

## EVOLUTION OF ENTREPRENEURSHIP IN INDIA

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### ABSTRACT

*This paper presents a summary of the evolution of entrepreneurship in India and discusses the trends of entrepreneurship evolved over a period of time. It describes the phases of entrepreneurship in ancient period, under British colonization, during freedom struggle, post independence, after liberalization and during the new economy era. Till 18<sup>th</sup> century, the Indian entrepreneurs dominated the world trade along with China. India's share of the world GDP was equal to China and Europe around 350 years ago, thanks to the entrepreneurial spirit of its people. India has a long history of entrepreneurship. It dates back to the pre-Vedic period when Harappa culture flourished in India. With the invasion of Moghul emperors and then the mighty Great Britain, the Indian entrepreneurship decimated to sidelines. But the native entrepreneurial spirit never died. Post independence, the Indian Government concentrated on heavy industries and the private entrepreneurship blossomed in all other areas. Though the license raj curtailed the expansion spree, with the liberalisation and economic reforms in the last decade of twentieth century, the Indian entrepreneur picked up speed on the track. The twenty first century perhaps will witness the history repeating itself. India and China may emerged once again to dominate the global trade.*

**Kery words:** Entrepreneurship, GDP

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In 1725, Richard Cantillon—first one to use the term “Entrepreneur” as the person who buys factor services at certain prices with a view to selling its product at uncertain prices. He is a bearer of non-insurable risk taker different from one supplying capital. The need for independence (the inability to work for anyone else) is what drives the entrepreneur to take the risks to work all the hours necessary to create a new venture. Joseph Schumpeter (1934), most quoted author on entrepreneurship, described Entrepreneur as an innovator, who carries

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out new combinations to initiate the process of economic development through introduction of new products, new markets, conquests of new source of raw materials and establishment of new organization of industry. Peter Drucker (1964) gave a new dimension to the definition of an Entrepreneur. He said that an Entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, by which he exploits change as an opportunity for a different kind of business or service. An entrepreneur maximizes opportunities. Robert Hisrich (1985) reviewed the development of Entrepreneurship and Entrepreneur. "The carrying out of a new combination we call enterprise, the individuals whose function is to carry them out we call entrepreneurs."

The Process of development is a deliberate and continuous phenomenon, which is actively promoted by the escort services of a change agent who provides economic leadership. This change agent is called entrepreneur. Entrepreneurs are those who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success. Oxford English Dictionary defined entrepreneur as one who undertakes an enterprise. Especially a contractor acting as an intermediary between labour and capital for production is also an entrepreneur.

Small artisans produced handcrafted goods with local materials and merchants merchandised and traded to customers locally and outside their territory or country. That's how the entrepreneur evolved into being everywhere.

### ***Entrepreneurship***

Entrepreneurship is defined as the process of creating something new with value by devoting the necessary time and effort; assuming the accompanying financial, psychic, and social risks; and receiving the resulting rewards of monetary and personal satisfaction and independence. The desirability of starting one's own venture is strongly influenced by culture, subculture, family, teachers and peers. Any of these influences can function as a source of encouragement for entrepreneurship, with support ranging from government policies that favour business to strong personal role models of family or friends. The study of Entrepreneurship has relevance today, not only because it helps entrepreneurs better fulfill their personal needs but because of the economic contribution of the new ventures. More than increasing national income by creating new jobs, entrepreneurship acts as a positive force in economic growth by creating bridge between innovation and the market place.

Joseph. A. Schumpeter (1934) emphasized that Entrepreneurship is essentially a creative activity. It consists of doing such things that are generally not done in ordinary course of business. A.H. Cole (1959) defined entrepreneurship as 'the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain, and profit by production and distribution of economic goods and services. David Mcleland (1965) identified two characteristics of entrepreneurship, i.e. first, doing thing in a new and better way, secondly,

decision making under uncertainty. He emphasized achievement motivation as the most critical factor of growth of entrepreneurship.

Entrepreneurship is an economic activity that emerges and functions in socio-economic and cultural settings. It is a complex and multifaceted subject encompassing important characteristics like innovation, risk taking, decision making, accepting challenge, spotting opportunity, building organization, mobilising resources and skill management. Risk taking is therefore, an important attribute of entrepreneurship (Birley, 1986; Burgelman, 1983).

There is a difference between the popular idea of an entrepreneur - the heroic, risk taking, money-making, individualist – and the developing interpretation in the academic field. Three primary attributes of entrepreneurial innovation are: preference for risk-taking, acceptance of changes and development of new initiatives. Entrepreneurial Innovation is the implementation of creative ideas through discovery and implementation of opportunities in entrepreneurial firms (Hung and Reuben, 2005). Things that affect the propensity to innovate are likely to be different from the things that influence the propensity to be self employed and yet both are concepts concerning entrepreneurship. (Johnes *et al.* 2005).

### ***Evolution of Entrepreneurship in India***

This paper attempts to summarise different phases of entrepreneurship evolved in India and classified the evolution in ancient period, under British colonization, during freedom struggle, post independence, after liberalization and during the new economy era.

#### ***Entrepreneurship in Ancient Period***

S.K. Mohanty (2005) reviewed the evolution of Entrepreneurship from the ancient period. When Aryans conquered our country the settlers appropriated the products and belongings of village communities. They evolved the initial entrepreneurial activities like breeding of cattle, land cultivation and handicrafts. Immediately after the conquest, the settlement of Aryans began and together with it the formation of states and enactment of laws. Hence the ancient literature proves that variety of commercial vocations similar to present day entrepreneurial activities existed in pre-Vedic period itself.

According to Manusmriti, Vaishy Varn, one of the four social divisions (Varnadharma) was regarded as entrepreneurs who were adept in maintaining livestock, undertake business and banking. They carried on trade in agriculture, industry and banking sectors. Agriculture, crafts and handicrafts were the basic sources of vocational occupation for the people in Gupta and post-Gupta era. The commercial activities comprised of owning and utilizing pasture lands, forests, water reservoirs, mines, tress etc. The early medieval period witnessed the utilization of technical knowledge in commercial activity through the reference of Persian well (Arahatta) water usage in India.

Trade and Commerce flourished through out the coastline of India as reported in literature like Silapadhikaram in third century BC. (Nilakanta Sastry, 1955). In fourth century BC,

Chanakya laid out strategies for conducting successful business in his Arthashastra (Chakravarthy, 2004). When Thiruvalluvar, the great saint who wrote the evergreen ancient literature Thirukkural, prescribed the code of conduct for entrepreneurs before 2000 years (Vittal, 1999). In 1700s our country's share of world GDP was around 20% equal to that of China and Europe. India, which was reigning supreme in the world trade with its craftsmanship, was reduced to a pathetic state by outside conquerors who rummaged through the country's wealth and shackled the entrepreneurial spirit for nearly 3 centuries.

### ***Entrepreneurship in Pre-Independence Era till 1900 A.D.***

Agriculture was the main stay of the people of India during pre-Independence period. Besides agriculture, select communities in rural areas were pursuing manufacturing activities in handicrafts, metal works, stone carving, jewellery etc. Apart from these Cottage industries, these communities also started village industries in clusters to manufacture handloom and textile products, brass and bell metal works. The industrial entrepreneurship in India thus started off by Banias, Parsis, Chettiars and Gujaratis etc.

India and China were the world's largest manufacturing economies in the eighteenth century before the Industrial Revolution. India's manufacturing was entirely in the hands of small artisans and powerful merchants traded the products manufactured by the artisans. These merchants found all over India showed no interest in manufacturing because of little inducement given to the fragmented markets, inadequate transport infrastructure, lawlessness and disregard for property rights, which characterized Mughal India. The situation of infrastructure facilities improved after the British took over (Tripathy, 2004).

The industrial revolution in Great Britain and British colonialism suppressed India to be the subservient materials supplier and a captive consumer market for their finished goods. The deliberate discriminatory economic policy devised by the ruling British crushed the entrepreneurial spirit of Indians with the result that manufacturing entrepreneurship could not develop till 1850. With the advent of railways, the factory system of manufacturing started. In 1854, the first textile mill was started.

The British developed the roads, railways, ports and other infrastructural facilities in India, in order to harness the vast natural resources of our country to their advantage. They allowed rich business communities of India to join them to establish trading and manufacturing activities. While the British concentrated in export-oriented industries like jute, textiles, coal, tea etc. in the Eastern part of India, the Indian merchants started industries with the help of the British in Western India. The establishment of East India Company injected many changes in economy and accelerated the export of raw materials and import of finished goods. Parsis, Marwaris, Gujaratis and Chettiars took to entrepreneurship by observing the impact of industrial revolution and following the footprints of the East India Company, they started utilizing the natural resources and promoted indigo plantation, leather manufacturing and steel making. The industries were started in erstwhile Calcutta, Bombay and Madras.

***Indigenous Entrepreneurship 1900 – 1947***

From the First World War, Modern industrialization spread from the small confines of parts of western and eastern India to many other regions of India. A major turning point was the entry of the Marwaris into industry. The Marwaris were émigrés from Rajasthan who had built extensive trading, money lending and brokerage businesses, especially in Bengal, and by the end of the nineteenth century already dominated the domestic trade in raw jute. During the War, Ghanshyam Das Birla led the Marwari community into its first sustained manufacturing investments. He was offended by the racism he sometimes encountered from the British, but he also wanted to learn from them about modern business methods. During the interwar years the Marwaris and others greatly expanded their manufacturing investments, sometimes by buying the shares of British companies. Indian entrepreneurs invested in new industries such as sugar, paper, shipping and chemicals, and challenged the British incumbents in jute and coal. Despite the growth of the Birlas and other Marwaris, the Tatas remained preeminent, building a giant diversified business empire, and even launching an airline in the mid-1930s.

Swadeshi Movement adopted in 1905 by the Indian leaders given fillip to manufacturing using indigenous goods by the Indians. Many Indians across all communities plunged into entrepreneurship. Jamshedji Tata established his first iron and steel factory, P.C. Roy founded Bengal Chemical Works, V.O. Chidambaram Pillai floated the Steam Navigation Company. The Indian Entrepreneur arrived in true sense. Many types of entrepreneurial activities emerged during this period encouraging indigenous entrepreneurship in manufacturing textiles, soap, matches, oil, tanneries, potteries etc. The reduction of import of goods from Britain and increase in demand for Indian goods during First World War accelerated the entrepreneurial growth.

The British Government provided protection to certain industrial activities in the post-war period by introducing managing agency system. The formation of joint-stock companies started and the firms managed enterprises instead of individuals. Indian entrepreneurs grew in numbers and made great headway in cotton textiles and steel manufacturing. Despite facing shortage of technical manpower, technical know-how, managerial skills, industries such as cement, sugar, cotton, textiles, paper, coal, iron and steel were developed after Second World War. The British concentrated on governing and controlling the industrial growth rather than investing in them. However, western multinational investors such as Dunlop, Philips, Imperial Tobacco, Unilever and ICI who held stronger competitive advantages in high technology and branded consumer goods, continued their presence in business. British expatriate firms did not suddenly divest from India. Long-established firms such as the Parrys and Binnys became Indian registered companies. In due course of time, Indian investors or the government acquired all of the former British business houses. The Indian entrepreneurial classes ensured rapid growth of indigenous entrepreneurship.

***Entrepreneurship – Post Independence till 1990 A.D.***

In Independent India, the need for rapid industrialization was realized by the Government of India. It emerged as a strong force to take up entrepreneurial ventures by establishing new occupations and industries. India adopted the mixed economic system where both private and public sector enterprises played a crucial role. The first *Industrial Policy Resolution* (IPR) was announced in 1948, which provided clear-cut guidelines for industrial and entrepreneurial development. The 1956 IPR kick started the establishment of heavy industries and expansion of public sector and cooperative enterprises. A complete change in socio-economic and industrial environment occurred in the country.

During post-Independence period, Marwaris emerged as a giant entrepreneurial class, as big investors and industrialists from the status of petty shopkeepers. The houses of Birla, Singhanian, Bajaj and others have created their image as big Indian industrialists in the international market. Besides the mercantile class, several new communities entered into the entrepreneurial activity and widened the industrial base. Many new business groups were created, including by new Marwari families such as the Goenkas and Khaitans, who rapidly built empires acquiring former British assets. Entrepreneurship has been dispersed both socially and geographically because of infrastructural development, foreign collaboration, technical know-how, expansion of vocational and technical education, export promotion, import substitution and favourable policies for industrial development. The Government also provided incentives, subsidies and other inputs at concessional rates to promote small scale units. The entrepreneurial class changed significantly with the induction of educated youth in the industry.

- Nationalisation of Banks,
- Panchayat Raj institutions for village development;
- Establishment of institutional support system;
- Development of money market and capital market;
- Encouraging self financed technical institutes,
- Formation of specialized institutions to promote entrepreneurship

These were some of the factors that contributed to the emergence of new entrepreneurial class and the growth of entrepreneurs. A large number of people belonging to middle or lower middle classes across the social strata started their own ventures. The tempo of industrialization spread from industrial centres to other cities, towns and villages. Society recognized that entrepreneurship is not only a money making activity but also wealth creation for the individual as well as for the nation and a medium to acquire social status.

***Small Scale Sector - Success Story of Modern India***

The small scale sector played a vital role in shaping the destiny of Indian economy. In fact, it is one of the success stories of modern India. Today, the SSI sector accounts for 95% of the industrial units and contributes about 40% of value addition in the manufacturing sector

and 33% of national exports. There are about 2.8 million units spread all over the country, which provide direct employment to 16 million people. The indirect employment created through forward and backward linkages is also equally important. The SSI sector produces over 7500 items. Industrial clusters operate successfully in Agra for foundry, Muradabad for brassware, Tirupur and Kanpur for hosiery, Sivakasi for Fire crackers and Printing work, Hyderabad for Basic Chemicals, Aligarh for locks, Ludhiana for sewing machine components, Jalandhar for hand tools and Sports Goods, Khurja for Pottery etc. SSI sector is the backbone of Indian economy, thanks to the wide range of policy measures and financial incentives by the Government.

### ***Entrepreneurship after LPG***

After the introduction of economic reforms by the triumvirates, namely P.V. Narasimha Rao, Manmohan singh and P. Chidambaram during early 1990s, the Indian industrial scene has taken an upswing. The license raj had given way to controlled market economy initially and eventually lead to free market economy forcing the industrialists and entrepreneurs to face competition and improve quality. From product and company orientation, the manufacturers shifted their attention to customer orientation. Customer service became the competitive advantage. The service sector emerged in India and grown at a break neck speed bringing in hoards of new entrepreneurs. The liberalisation, privatization and globalisation (LPG) had also witnessed the spate of mergers and acquisitions of existing players with foreign companies. Along with the expansion of industrial activities, the component industries opened up opportunities of new entrepreneurs to start ventures.

### ***Entrepreneurship in New Economy Era***

A new class of entrepreneurs emerged in India with the boom in ICT. These people brought in revolution in entrepreneurship by capitalizing their technical knowledge as the main factor of their investment. The knowledge industry has caught the imagination of the entire world and they created wealth out of knowledge. Unlike the traditional entrepreneurs, the new economy entrepreneurs are younger and well educated. They lead the entrepreneurial stage of India presently creating wealth and providing employment to large number of educated youth. Infosys, TCS, WIPRO, CTS and thousands of other firms started creating a new industry namely IT and ITES sectors. India has been flaunted as the backend office of global companies. In today's knowledge economy, entrepreneurship and innovation are seen to go hand in hand with information and communication technology.

## **CONCLUSION**

Every session in the latest World Economic Forum summit at Davos in January 2007, reverberated with the names of two countries, China and India, to be watched for progress and development. The developed countries have to quietly accept the changed equation for their own benefit. Not only the bulk of the market is in this side of the globe now but also the

entrepreneur is smart and enlightened. Apart from the Knowledge and service sector, in industries like Pharmaceuticals, heavy vehicles, auto components, two wheelers, apparels, gems and jewellery, food processing and dairy products, the Indian entrepreneurs are making their mark. The Indian Entrepreneur has truly come of age and getting recognized the world over.

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