did not play the part played by their western counter-parts in the field of industrialisation because they did not possess large capital. Besides, they were without proper training and education.

However, Indians joined the ranks of industrialists early in the middle of the 19^{th} century and their role grew throughout the period, continuously and steadily. They used the same managing agency system as the Britishers. They were becoming increasingly important members of companies established by the Britishers. Those indigenous business groups who gave up traditional occupations and who took to industrial ventures were the Parsis, the Gujaratis, the Marwaris, the Jains and the Chettiars.

B) Private enterprise and industrial growth in the first half of the 20^{th} century: In 1905, the Swadeshi movement was started. It stimulated Indian industries and there was a slow but steady growth in the field of existing industries as well as the establishment of new industries between 1890 and the outbreak of the war of 1914. Over 70 cotton mills and nearly 30 jute mills were set up in the country. Coal production was more than doubled. Extension of railways continued at the rate of about 800 miles per annum. The foundation of iron and steel industry was finally laid during this period.

The war of 1914-18 created enormous demand for factory goods in India. Imports from England and other foreign countries fell substantially. Besides, the government demand for war-purposes increased considerably. As a result, great stimulus was given to the production of iron and steel, jute, leather goods, cotton and woollen textiles. Indian mills and factories increased their production and were working to full capacity. But on account of the absence of heavy industries and also of the machine tools industry, they could not develop fast enough.

Tariff protection to Indian industries. In 1923 the Government of India accepted the recommendations of the First Fiscal Commission and gave protection to selected Indian industries against foreign competition. Between 1924 and 1939 several major industries were given protection by the Government, prominent among them being iron and steel industry, cotton textiles, jute, sugar, paper and pulp industry, matches, etc. Indian industrialists took advantage of the policy of protection extended by the Government and developed the protected industries rapidly. They were able to capture the entire Indian market and eliminate foreign competition altogether in important fields.

The outbreak of the war in 1939 created very urgent demand for manufactured goods. The imports from foreign countries declined while the government demand for them increased. Naturally the existing industries expanded rapidly. Many new industries which came to be known as war babies were started. But as during the First World War, the Indian industries suffered again for want of replacements, stores and technical knowledge. The increase in industrial output between 1939 and 1945 was about 20 per cent. But the conditions created by the war led to the maximum utilisation of existing capacity. The conditions of shortage created by the Second World War continued in the post-war period, but the overall index of output went up by only 5 per cent between 1945 and 1950.

Decline ill the share of foreign enterprise. By the beginning of the First World War the British controlled at least half the production in India's major industries. But this control steadily declined. According to one estimate, the British controlled 43 per cent of gross assets in 1914, 10 per cent in 1935 and only 3.6 per cent in 1948.

C) Causes of slow growth of private enterprise in India's industrialisation (1850-1957) : It is important to find out the reasons why Indian industry did not expand significantly relative to the rest of the economy over the hundred years before Independence. They were:

I. Unimaginative private enterprise. One important reason frequently mentioned is the inadequacy of entrepreneurial ability. Indians were reluctant to enter the industrial field because of the comparatively easier and secure scope for profit which existed in trading and moneylending. The Britishers who pioneered industrial change in India were not really interested in industrialisation of the country as such. But then Indian industrialists too were so short-sighted, they rarely bothered about the future and cared very little for replacement and for renovation of machinery. They were influenced by nepotism rather than ability in their choice of personnel. They were also influenced by their trading background viz., high price and high profit margin rather than low prices and larger sales. They emphasized sales than production. To a certain extent, therefore, unimaginative private enterprise was responsible for the slow growth of industrialisation in this country.

II. Problem of capital and private enterprise: In the 19th and 20th centuries, Indian industrialists had suffered from lack of adequate capital. Just as British enterprise was prominent, so also British Capital was significant in India's industrialisation. A larger part of the total invested capital in modem enterprises in India was imported from Britain. Capital was scarce not only because the resources of the country were underdeveloped but also because the avenues for the investment of surplus wealth were few. There were no Government loans or company stocks and debentures. Accordingly, people held their wealth in the form of gold and silver.

There was complete absence of financial institutions to help the transfer of savings to industrial investment. The indigenous financial institutions concerned themselves with rural moneylending and financing of internal trade. Institutions which concerned themselves with rural savings for a comparatively long period, were altogether neglected. In the early days of industrialisation, people were generally hesitant to entrust their savings to the company promoters. .

Banking was not highly developed in India and was more concerned with commerce rather than with industry. The Industrial Commission wrote in 1918 :

"The lack of financial facilities is at present one of the most serious difficulties in the way of extension of Indian industries." By 1870 there were only two joint stock banks of more than Rs. 5 lakhs capital each in the country. Even in the beginning of the 20th century, there were only 9 such banks. The swadeshi movement gave a fillip to the starting of banks but the number of bank failures in this period was so great as to cancel any good effect from banking expansion. The private bankers and joint stock banks did provide funds for industrial enterprises but this aid was limited to well-established concerns only.

It is interesting to note that Indian factory-owners followed closely the British system as regards capital resources. In the beginning funds for investment came from surpluses earned in rural moneylending and trading. But in course of time new resources were also tapped. For instance rulers and princes, those who amassed wealth from opium trade and in the cotton boom during the civil war in America, wealthy professional people like doctors and lawyers, Government officials, etc.--these people were induced to part with their wealth and savings for investment in industrial enterprises. The textile mills of Ahmedabad and to a small extent those of Bombay and Sholapur attracted deposits from the public. It is true that shortage of capital did affect industrialisation in India but too much importance should not be given to this factor alone.

III. Private enterprise and the role of Government. One of the important reasons and according to some authorities, the most important reason for the slow growth of Indian industries was the lack of support from the Government. In the 19th century, the Government did provide certain overhead investments which helped private enterprise. Examples were the railways and communications. But the Government did not provide the other conditions essential for private enterprise. The important fact to remember is that in the critical years of growth (between 1850 and 1947) Indian enterprise was operating under a foreign government which was extremely unsympathetic to native private enterprise.

The tariff policy in India reflected the needs of business interests in Great Britain. The British interests advocated free access to the Indian market. Till 1924 the Government refused to impose custom duties on the import of foreign goods. Even when they imposed low duties on some goods for purposes of collecting revenue, they sought to neutralise their effects by imposing equivalent excise duties on goods of local origin. When the Government ultimately adopted a policy of protection, it did not give protection to all industries but only to a few selected industries which fulfilled certain specified conditions.

It may be mentioned here that the British Government in India leaned heavily on industry in Britain for its large purchases of equipment for public utility in health and education, railway and military supplies, etc. Even simple machines and standard supplies were imported. Those orders could have served to stimulate expansion in Indian industry.

In spite of these difficulties, we must admire the achievements of India's indigenous business communities since 1850. At the same time, we can readily understand why industrial effort was not sufficient to accomplish a transition to industrialisation, to spark modernisation of agriculture and industrial activities comparable to those achieved in sovereign independents nations.

1.3.7. Colonial exploitation forms and consequences

The major form through which the exploitation of India was done was trade, Later, the British started making investments in Indian industries and the process of economic drain started through investment income in the form of dividends and profits. In addition to this, India had to pay the costs of British administration, in the form of home charges. They included salaries of British officers (both civil and military), payment of pensions, furloughs and other benefits, as also interest payments on sterling debt.

The main forms of colonial exploitation were:
(i) Trade policies aimed at developing a colonial pattern of trade in which India would become an exporter of foodstuffs and raw materials and an importer of manufactures; (ii) encouragement of British capital to take up direct investment in Indian consumer goods industries; (iii) encouragement of finance capital, through the managing agency system, to appropriate a major portion of the profits through various malpractices; and (iv) to force India to pay the costs of British administration as well as to finance the wars and expeditions undertaken by the British Government.

(a) Exploitation through Trade Policies

Trade policies were used against India by the East India Company and later by the British Government to drain away wealth from India to feed the expanding British industry with raw materials and also to encourage the trend towards commercialisation of agriculture so that the Indian economy could be transformed as an appendage of the British colonial system. Thus, trade policies were a very convenient, but a potent source of exploitation.

1. Exploitation of cultivators to boost indigo-export: - East India Company wanted to encourage indigo export. Some (500 to 1000) European planters were settled in Bengal. They were given land at a very nominal price. They forced the cultivators on their land to cultivate and sell the indigo plant at a very low price. Even other zamindars were compelled to allocate a portion of their land for indigo cultivation. Once an agreement was signed with a zarnindar or a ryot accepted the advance for cultivation he had to suffer the ruthless exploitation of the indigo planters who made fabulous profits from its export.
2. Exploitation of artisans through Company agents to deliver cotton and silk fabrics much below the market price -- During the 18th century, the East India Company wanted to benefit from the export of Indian cotton and silk fabrics which enjoyed a worldwide reputation. For this purpose, the Company made use of agents called as Gomastas. The gomastas who were Indians in the employment of the Company, would go to the village and force the artisans to sign a bond to deliver a certain quantity of goods at a price to be fixed by the gomasta. The price fixed was at least 15 per cent and in extreme cases, even 40 per cent lower than the market price. In case, an artisan refused to accept the advance offered by the Company's gomasta, he was punished by flogging and in certain cases, by imprisonment. In this way, through the Company's gomastas, the East India company was able to procure cotton and silk fabrics at very low prices. Thus, the poor artisan was squeezed so that the East India Company made huge profits through the export of these fabrics. The ruthlessness of the Company was so inhuman that the artisans worked like bonded labour and this explains their growing pauperisation.

3. Exploitation through the manipulation of import and export duties - Though Great Britain professed to be a follower of free trade, but her trade policies towards Indian goods only revealed that she never followed the policy of free trade. During the 18th century, Indian goods, specially cotton and silk fabrics,

enjoyed a lead over the British goods. The aim of British trade policies was to destroy the supremacy of the Indian goods, protect the interests of British industries and ultimately succeed in penetrating the Indian market by the machine-made goods. To achieve this end, several measures were undertaken:

a.) After 1700, imports of Indian printed cotton fabrics in England were banned. The purpose of this measure was to eliminate the Indian competitor from the British market. The craze for Indian goods was so strong that some smuggling did take place. A case was reported that an English lady who possessed an Indian handkerchief was fined £ 15.

b.) Heavy import duties were imposed on Indian goods, other than foodstuffs and raw materials imported from India and very nominal duty on the imports of British manufactures into India. The declared policy of the East India Company was to encourage the production of raw cotton, raw jute, sugarcane, groundnuts, raw silk and other raw materials and to discourage the production of manufactures in India. This policy of unequal trade was forced on India and since India had been subjugated, she could not retaliate but accept this wanton attack on the industry. Ramesh Chandra Dutt citing the famous historian H. H. Wilson mentions:

"Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of the steam. They were created by the sacrifices of the Indian manufacturer. Had India been independent, she would have retaliated, would have proposed prohibitive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted to her, she was at the mercy of the stranger. British goods were forced upon her without paying any duty, and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms."[20]

c.) Discriminating protection whittled down by the clause of imperial preference -- Towards the beginning of the 20th century, there was a strong demand by the Indian national movement to protect the interests of Indian industries. The British Government decided to grant discriminating protection. During the process of implementation, only such industries were granted protection in which the Indian industry had to face competition with some other country and not Great Britain. Since Sweden happened to be the competitor, match industry was granted protection. But the woolen industry was not granted protection because the interests of the British came in clash with those of Indian industry. Similarly, cement industry was another example in which protection was denied. But in this case, the only serious competitor was U.K. Another example was that of heavy chemicals, an industry of national importance, in which protection was denied because there was a clash between British and Indian interest.

Within the framework of the policy of discriminating protection, Great Britain got the clause of Imperial Preference introduced. The sum and substance of this policy Was that impm1s from Great Britain and exports to Great Britain should enjoy the most favoured nation treatment. This could be done by charging much lower import duties or no duties at all on goods imported from Britain. Similar preference to Great Britain was to be shown in exports vis-a-vis other nations. Thus, the British Government took away by the left hand what it gave in the form of discriminating protection by the right hand. In other words, the policy of imperial preference was used to eliminate competitors from the Indian market so that Great Britain could have full control to exploit it through its trade policies.

Indian public opinion consistently opposed the introduction of imperial preference. Lord Curzon's government in 1903 definitely pronounced against the policy of Imperial preference on the following grounds:

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[20] Cited in Romesh Chander Dutt, *The Economic History of India*, Vol. I, p.180-81.

(i) About 3/4th of India's imports came from the British Empire while the remaining 14th was of a kind which British Empire either did not produce or was not in a favourable position to supply.

(ii) In the decision of fiscal policy concerning India, powerful sections of the British people always exerted their influence and there was the danger that India might be forced to shape her policy not in accordance with her own needs but in accordance with the needs of other members of the Empire.

(iii) That the Government would lose a large portion of the revenue it received from British and colonial imports and it would be left with no alternative but to make up the deficit by enhanced duties on foreign goods.

(iv) If the matter was thought from the economic point of view, Lord Curzon's government thought, India had something but not perhaps very much to offer to the Empire. She had very little to gain but a great deal to lose.

All these arguments produced no effect on the British. The matter was referred to the Indian Fiscal Commission (1923) and the majority of the Commission expressed themselves in favour of Imperial Preference. Obviously, the British were more concerned about retaining their hold on the Indian market. Though they were great advocates of free trade in theory, in practice they used every device to protect their interests against the entry of other nations, especially Japan, into the Indian market. This would break their monopoly of exploitation which as rulers they were totally unwilling to compromise. The main purpose of protection was not to help Indian business to undertake investments in India, but to help the British capital find safe and secure avenues of investment. Writing in 1912, Alfred Chetterton in his work "Industrial Evolution of India" in a very forthright comment explained: "Protection would attract capital from abroad, and with the capitalist would come the technical expert and the trained organiser of modem industrial undertakings. Success would undoubtedly attend their efforts, and India would contribute labour and raw materials. The educated Indian would play but a small part; and he would in the course of time realise that the protective duties mainly served to enable Europeans to exploit the country India does not want a protective tariff to enable an artificial industrial system to be created, the masters of which will be able to take toll of the earnings of the country, and establish a drain on its resources which will in the long run retard progress". Prophetic though it may appear, later developments showed that the policy of discriminating protection supported by Imperial preference produced precisely the same results.

(b) Exploitation through export of British Capital to India

In the early phase of colonialism, the chief instrument of exploitation was trade but later the British thought of encouraging investment in India, There were three principal purposes of these investments. Firstly, after the first war of Indian Independence (1857), which the British described as the Mutiny, it was realised by the Government that for the effective control and administration of the country, it was essential that an efficient system of transport and communication should be developed. Secondly, in order to effectively exploit the natural resources of India, it was essential to develop public utilities like generation of electricity and water works. Thirdly, to promote foreign trade so that food and raw materials collected in various mandis are quickly transported abroad and the manufactures imported in India are quickly distributed in various markets, the British thought it necessary to link railways with major ports on the one hand and the marketing centres (mandis) on the other. This explains why railway development in India was planned in such a manner that it served the colonial interests.

1.4 Nature of Unemployment in India

India is a developing economy, the nature of unemployment, therefore, sharply differs from the one that prevails in industrially advanced countries. Lord Keynes diagnosed unemployment in advanced economies to be the result of a deficiency of effective demand. It implied that in such economies machines becomes idle and demand for labour falls because the demand for the products of industry is no longer there. Thus Keynesian remedies of unemployment concentrated on measures to keep the level of effective demand sufficiently high so that the economic machine does not slacken the production of goods and services.

This type of unemployment caused by economic fluctuations did arise in India during the depression in the 1930's which caused untold misery. But with the growth of Keynesian remedies, it has been possible to mitigate cyclical unemployment. Similarly, after the Second World War, when war-time industries were being closed, there was a good deal of frictional unemployment caused by retrenchment in the army, ordnance factories, etc. These workers were to be absorbed in peacetime industries. Similarly, the process of rationalization which started in India since 1950, also caused displacement of labour. The flexibility of an economy can be judge from the speed with which it heals frictional unemployment.

But more serious than cyclical unemployment or frictional unemployment in a developing economy like India is the prevalence of chronic under- employment or disguised unemployment in the rural sector and the existence of urban unemployment among the educated classes. It would be worthwhile to emphasize here that unemployment in developing economies like India is not the result of deficiency of effective demand in the Keynesian sense, but a consequence of shortage of capital equipment of other complementary resources.

1.4.1. Employment policy in the ninth plan

Labour Force Growth and Employment Requirements - Job opportunities will need to be created for 53 million persons during 1997-2002 as a consequence of labour force increase, for 58 million during 2002-07 and thereafter for 55 million during 2007-12.

Table 1.1: Combined Incidence of Unemployment and Under-employment

Activity Status	Proportion of labour force	Remarks
1. Labour force	100.0	Working or seeing work on usual status basis.
2. Employed	89.55	Usual status employed staying in workforce when classified by their weekly status.
3. Unemployed	2.02	Incidence of open unemployment on usual status basis.
4. Under-employed	8.43	Usual status employed going out of work when classified by their weekly status.
5. Unemployed & underemployed	10.45	Open employment on usual status and the incidence of loss of work by the usually employed when classified by their weekly status.

Source: Compiled from Planning Commission, Ninth Five Year Plan (1997-2002), Vol. I, February 1999.

1.4.2. Strengthening the Informal Sector

As indicated earlier, the formal sector in 1995 providing organised employment to 10 or more persons accounts for only 27.53 million workers being employed in them. The rest of the 312 million workers (about 92% of total) were engaged in agriculture as wage labourers, or self-employed in informal sector or seek employment in the service sector. Bulk of them were employed in the informal SSI sector which is seriously plagued with the problem of industrial sickness. Despite all talk about helping small scale units, the fact remains that mortality rate among the SSI units has been high, and more and more of bank credit gets sunk in these units. But this is also true that SSI sector is the principal source of employment and has the capacity to absorb a very large chunk of the labour force.

But the informal sector is mainly self-employed sector in which due to lack of capital, skill and technology, most of the employment continues to be low level employment. There is a need to strengthen the resource base of this sector both in terms of capital and technology and skill formation so that productive employment yields a higher level of income.

1.4.3. Growth rates of Employment

The growth rates of unemployment and labour force derived from NSS data are given in table.

Table 1.2: Growth of Employment by Sectors

Industry	Annual growth rate of Employment (%)	
	1983-94	**1994-00**
Primary	1.60	-0.34
1. Agriculture	1.51	-0.34
2. Mining and Quarrying	4.16	-2.85
Secondary	2.90	3.14
3. Manufacturing	2.14	2.05
4. Electricity, Gas & Water Supply	4.50	-0.88
5. Construction	5.32	7.09
Tertiary	3.53	2.42
6. Trade	3.57	5.04
7. Transport, Storage & Communications	3.24	6.04

Industry	Annual growth rate of Employment (%)	
	1983-94	1994-00
8. Financial Services	7.18	6.20
9. Community, Social & Personal Services	2.90	0.55
Total Employment	2.04	0.98

Source: Compiled and computed from the data provided by the Planning Commission (2001), Report of Task Force on Employment Opportunities, table 3.2.

Table 1.3: Unemployment Rates by Age Group 1999-2000

(As percent of labour force)

Age Group	Unemployment Rate		
	Rural	Urban	Combined
15-19	13.3	19.0	14.4
	(8.8)	(16.6)	(10.3)
20-24	11.8	18.7	13.5
	(9.8)	(19.2)	(12.0)
25-29	8.7	10.9	9.2
	(7.4)	(10.4)	(8.1)
Sub Group	11.0	15.5	12.1
(15-29)	(8.6)	(15.0)	(10.11)
30-34	6.1	4.9	5.8
35-39	5.0	3.7	4.6
40-44	4.8	2.7	4.2
45-49	4.6	2.4	3.9
50-54	4.5	2.1	3.9
55-59	4.6	2.0	4.0
60 & above	3.5	3.8	3.5
All Age Groups	7.2	7.7	7.3
	(5.6)	(73.4)	(6.0)

* Unemployment Rates are on Current Daily Status. Figures in parenthesis give the comparative estimates for 1993-94.

Source : NSSO 50^{th} (1993-94) and 55^{th} (1999-2000) Round Surveys.

Table 1.4: Unemployment Rates among Educated Youth (%)

Year	Secondary Education & Above			All types of Technical Education		
	Rural	Urban	Combined	Rural	Urban	Combined
1983	20.4	30.0	20.7	25.0	23.9	24.4
	(2.5)	(10.7)	(4.2)			
1987-88	15.9	16.6	16.2	24.0	20.7	22.1
	(3.8)	(12.1)	(5.4)			
1993-94	17.0	20.8	18.5	29.0	25.9	27.3
	(2.9)	(10.8)	(4.6)			
1999-	12.5	18.3	14.8	22.8	24.5	23.7
2000	(3.7)	(11.2)	(5.4)			

Note- Youth means age group 15-29

Source- NSS Survey

Table 1.5: Total Employment and Organised Sector Employment

Sector	Employment (million)				Growth rate (% per annum)	
	1983	1988	1994	1999-00	1983-94	1994-00
1. Total population	718.21	790.00	895.05	1004.10	2.12	1.93
2. Total labour force	308.64	333.49	381.94	406.05	2.05	1.03
3. Total employment	302.75	324.29	374.45	397.00	2.04	0.98
4. Organised sector	24.01	25.71	27.37	28.11	1.20	0.53
employment	(100.0)	(100.0)	(100.0)	(100.0)		
5. Public sector	16.46	18.32	19.44	19.41	1.52	-0.03
	(68.6)	(71.3)	(71.0)	(69.1)		
6. Private sector	7.55	7.39	7.93	8.70	0.45	1.87
	(31.4)	(28.7)	(29.0)	(30.9)		
7. 4 as % of 3	7.93	7.93	7.30	7.08		
8. 2 as % of 1	43.0	42.2	42.7	40.4		

Note :

1. Total employment figures are on Usual Status (UPSS-Unemployment rates on usual principal and subsidiary Status) basis.
2. The organised sector employment figures are as reported in the Employment Market Information System of Ministry of Labour and pertain to 31st March of 1983, 1994 and 1999.
3. Figures in brackets indicate the percentage of employment in the public sector and private sector to total oranised sector employment.

Source : Compiled and computed from Commission (2001), Report of the Task Force on Employment Opportunities, p. 2.25.

1.4.4. Employment policy of the eleventh plan

Scenario of employment and unemployment on the eve of the 11th Plan

The Approach Paper of the 11th Plan has highlighted the following issues:

1. Average daily status unemployment rate, which had increased from 6.1% in 1993-94 to 7.3% in 1999-00 increased further to 8.3% in 2004-05.
2. Agricultural employment has increased at less than 1% per annum, slower than the growth in non-agricultural employment.
3. Among agricultural labour households which represent the poorest groups, there was a sharp increase in unemployment from 9.3%in 199-94 to a high level of 15.3% in 2004-05.
4. Non-agricultural employment expanded robustly at an annual rate of 4.7% during 1999-2005 but this growth was entirely in the unorganized sector and mainly in low productivity self-employment.
5. Employment in the organized sector actually declined by 0.38% per annum during 1994-2000, despite fairly healthy GDP growth. This is a cause for frustration among the educated youth who have rising expectations.
6. According to Annual Survey of industries, real wages stagnated or declined even for workers in the organized sector although managerial and technical staff did secure large increase.

1.4.5. Employment Requirements during the Eleventh Plan (2007-2012)

On account of the increasing participation of females, the total increase in labour force will be around 65 million during the 11th Plan. To this may be added the present backlog of about 35 million. Thus, the total job requirements of the 11th Plan work out be 100 million.

The planners aims to provide 65 million additional employment opportunities. As a consequence, the Approach Paper states: "This will not create full employment, but it will at least ensure that the unemployment rate falls somewhat." However, even this modest goal implies that the rate of growth of non-agricultural employment would need to accelerate to 5.8% per annum from 4.7% in 1999-2005. In other words, a massive reversal is required from the negative employment growth in the organized sector witnessed during the last decade.

1.4.6. Promotion of employment generation in the 11th Plan

To generate more employment in the economy, the 11th Plan states its strategy in the following words: "Additional employment opportunities in the future will be generated mainly in the services and manufacturing sector and policy initiatives are needed to support this. Measures would need to be taken in the Plan to boost, in particular, Labour intensive manufacturing sector such as food processing, leather products, footwear, textiles and service sectors such as tourism and construction."

1.4.7. Critique of employment policy

Keeping in view the performance of the last decade of negative employment growth in the organized sector, the Plan is over-ambitious about a huge reversal in the form of 15 million jobs. It may noted that total employment in the organized sector in 2004- was 26.4 million -18.2 million in the public sector and 8.2 million in the private sector. To hope to increase 10 million jobs in the private organized sector as against the total of 8.24 million jobs at present implies 121% addition to the existing job creating potential. The estimates are thus highly over-optimistic and utterly unrealistic. Not only that, to expect profitable public enterprises to increase job potential in the face of loss making units reducing jobs by about 2 million is also unrealistic. The total job potential of Central Public Sector Enterprises in 2005-06 was of the order of 1.65 million. Again to think of an expansion in their employment by 2.0 million in the next 5 years appears to be improbable, more so in view of the fact that state level public sector undertakings are mostly incurring huge losses year after year and would not be able to contribute to increase in employment.

1.5 Small Scale Enterprises in India

A common classification is between traditional small industries and modem small industries. Traditional small industries include khadi and handloom, village industries, handicrafts, sericulture, coir, etc. Modern small-scale industries produce wide range of goods from comparatively simple items to sophisticated products such as television sets, electronics control system, various engineering products, particularly as ancillaries to the large industries. The traditional small industries are highly labour-intensive, while the modem small-scale units make use of highly sophisticated machinery and equipment. For instance, during 1979-80 traditional small industries accounted for only 13 per cent of the total output but their share in total employment was 56 per cent. In that year, total output of traditional small industries came to be Rs. 4,420 crores and this output was produced with the employment of 133 lakh workers, the average output of labour in traditional small industries was roughly Rs. 3,323.

As against this, the share of modem small industries in the total output of this sector was 74 per cent in 197980 but their share in employment was only 33 per cent. Obviously, these industrial units would be having higher labour productivity. For instance, in 1979-80 a total output of Rs. 24,885 crores was produced by 78 lakh workers in modem small-scale industries-the average product of labour being Rs. 31,900.

One special characteristic of traditional village industries is that they cannot provide full time employment to workers, but instead can provide only subsidiary or part-term employment to agricultural labourers and artisans. Among traditional village industries, handicrafts possess the highest labour productivity; besides, handicrafts make a significant contribution to earning foreign exchange for the country. Under these circumstances, active encouragement of handicrafts is a must. On the other hand, traditional village and small industries are largely carried on by labourers and artisans living below the poverty line, while modem small industries can provide a good source of livelihood. Hence, if with an expansion of employment, the number of persons living below the poverty line has also to be reduced, then a rapid and much larger expansion of the modem small sector will have to be planned.

1.5.1. Role of small-scale industries in Indian economy

The small-scale industrial sector which plays a pivotal role in the Indian economy in terms of employment and growth has recorded a high rate of growth since Independence in spite of stiff competition from the large sector and not so-encouraging support from the Government. This is evidenced by the number of registered units which went up from 16,000 in 1950 to 36,000 units in 1961 and to 33.7 1akh units in 2000 - 2001. During the last decade alone, the small-scale sector has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro-wave components, electro-medical equipment, T.V. sets, etc.

The Government has been following a policy of reservation of items for exclusive development in the small-scale sector. At the time of the 1972 Census of a Small - Scale Industrial Units, there were 177 items in the reserved list. By 1983, the reserved list included 837 items for exclusive production in the small-scale sector. These units produce over 8,000 commodities.

Census 2001-02 reported that 97.2% of the registered SSI units were proprietary, only 1.3 percent were partnerships and 0.5 per cent were private companies and just 0.1% were co-operative. In other words, the dominant type in the ownership pattern is proprietary with a small fraction operating as partnerships.

Table 1.6: Production, Employment and Exports in Small Scale Sector

Year	No. of Units (in lakhs)			Production (Rs. Crores)		Employment (Lakhs)	Export (Rs. Crores)
	Registered	Unregistered	Total	At Current Prices	At 1993-94 Prices		At Current Prices
1994-95*	19.44	6.27	25.71	298,886	266,054	146.56	29,068
1994-95	11.61	67.99	79.60	122,210	109,116	191.40	29,068
1995-96	11.57	71.27	82.84	148,290	121,649	197.93	36,470
1996-97	11.99	74.22	86.21	168,413	135,380	205.86	39,248
1997-98	12.04	77.67	89.71	189,178	147,824	213.16	44,442
1998-99	12.00	81.36	93.36	212,901	159,407	220.5	48,979
1999-00	12.32	84.83	97.15	234,255	170,709	229.10	54,200
2000-01	13.10	88.00	101.10	161,289	184,428	239.09	69,797
2001-02	13.75	91.46	105.21	282,270	195,613	249.09	71,244
2002-03	14.68	95.42	110.10	311,993	210,636	261.38	86,013
2003-04	15.54	98.41	113.95	357,733	228,730	271.36	97,644
2004-05	16.57	102.02	118.59	418,263	251,511	282.91	1,24,417
2005-06	18.70	104.70	123.40	476,201	2,77,668	294.90	1,50,242

Year	No. of Units (in lakhs)			Production (Rs. Crores)		Employment (Lakhs)	Export (Rs. Crores)
	Registered	Unregistered	Total	At Current Prices	At 1993-94 Prices		At Current Prices
Average Annual Growth Rate (1994-95 to 2005-06)	4.4	4.0	4.1	13.1	8.8	4.5	16.1

*These figures relate to data given by Ministry of Small Scale Industries earlier.

Source: Ministry of Small Industries as given in Economic Survey (2007-08) and Ministry of Small Scale industries.

1.5.2. Output and Employment of the Small Industries

According to the Third Census, in 2001-02, there were 13.75 lakh units in the registered sector and 91.46 lakh units in the unregistered sector, thus recording a total number of 105.21 lakh units in the SSI sector. Ironically, the Census estimated a much lower figure of production by SSI sector. Keeping these facts in view, the Ministry of Small Scale Industries has revised the data pertaining to SSI sector. For the purpose of comparison, the figures given earlier by the Ministry have also been provided in above table.

The data reveal that the total number of SSI units has increased from 79.6 lakhs in 1994-95 to 123.4 lakhs in 2005-06, indicating an annual, average growth rate of 4.1 per cent, but their production (at 1993-94 prices) increased from Rs. 1,09,116 crores in 1994-95 to Rs. 2,77,668 crores in 2005-06 i.e. an annual average growth of 8.8 per cent. As a consequence of the increase in SSI units, more especially in the unregistered sector, employment increased from 191.4 lakhs in 1994-95 to 294.9 lakhs in 2005-06, recording an average growth rate of 4.5 per cent per annum. So far as exports by the SSI sector are concerned, they increased from Rs. 29,068 crores in 1994-95 to Rs. 1,50,242 crores in 2005-06, recording a growth rate of 16.1 per cent per annum. The Ministry has not changed the data pertaining to exports. On the whole, it can be stated that during 1994-95 to 2005-06, the SSI sector recorded an annual average growth rate of production by 8.8%, of employment by 4.5 per cent and of exports by 16.1 %. This is a creditable achievement.

Obviously, the growth rate of the small-scale sector has been faster both in terms of output and employment. In other words, the output employment ratio for the small scale sector is 1: 1.4. The rapid growth of the small-scale industries has a great relevance in our national economic policies. The growth of the small sector improves the production of the non-durable consumer goods of mass consumption. As such, it acts as an anti-inflationary force. If a big push is given to the small sector, it can become a stabilising factor in a capital-scarce economy like India by providing a higher output capital ratio as well as a higher employment-capital ratio.

In this connection, we may refer to the relatively low capacity utilisation of the small-scale industries. The capacity utilisation in the small sector as a whole was of the order of 53 per cent. There were, however, many units having high capacity utilisation e.g., industries utilising 60 to 80 per cent of the capacity included leather goods, readymade garments, tiles, woollen knitwear, etc. Industries like plastic products had very low capacity utilisation (29 per cent).

Exports. Substantial increase in exports were observed in the case of readymade garments, canned and processed fish, leather sandals and chappals, food products, hosiery and marine products, etc. The value of exports increased to Rs.1,643 crores in 1980-81 and to a record high figure of Rs.1,50,242 crores in 2005-2006. A very significant feature of exports from the small-scale sector is their share in non-traditional exports. The share of exports from the small-scale sector represents about 32.3 per cent of total exports in 2005-2006.

The obvious conclusion is that the growth of SSIs in terms of number and output is comparatively much higher in reserved items than in unreserved items. The policy of reservation has, therefore, positively helped the growth of this sector.

Despite such positive evidence in favour of reserved items, the Union Budget (1997-98) dereserved 14 items hitherto manufactured by SSI sector. These items included ice-cream, biscuits, synthetic syrups, a variety of automobile parts, corrugated paper and boards, vinegar, poultry feed, rice milling, dal milling etc.

After the announcement of Industrial Policy of 1991, the Government has been dereserving more and more items of the SSI sector. As against 806 reserved items in 1977, the number of reserved items in 2007 is only 239.

1.5.3. Third census of small scale industries (2001-02)

Since the data of the Second All-India Survey pertaining to 1987-88 had outlived its utility, it was strongly felt that there was a need for undertaking a third survey of Small Scale Industries (SSI) so that policy formulation for the SSI sector is based on more authentic and recent information. The SSI ministry undertook this survey pertaining to 2001-02.

Data reveal that there were 105.2 lakh SSI units in 2001-02, out of which registered SSI units were 13.75 lakhs or 13 per cent of total, and the unregistered units were 91.5 lakhs or 87 per cent of total. The employment in the SSI sector was of the order of 249 lakhs, out of which registered sector contributed 61.6 lakhs or nearly 25 per cent and the unregistered sector contributed 187.7 lakhs or 75 per cent of total. Per unit employment was 4.5 persons in the registered sector and 2 persons per unit in the unregistered sector. This underlines the fact that unregistered sector provided employment to three times the number of persons employed by the registered SSI sector (Refer table).

Although fixed investment per unit was Rs. 1.5 lakhs for the entire SSI sector, it was of the order of Rs. 6.7 lakhs in the registered sector and barely 0.7 lakh in the unregistered sector. Relatively speaking, fixed investment per unit in the registered sector was nine times that in the unregistered sector. Investment per unit of labour employed (capital-labour ratio) was Rs. 1.49 lakhs for the registered sector as against only 0.33 lakhs for the unregistered sector. This also confirms the relatively lower capital intensity per unit of labour in the unregistered sector. Similarly, labour productivity (i.e. Output-employment ratio) of the registered sector was Rs. 3.29 lakhs as against merely 0.42 lakh in the unregistered sector nearly eight times.

Annual production per unit in the registered sector was Rs. 14.78 lakhs as against that of the unregistered sector only Rs. 0.86 lakhs - 17 times.

The reasons for non-registration were elicited in the Third Census. Interestingly, 52.3% of the units informed that they were not aware of provisions for registration, while 40.6% of the units indicated that they were not interested.

Table 1.7: Final Results of SSI Third Census (Selected Magnitudes of SSI Sector-2001-02)

	Registered SSI	Unregistered SSI	Total
No. of Units (lakhs)	13.75	91.46	105.21
	(13.1)	(86.9)	(100.0)
Fixed Investment (Rs. crore)	91,792	62,557	1,54,349
	(59.5)	(40.5)	(100.0)
Production in SSI Sector (Rs. crore)	2,03,255	79,015	2,82,270
	(72.0)	(28.0)	(100.0)
Employment (lakhs)	61.6	187.6	249.3
	(24.7)	(75.3)	(100.0)
No. of sick units/Incipient sick units (lakhs)*	1.92	6.30	8:22
	(23.4)	(76.6)	(100.0)
No. of sick units as per RBI criteria (Nos.)**	38,400	46,888	85,288

*Criteria adopted: Erosion of net worth or delay in repayment of institutional loan or continuous decline gross output.

** Criteria adopted: Erosion of net worth or delay in repayment of loan among units having outstanding institutional loan.

Source: Ministry of SSI, Compiled and computed from Final Results of Third Census of Small Scale Industries.

1.5.4. Small sector industrial policy

The Government announced its policy towards the small sector on 6th August 1991. The main features of the Policy were:

The Small-Scale Industrial Sector has emerged as a dynamic and vibrant sector of the economy during the eighties. At the end of the Seventh Plan period, it accounted for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports front the country. It also provided employment opportunities to around 12 million people.

The primary objective of the Small Sector Industrial Policy during the nineties was to impart more vitality and growth impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports.

I) Tiny Enterprises

Government have already announced increase in the investment limits in plant and machinery of small scale industries, ancillary units and export-oriented units to Rs. 60 lakhs, Rs. 75 lakhs and Rs. 75 lakhs respectively. Such limits in respect of "TINY" enterprises would now be increased from the present Rs. 2 lakhs to Rs. 5 lakhs, irrespective of locations of the unit.

Henceforth, all Industry-related service and business enterprises, irrespective of their location, would be recognised as small-scale industries and their investment ceilings would correspond to those of tiny enterprises.

II) Financial Support Measures

Inadequate access to credit'-both short term and long term-remains a perennial problem facing the small-scale sector. Emphasis would henceforth shift from subsidised / cheap credit, except for specified target groups, and efforts would be made to ensure both adequate flow of credit on a normative basis, and the quality of its delivery, for viable operations of this sector.

To provide access to the capital market and to encourage modernisation and technological upgradation it was decided to allow equity participation by other industrial undertakings in the SSI, not exceeding 24 per cent of the total shareholding. This would also provide a powerful boost to ancillarisation and sub-contracting, leading to expansion of employment opportunities.

A beginning has been made towards solving the problem of delayed payments to small industries by setting up of 'factoring' services through Small Industries Development Bank of India (SIDBI). Network of such services would be set up throughout the country and operated through commercial banks. Factoring services imply that SIDBI or any commercial bank will buy the manufacturer's invoices from SSI units and take the responsibility for collecting payments due to them by charging a commission.

III) Infrastructural Facilities

A Technology Development Cell (TDC) would be set up in the Small Industries Development Organisation (SIDO) which would provide technology inputs to improve productivity and competitiveness of the products of the small -scale sector. The TDC would coordinate the activities of the Tool Rooms, Process cum - Product Development Centres (PPDs), existing as well as to be established under SIDO, and would also interact with the other industrial research and development organisations to achieve its objectives.

Adequacy and equitable distribution of indigenous and imported raw materials would be ensured to the small-scale sector, particularly the tiny sub-sector

IV) Marketing and Exports

National Small Industries Corporation (NSIC) would concentrate on marketing of mass consumption items under common brand name and organic links between NSIC and SSIDCs would be established.

Though the Small Scale Sector is making significant contribution to total exports, both direct and indirect, a large potential remains untapped. The SIDO has been recognized as the nodal agency to support the small-scale industries in export promotion.

V) Modernisation, Technological and Quality Upgradation

Industry Associations would be encouraged and ported to establish quality counselling and commenting facilities. Technology and markets would be established.

VI) Promotion of Entrepreneurship

Government will continue to support first generation entrepreneur through training and will support their efforts. Large number of EDP trainers and motivators will be trained to significantly expand the Entrepreneurship Development Programmes (EDP). Industry Associations would also be encouraged to participate in this venture effectively. Women entrepreneurs will receive support through special training programmes.

VII) Village Industries : Handloom Sector

Handloom sector contributes about 30 per cent of the total textile production in the country. It is the policy of Government to promote handloom to sustain employment in rural areas and to improve the quality of life for handloom weavers.

Janata cloth scheme which sustains weavers often on a minimum level of livelihood will be phased out by the terminal year of the VIII Plan and replaced by the omnibus project package scheme under which substantial funds will be provided for modernisation of looms, training, provision of better designs, provision of better dyes and chemicals and marketing assistance.

Handicraft Sector - The key areas in handicrafts that could contribute towards a faster pace of rural industrialisation are production and marketing. Scheme for training and design development and for production and marketing assistance will be given encouragement.

VIII) Other Village Industries

The activities of the Khadi and Village Industries Commission and the State Khadi and Village Industries Boards would be expanded and the organisations strengthened to discharge their responsibilities more effectively.

The programmes of intensive development of KVI through area approach with tie-up with DRDA, TRYSEM and ongoing developmental programmes relating to weaker sections like Scheduled Castes, Scheduled Tribes and Women would be extended throughout the country.

1.5.5. Village and small industries in the ninth and tenth plan

The Ninth Plan mentions that during the last few years "the growth of SSI Sector in the non-reserved areas has been higher than in the reserved categories which is proof of their inherent strength and resilience of the small scale sector and its ability to respond to the challenge of the market forces."[21]

To increase the flow of credit, the Government has started setting up specialised branches of banks exclusively meant for providing credit to SSIs.

To improve technology of SSIs, SIDBl has already set up a Technology Development and Modernisation Fund with a corpus of Rs. 200 crores. The Government has also setup Technology Trust Funds with contributions from State Governments and industry associations for transfer and acquisition of the latest technologies.

Under the scheme of Integrated Infrastructure Development Centres (IIDCs), infrastructure facilities are being developed in backward rural areas. 50 such IIDCs were to be set up during the Eighth Plan pen out of which 22 have been approved. This scheme was continued during the Ninth Plan with more incentives and financial assistance in hilly areas and North Eastern States.

To provide technological support and training to small scale sector, tool rooms with German, Danish and Italian assistance are being set up at Indore, Ahmedabad, Bhubneshwar, Jamshedpur and Aurangabad.

The credit provided to the SSI sector by the financial institutions is considered credit to 'priority sector'. By March 1996, the total credit provided by public sector banks stood at Rs. 29,842 crores. This has risen to Rs. 65,855 crores in 2003-04.

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[21] Planning Commission, Ninth Five Year Plan (1997-2002), Vol. II, p. 576.

Table 1.8: Performance of the VSI (Village Small industries) Sector Production, Employment and Exports

Sub – Sector (Scheme)			Ninth Plan Achievement		Tenth Plan Target	
	Unit	Target*	2001-02 (Anticipated)	2 as % of 1	2006-07	Annual Average Growth Rate
A. Production						
1. Small Scale Industries	Rs. Crore	7,38,180	6,90,522	93.5	1,40,940	15.2
2. Coir Fibre	000 tonees	375	375	100.0	435	3.0
3. Handloom cloth	Mill Sq.m.	12,336	7,579	61.4	10,000	5.7
4. Powerloom cloth	Mill Sq.m.	30,489	25,273	82.9	1,32,821	29.3
5. Raw silk	Mill Sq.m.	20,540	18,395	94.4	26,450	6.2
6. Handicrafts	Rs. Crore	52,201	18,677	35.8	47,204	20.4
Employment						
1. Small Scale Industries	Million persons	18.4	19.3	104.9	23.7	4.2
2. Coir Fibre	Million persons	8.0	4.2	52.5	4.5	1.4
3. Handloom cloth	Million persons	0.6	0.54	83.3	0.65	3.7
4. Powerloom cloth	Million persons	17.3	12.4	71.7	12.0	-0.6
5. Raw silk	Million	7.1	5.6	78.9	6.0	1.4

Sub – Sector (Scheme)			Ninth Plan Achievement		Tenth Plan Target	
	Unit	Target*	2001-02 (Anticipated)	2 as % of 1	2006-07	Annual Average Growth Rate
	persons					
6. Handicrafts	Million persons	8.2	5.8	70.7	6.8	3.2
Exports						
1. Small Scale Industries	Rs. Crore	62,457	89,665	143.6	1,26,000	14.0
2. Coir Fibre	Rs. Crore	78,900	325	81.2	700	16.5
3. Handloom cloth	Rs. Crore	3,175	2,200	69.3	4,500	15.4
4. Powerloom cloth	Rs. Crore	8,050	11,000	136.6	N.A.	-
5. Raw silk	Rs. Crore	1,525	2,530	165.9	4,050	9.7
6. Handicrafts	Rs. Crore	11,950	10,610	88.8	17,000	9.7

*Targets have been taken from the Ninth Five Year Plan (1997-2002).

Source : Compiled and computed from Planning Commission, Tenth Five Year Plan (2002-07), Vol. II.

1.6 The Need for Rapid Industrialisation

The Planners justified their strategy of rapid economic development through rapid industrialisation.

1. At the time of Independence, India was essentially agrarian, though the country with its vast natural and human resources was ideally suited for industries. The planners felt that diversification of the use of resources would

be in the interest of the country form the point of view of production, employment and defense. Resources should, therefore be applied more towards the development of industry rather than to agriculture.

2. Indian agriculture was already suffering form heavy population pressure on land and productivity of labour on land was quite low—it was even thought that marginal productivity of labour on land might be zero and even be negative. One method of reducing this pressure of population on land and to raise agricultural productivity was to reduce the percentage of people living on land, and to shift the surplus population to industries. The setting up and expansion of the industrial sector was thus a necessary condition for raising the national product in general and for agricultural development in particular.

3. Rapid industrialisation was an essential condition for the development of not only agriculture but also for all other sectors in the country. For instance, with the expansion of industries and the shifting of labour from rural to urban areas, the demand for foodgrains and agricultural raw materials (such as cotton, jute, oil seeds, etc.) would increase. At the same time, increased production and supply of fertilisers, pesticides, agricultural machinery, etc. would help in the expansion of agricultural production. With rapid industrialisation, and with rapid expansion of markets, there would be expansion in trade and commerce, transportation, in banking and finance, etc.

4. Productivity of labour is much higher in manufacturing than in agriculture. The growth rates are much higher in industry than in agriculture. Rapid increase in national and per capita income would be possible only through rapid industrialisation.

5. The income elasticity of demand for industrial goods was much higher and export opportunities for manufactured goods were also high.

It was for all these reasons that industrialisation was emphasized by the Indian planners. Though the first two plans talked about balanced economic growth really speaking, the emphasis was on rapid industrialization

1.6.1. Heavy Industry Vs Light industry

An important aspect of the investment strategy formulated by professor Mahalanobis was the emphasis on heavy industries producing basic machines and metals. In other words, an increasing proportion of investment should be on machine-building industries. The Planning Commission supported this strategy for two reasons:

1. Investment in the heavy industry helps the Indian economy to build up a larger volume of capital stock and at a faster rate.
2. Heavy industries help to lay the foundation for a strong and self-reliant economy, partly through rapid expansion of all the sectors of the economy and partly by eliminating the dependence of the country on imports of essential machinery and equipment.

The Planning Commission rejected the alternative strategy of emphasising light industries producing consumption goods. True, this alternative approach would have the advantage of helping the Indian economy to produce a larger volume of consumption goods and this would have helped the people to have a higher standard of living in the short period and also combat inflationary pressures in the country. But this could be achieved by neglecting the accumulation of capital stock in the country. The Planning Commission rejected the short period availability of consumption goods in favour of production of capital goods which, in fact, would help, after a certain critical stage, to produce a larger volume of consumption goods. The capital goods approach based on the Russian experience, expected people to sacrifice in the short period in favour of a high level of living in the long period. Besides, this approach would enable the country to have a large volume of the capital goods in the short period and a large volume of both capital and consumption goods in the long period.

1.6.2. Implications of heavy industry strategy

The important implications of this strategy may be noted here.

***Small scale industries and supply of consumer goods*.** The planners of the Nehru era were clear in their mind that the growth of heavy industries would be limited by the growth of consumer goods in the household sector. Naturally, they did not ignore or neglect the growth of small sector for instance, the Second Plan framework stated: "The greater the marketable surplus of consumer goods in the household or hand industries, the greater will be the possibilities of investment in heavy industries without any fear of inflation.”[22]

For one thing, the growing population has to be fed and clothed; actually, the demand for consume goods will increase with the growth of population. For another, increasing rate of investment on heavy industries with long gestation periods would be responsible for increase in money supply with the general public and in the absence of matching supply of consumer goods will result in inflationary pressures. The Nehru-Mahalanobis model, gave active encouragement to cottage and small industries producing consumer goods. It was asserted that the input-output ratio would be low in small-scale and cottage industries and the gestation period was also very short and obviously, the small sector was ideally suited to increase the supply of consumer goods. Besides, Professor Mahalanobis argued that the cost of production in the cottage and small sector need not be higher that that of the factory sector since the small sector would also be making use of modern machinery and electricity.

Nehru also gave due importance to small-scale industries and agriculture which were the sources of consumer goods. In his own words, “The test of a country’s advance in industrialisation is heavy industry-not the small industries that may be put up. That does not mean that small industries should be ignored. They are highly important in themselves for production and for employment.”[23] The framework of the Second Five Year Plan stated : “The strategy requires all-out efforts for the maximum utilization of capacity I existing industries and for the development of additional production in the capital light or small sector of industries.”[24]

Place of Agriculture in the development strategy. On agriculture, Nehru Stated : “We shall find that this industrial progress cannot be achieved without agriculture advance and progress… Everyone knows that unless we are self-sufficient in agriculture we cannot have the wherewithal to advance in industries. If we have to import food, then we are doomed so far as progress is concerned. We cannot import both food and

[22] Second five Year Plan –The Framework,p.15
[23] Government of India, *Problems in the Third Plan, A Critical Miscellany*, p. 51.
[24] Second Five Year Plan-The Framework, p. 63.

machinery."[25]

It is thus clear that the Mahalanobis strategy of self-sustained growth based on heavy industries did not ignore or neglect the growth of small and cottage industries for increasing the supply of consumer goods.

In spite of many favourable factors for increasing the supply of consumer goods, Professor Mahalanobis did anticipate shortage in supply of consumer goods and possible rising prices and costs endangering the planning process. In his strategy of development, therefore, he provided for fiscal and physical controls including rationing to keep the prices in check.

Role of the Public Sector. The Mahalanobis investment strategy assigned a dominant role to the public sector. As investment in the heavy sector was very high and as the gestation period was too long and that too with low profitability, the Government felt that heavy industries should be, by and large, in the public sector. Except in isolated cases, the private sector too was not keen on providing infrastructural facilities. Besides, the control of the public sector would vest the control of the commanding heights with the Government and this would help the development of a socialist economy. Above all, the public sector would prevent the rise of monopoly ownership and exploitation which are inherent in the private sector. It was for these reasons that form the Second Plan onwards, the Government went in a big way for the expansion of the public sector.

The role of private sector. While giving direct responsibility to the public sector for infrastructure investment and the development of heavy industry, the development strategy expected the private sector to develop and expand its activities in a large area of economic activity. In a large area of economic activity. In fact, the private sector was given an important place in the mixed economy of India. But the activities of the private sector were seen to be essentially complementary to a rapidly growing public sector. The private sector was also expected to function in harmony with the overall aims and policies of economic planning. The planners anticipated a growing trend

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[25] Government of India, *Problems in Third Plan-A Critical Miscellany*, pp. 35-36.

towards concentration of economic power in the private sector and to counter this trend, the planners provided larger opportunities for new entrants for medium and small-sized units and also for extensive use of controls and regulations and also use of appropriate fiscal measures.

Role of foreign trade and foreign aid. Initially, the Planning Commission relied considerably on foreign aid to meet India's requirements of capital goods, as our foreign exchange earnings were inadequate. At the same time, the planners had to provide for foreign aid, since the rate of domestic savings was inadequate to match the planned higher rate of investment. They also emphasised that the creation of export surplus and export promotion should go hand in hand with rapid industrialisation. However, this aspect of the strategy was forgotten in practice even during the first decade of planning. The Third Plan clearly brought out this point : "One of the main drawbacks in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort."

1.6.3. Development strategy and employment objective

The Mahalanobis strategy of planning was essentially to *achieve the objective of self-sustained long-term growth via investment in the heavy sector*. For "rapid industrialisation and diversification of the economy", the Mahalanobis strategy considered the development of "basic industries which make machines to make machines needed for further development as the crucial element. This strategy naturally came in conflict with the employment objective of our plans. For, a fast and self-sustained economic growth could be ushered in only through emphasis on capital-intensive production, namely, "by building of economic and social overheads, exploration and development of minerals and promotion of basic industries like steel, machine building, coal and heavy electricals". To solve the conflict between rapid growth on the one side and immediate increase in employment opportunities on the other, Mahalanobis strategy adopted a "policy of encouraging labour-intensive techniques in consumer goods industries even as the capital-intensive sector of heavy industry was being expanded rapidly."

1.7 Approaches to Entrepreneurship

To understand the nature of entrepreneurship, it is important to consider some of the theory development so as to better recognize the emerging importance of entrepreneurship. The research on entrepreneurship has grown dramatically over the years. As the field has developed, research methodology has progressed from empirical surveys of entrepreneurs to more contextual and process-oriented research. As yet, no comprehensive theory base has emerged, however.

A theory of entrepreneurship is defined as a verifiable and logically coherent formulation of relationships, or underlying principles that either explain entrepreneurship, predict entrepreneurial activity (for example, by characterizing conditions that are likely to lead to new profit opportunities to the formation of new enterprises), or provide normative guidance (that is, prescribe the right action in particular circumstances).[26] As we are now in the new millennium, it has become increasingly apparent that we need to have some cohesive theories or classifications to better understand this emerging field.

In the study of contemporary entrepreneurship, one concept recurs: Entrepreneurship is interdisciplinary. As such it contains various approaches that can increase one's understanding of the field.[27] Thus we need to recognize the diversity of theories as an emergence of entrepreneurial understanding.

PROCESS APPROACHES

Another way to examine the activities involved in entrepreneurship is through a process approach. Although numerous methods and models attempt to structure the

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[26] Raphael Amit, Lawrence Glosten, and Eitan Mueller, "Challenges to Theory Development in Entrepreneurial Research," *Journal of Management Studies* (September 1993): 815-834; Ivan Bull and Howard Thomas, "A Perspective on Theory Building in Entrepreneurship," *Journal of Business Venturing* (May 1993): 181-182; Ivan Bull and Gary E. Willard, "Towards a Theory of Entrepreneurship," *Journal of Business Venturing* (May 1993): 183-195; Ian C. MacMillan and Jerome A. Katz, "Idiosyncratic Milieus of Entrepreneurship Research: The Need for Comprehensive Theories," *Journal of Business Venturing* (January 1992): 1-8; and Scott Shane and S. Venkataraman, "The Promise of Entrepreneurship as a Field of Research," *Academy of Management Review* (January 2000): 217-226.

[27] William B. Gartner, "What Are We Talking about When We Talk about Entrepreneurship?" *Journal of Business Venturing* (January 1990): 15-28; see also Lanny Herron, Harry J. Sapienza, and Deborah Smith Cook, "Entrepreneurship Theory from an Interdisciplinary Perspective," *Entrepreneurship Theory and Practice* (spring 1992): 5-12;'and Ivan Bull and Gary E. Willard, "Towards a Theory of Entrepreneurship," *Journal of Business Venturing* (May 1993): 183-195.

entrepreneurial process and its various factors, we shall examine three of the more traditional process approaches here.[28] First, we will discuss the "integrative" approach, as described by Michael H. Morris, P. Lewis, and Donald L. Sexton.[29] Their model incorporates theoretical and practical concepts as they affect entrepreneurship activity. The second approach is an assessment process based on an entrepreneurial perspective developed by Robert C. Ronstadt. The third process approach, developed by William B. Gartner, is multidimensional and weaves together the concepts of individual, environment, organization, and process. All of these methods attempt to describe the entrepreneurial process as a consolidation of diverse factors.

1.7.1. An “Integrative” Approach

A more integrative picture of the entrepreneurial process is provided by Morris et al. (1994).[30] Presented in Figure 1.1, this model is built around the concepts of input to the entrepreneurial process and outcomes from the entrepreneurial process. The input component of Figure 1.1 focuses on the entrepreneurial process itself and identifies five key elements that contribute to the process. The first is environmental opportunities, such as a demographic change, the development of a new technology, or a modification to current regulations. Next is the individual entrepreneur, the person who assumes personal responsibility for conceptualizing and implementing a new venture. The entrepreneur develops some type of business concept to capitalize on the opportunity (e.g., a creative approach to solving a particular customer need). Implementing this business concept typically requires some type of organizational context, which could range from a sole proprietorship run out of the entrepreneur's home or a franchise of some national chain to an autonomous business unit within a large corporation. Finally, a wide variety of financial and nonfinancial resources are required on an ongoing basis. These key elements are then combined throughout the stages of the entrepreneurial process. Stated differently, the process provides a logical framework for organizing entrepreneurial inputs.

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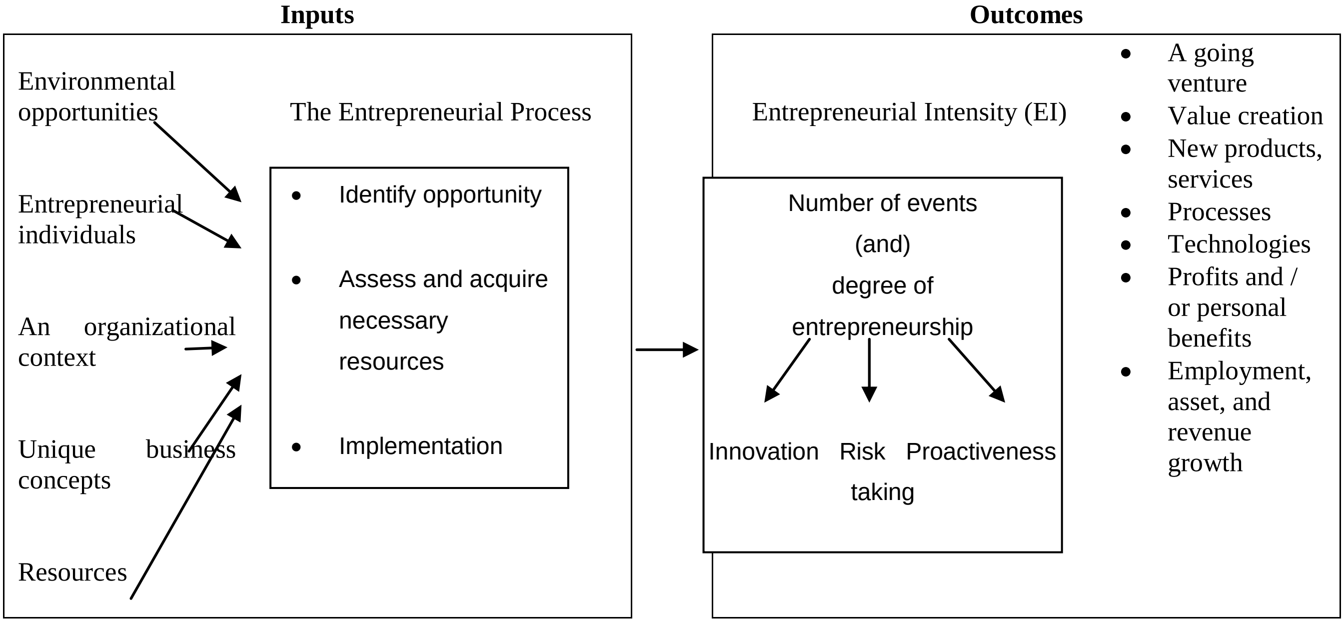
[28] The special issue dealing with models of *Entrepreneurship: Theory and Practice* 17(2) (1993). See also James J. Chrisman, Alan Bauerschmidt, and Charles W. Hofer, "The Determinants of New Venture Performance: An Extended Model," *Entrepreneurship Theory and Practice* (fall 1998): 5-30.
[29] Michael H. Morris, P. Lewis, and Donald L. Sexton, "Reconceptualizing Entrepreneurship: An Input-Output Perspective," *Advanced Management Journal* 59(1) (winter1994): 21-31.
[30] Morris, et al., “Reconceptualizing Entrepreneurship.”

Figure 1.1: An Integrative Model of Entrepreneurial Inputs and Outcomes



Source: Michael H Marris, P. Lewis, and Donald L Sexton, "Reconceptualizing Entrepreneurship: An Input-Output Perspective," SAM Advanced Management journal 59(1) (winter 1994): 21-31.

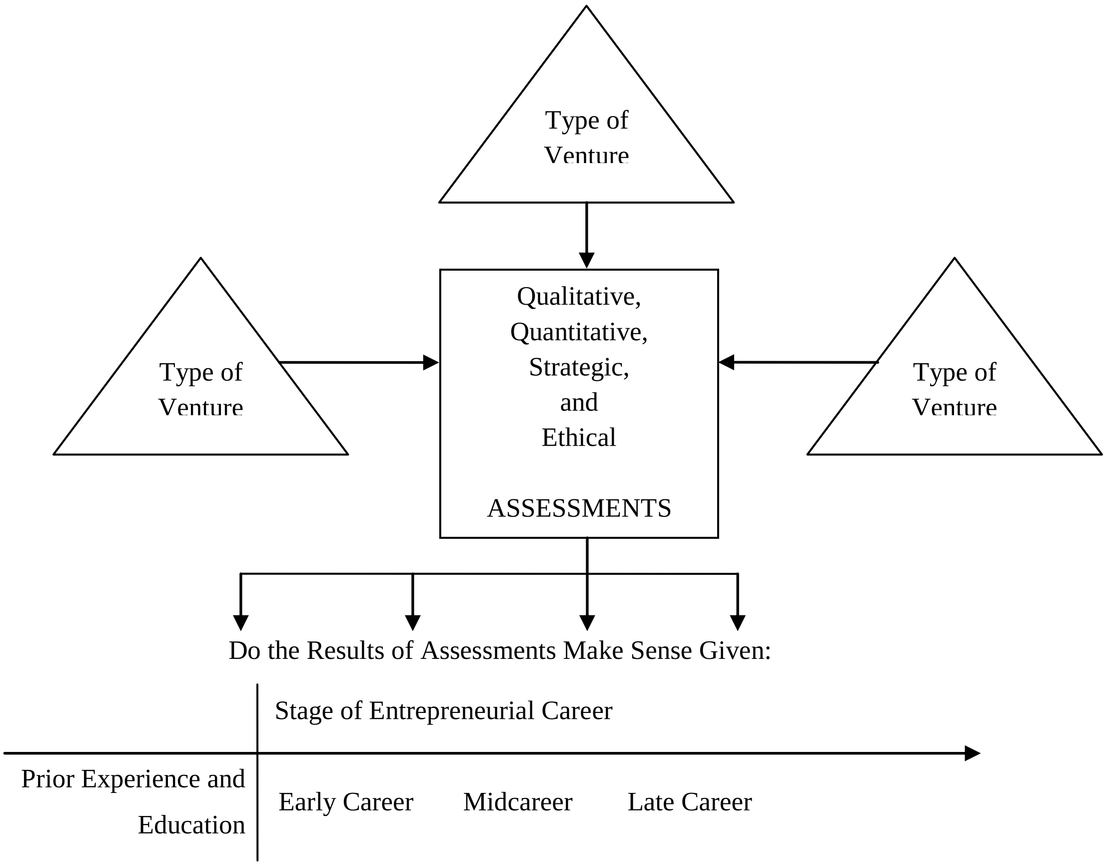
The output component of Figure 1 first includes the level of entrepreneurship being achieved. Entrepreneurship is a variable. Thus, the process can result in any number of entrepreneurial events and can produce events that vary considerably in terms of how entrepreneurial they are. Based on this level of "entrepreneurial intensity," final outcomes can include one or more going ventures, value creation, new products and processes, new technologies, profit, jobs, and economic growth. Moreover, the outcome can certainly be failure and thereby bring about the economic, psychic, and social costs associated with failure.

This model not only provides a fairly comprehensive picture regarding the nature of entrepreneurship, but can also be applied at different levels. For example, the model describes the phenomenon of entrepreneurship in both the independent start-up company and within a department, division, or strategic business unit of large corporation.

1.7.2. Entrepreneurial Assessment Approach

Another model, developed by Robert C. Ronstadt, stresses making assessments qualitatively, quantitatively, strategically, and ethically in regard to the entrepreneur, the venture, and the environment.[31] (Figure 1.2 depicts this model.) To examine entrepreneurship, the results of these assessments must be compared to the stage of the entrepreneurial career- early, midcareer, or late. Ronstadt termed this process "the entrepreneurial perspective".

Figure 1.2: Entrepreneurial Assessment Approach



Source: Robert C. Ronstadt, Entrepreneurship (Dover, MA : Lord Publishing Co. 1984), 39.

1.7.3. Multidimensional Approach

A more detailed process approach to entrepreneurship is the multidimensional approach.[32] In this view entrepreneurship is complex, multidimensional framework that emphasizes the individual, the environment, the organization and the venture process. Special factors that relate to each of these dimensions are as follows

[31] Ronstadt, *Entrepreneurship*,39

[32] Bradley R. Johnson, "Toward a Multidimensional Model of Entrepreneurship: The Case of Achievement Motivation and the Entrepreneur " *Entrepreneurship: Theory and Practice* (Spring 1990): P.39-45

The individual

1. Need for achievement
2. Locus of control
3. Risk taking propensity
4. Job satisfaction
5. Previous work experience
6. Entrepreneurial parents
7. Age
8. Education

The Environment

1. Venture capital availability
2. Presence of experienced entrepreneurs
3. Technically skilled labor force
4. Accessibility of suppliers
5. Accessibility of customers or new markets
6. Governmental influence
7. Proximity of universities
8. Availability of land or facilities
9. Accessibility of transportation
10. Attitude of the area population
11. Availability of supporting services
12. Living conditions

The Organization

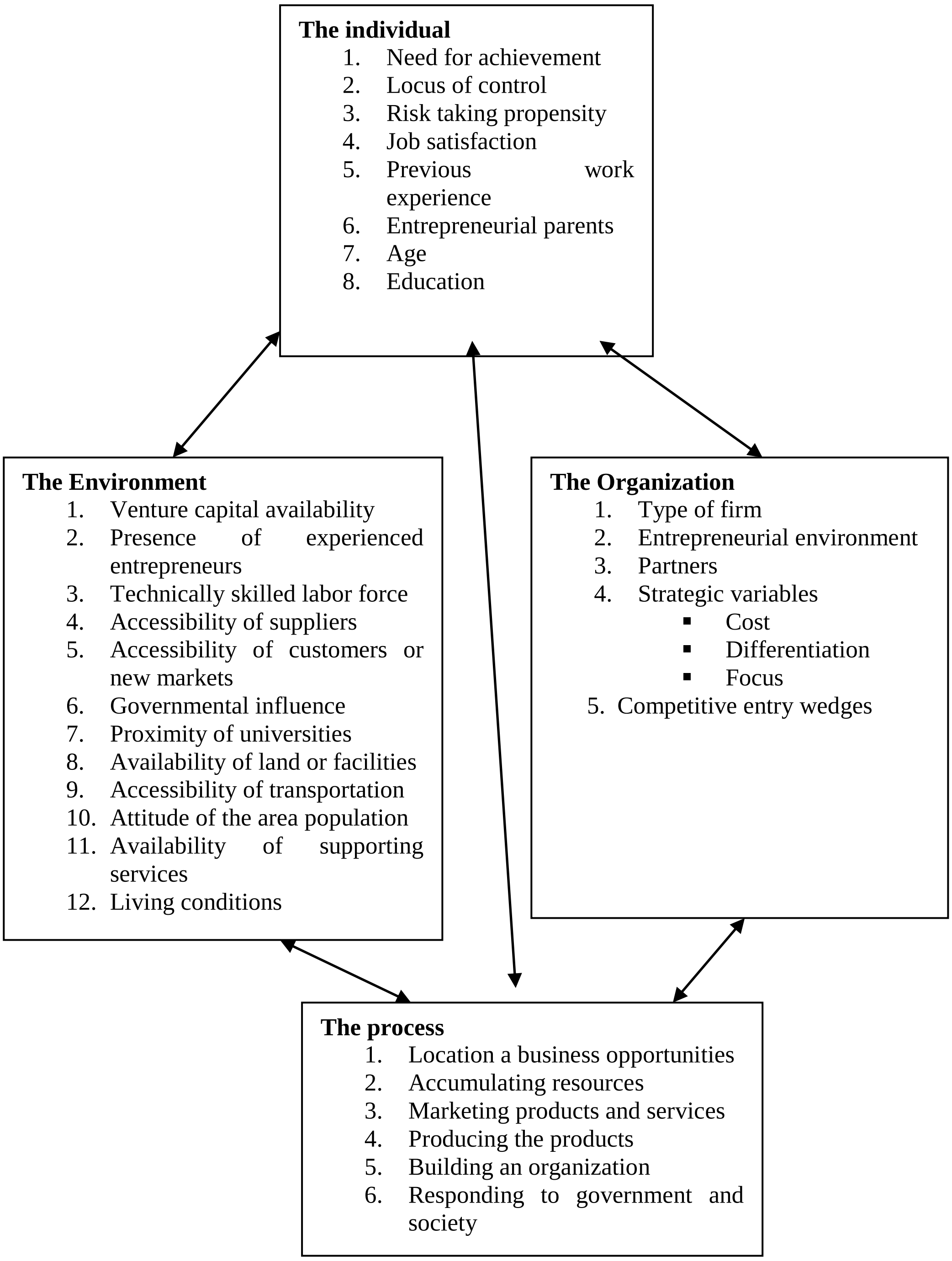
1. Type of firm
2. Entrepreneurial environment
3. Partners
4. Strategic variables
    - Cost
    - Differentiation
    - Focus
5. Competitive entry wedges

The process

1. Location a business opportunities
2. Accumulating resources

3. Marketing products and services
4. Producing the products
5. Building an organization
6. Responding to government and society

Figure 1.3: Variables in New Venture Creation



Source: William B. Gartner, "A Conceptual Framework for Describing the Phenomenon of New Venture Creation", Academy of Management Review (October 1985): 702.

Figure 3 depicts the interaction of the four major dimensions of this entrepreneurial or new venture, process and lists more variables. This type of the process moves entrepreneurship from a segmented school of thought to a dynamic, interactive process approach.

1.8 Intrapreneurship

The global economy is creating profound and substantial changes for organizations and industries throughout the world. These changes make it necessary for business firms to carefully examine their purpose and to devote a great deal of attention to selecting and following strategies in their pursuit of the levels of success that have a high probability of satisfying multiple stakeholders. In response to rapid, continuous, and significant changes in their external and internal environments, many established companies have restructured their operations in fundamental and meaningful ways. In fact, after years of restructuring, some of these companies bear little resemblance to their ancestors in their business scope, culture, or competitive approach.[33]

The new century is seeing corporate strategies focused heavily on innovation. This new emphasis on entrepreneurial thinking developed during the entrepreneurial economy of the 1980s and 1990s.[34] Peter Drucker, the renowned management expert, described four major developments that explain the emergence of this economy. First, the rapid evolution of knowledge and technology promoted the use of high-tech entrepreneurial start-ups. Second, demographic trends such as two-wage-earner families, continuing education of adults, and the aging population added fuel to the proliferation of newly developing ventures. Third, the venture capital market became an effective funding mechanism for entrepreneurial ventures. Fourth, American industry began to learn how to manage entrepreneurship.

Continuous innovation (in terms of products, processes, and administrative routines and structures) and an ability to compete effectively in international markets are

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[33]Shaker A. Zahra, Donald F. Kuratko, and Daniel F. Jennings, "Entrepreneurship and the Acquisition of Dynamic Organizational Capabilities," *Entrepreneurship Theory and Practice* (spring 1999): 5-10.
[34] Peter F. Drucker, "Our Entrepreneurial Economy," *Harvard Business Review* (January / February 1984): 59-64.

among the skills that increasingly are expected to influence corporate performance in the twenty-first century's global economy. Corporate entrepreneurship is envisioned to be a process that can facilitate firms' efforts to innovate constantly and cope effectively with the competitive realities that, companies encounter when competing in international markets. Entrepreneurial attitudes and behaviors are necessary for firms of all sizes to prosper and flourish in competitive environments.[35]

1.8.1. The Nature of Intrapreneurship

In recent years the subject of intrapreneurship has become quite popular, though very few people thoroughly understand the concept. Most researchers agree that the term refers to entrepreneurial activities that receive organizational sanction and resource commitments for the purpose of innovative results. [36] The major thrust of intrapreneuring is to develop the entrepreneurial spirit within organizational boundaries, thus allowing an atmosphere of innovation to prosper.

Defining the Concept

Operational definitions of corporate entrepreneurship have evolved over the last 30 years through scholars' work. For example, one researcher noted that corporate innovation is a very broad concept that includes the generation, development, and implementation of new ideas or behaviors. An innovation can be a new product or service, an administrative system, or a new plan or program pertaining to organizational members. [37] In this context corporate entrepreneurship centers on reenergizing and enhancing the firm's ability to acquire innovative skills and capabilities.

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[35] Bruce R. Bavinger and Alan C. Bluedorn, "Corporate Entrepreneurship and Strategic Management" *Strategic Management Journal* 20 (1999): 421--444; see also Jeffrey G. Covin and Morgan P. Miles, "Corporate Entrepreneurship and the Pursuit of Competitive Advantage," *-Entrepreneurship Theory and Practice* (March 1999): 47-64.

[36]Robert A. Burgelman, "Designs for Corporate Entrepreneurship:' California Management Review (winter] 984): 154-166; Rosabeth M. Kanter, "Supporting Innovation and Venture Development in Established Companies," *Journal of Business Venturing* (winter 1985): 47-60; and Donald F. Kuratko, "Intrapreneurship: Developing Innovation in the Corporation' *Advances in Global High Technology Management* 3 (1993): 3-14.

[37] Fariborz Damanpour, "Organizatio'1al Innovation: A Meta-analysis of Determinant and Moderators," *Academy of Management Journal* 34 (1991): 355-390.

Researcher Shaker A. Zahra observed that "corporate entrepreneurship may be formal or informal activities aimed at creating new businesses in established companies through product and process innovations and market developments. These activities may take place at the corporate, division (business), functional, or project levels, with the unifying objective of improving a company's competitive position and financial performance."[38] William D. Guth and Ari Ginsberg have stressed that corporate entrepreneurship encompasses two major phenomena: new venture creation without existing organizations and the transformation of organizations through strategic renewal.[39]

After a thorough analysis of the entrepreneurship construct and its dimensions, recent research has defined corporate entrepreneurship as a process whereby an individual or a group of individuals, in association with an existing organization, creates a new organization or instigates renewal or innovation within the organization. Under this definition, strategic renewal (which is concerned with organizational renewal involving major strategic and/or structural changes), innovation (which is concerned with introducing something new to the marketplace), and corporate venturing (corporate entrepreneurial efforts that lead to the creation of new business organizations within the corporate organization) are all important and legitimate parts of the corporate entrepreneurship process.[40]

1.8.2. The Need for Corporate Entrepreneuring

Many companies today are realizing the need for corporate entrepreneuring. Articles in popular business magazines (Business Week, Fortune, Success, U.S. News & World Report) are reporting the infusion of entrepreneurial thinking into large bureaucratic structures. In fact, in many of his books, Tom Peters has devoted entire sections to innovation in the corporation.[41] Quite obviously, both business firms and consultants / authors are recognizing the need for in-house entrepreneurship.

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[38] Shaker A. Zahra, "Predictors and Financial Outcomes of Corporate Entrepreneurship: An Exploratory Study," *Journal of Business Venturing* 6 (1991): 259-286.
[39] William D. Guth and Ari Ginsberg, "Corporate Entrepreneurship," *Strategic Management Journal* (special issue) 11 (1990): 5-15.
[40] Pramodita Sharma and James J. Chrisman, "Toward a Reconciliation of the Definitional Issues in the Field of Corporate Entrepreneurship," *Entrepreneurship Theory and Practice* (spring 1999): 11-28.
[41] Tom Peters, Liberation Management (New York: Alfred A. Knopf, 1992); and Tom Peters, *The Circle of Innovation* (New York: Alfred A. Knopf, 1997).

This need has arisen in response to a number of pressing problems, including rapid growth in the number of new and sophisticated competitors, a sense of distrust in the traditional methods of corporate management, an exodus of some of the best and brightest people from corporations to become small-business entrepreneurs, international competition, downsizing of major corporations, and an overall desire to improve efficiency and productivity.[42]

The first of these issues, the problem of competition, has always plagued businesses. However, today's high-tech economy is supporting a far greater number of competitors than ever before. In contrast to previous decades, changes, innovations, and improvements are now very common in the marketplace. Thus corporations must either innovate or become obsolete.

Another of these problems, losing the brightest people to entrepreneurship, is escalating as a result of two major developments. First, entrepreneurship is on the rise in terms of status, publicity, and economic development. This enhancement of entrepreneurship has made the choice more appealing to both young and seasoned employees. Second, in recent years venture capital has grown into a large industry capable of financing more new ventures than ever before. The healthy capital market enables new entrepreneurs to launch their projects. This development is encouraging people with innovative ideas to leave large corporations and strike out on their own.

The modern corporation, then, is forced into seeking avenues for developing in-house entrepreneuring. To do otherwise is to wait for stagnation, loss of personnel, and decline. This new "corporate revolution" represents an appreciation for and a desire to develop entrepreneurs within the corporate structure.

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[42] Robert H. Hayes and William J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review* (July / August 1980): 67-77; see also Amanda Bennett, *The Death of the Organization Man* (New York: Simon and Schuster, 1990); and Donald F. Kuratko, "Developing Entrepreneurship within Organizatiol1s IS Today's Challenge," *Entrepreneurship, Innovation, and Change* (June 1995): 99-104.