

## ANALYSING EVOLVING ROLE OF ENTREPRENEURSHIP IN INDIA'S ECONOMIC DEVELOPMENT

**A. MUHAMMEDSAJJAD<sup>a1</sup> AND J. SATHYAPRIYA<sup>b</sup>**

<sup>a</sup>Research Scholar, PeriyarManiammai University, Thanjavur, Tamil Nadu, India

(Senior Associate Professor, MES-Advanced Institute of Management and Technology, Aluva, Kerala, India)

<sup>b</sup>Department of Management Studies, Periyar Maniammai University, Thanjavur, Tamil Nadu, India

### ABSTRACT

**This is a concept paper which looks at the growth of entrepreneurship development in India and its present status in promoting economic development of India. Entrepreneurship can play a pivotal role in giving a boost to the economic development to one of the largest populated countries like India. Based on the review of literature about the historical aspects about entrepreneurial development in India as well as the current trends in growth of entrepreneurship in India. Secondary data is used for the study. It has been concluded that the time is ripe for an entrepreneurial revolution in India and entrepreneurship provides a great scope for faster development of its economy.**

**KEYWORDS:** Entrepreneurship, Economic Development, Innovation, Self-Employment, Service Sector, Promotion, Training

The term entrepreneur comes from the French word “entreprendre”, which means to undertake something. Entrepreneurship is a process which involves all those activities associated with identifying an opportunity and creating an enterprise to utilise that opportunity. Joseph A. Schumpeter defined entrepreneurship in 1939, which was considered as most appropriate. He defined it as “entrepreneurship is based on purposeful and systematic innovation. It includes not only the independent businessman but also company directors and managers who actually carry out innovative functions”[Schumpeter J.A., 1939]. National Knowledge Commission of India has defined entrepreneurship as “the professional application of knowledge, skills and competencies and/ or of monetizing a new idea, by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade, thus, to pursue growth while generating wealth, employment and social good”[ Commission N.K., 2008].

Entrepreneurship is considered as the harbinger of economic development. All the industrially advanced countries like US, Russia, Japan etc. had achieved the current economic status due to entrepreneurship [Khanka S., 2014]. Entrepreneurship helps the economic development of a country in the following ways [Barot D. H., 2015].

- Generate large scale employment at comparatively lower rate of investment
- Balanced regional development and development of backward areas
- Promotion of local industries using locally available skills and resources
- Equitable distribution of wealth and economic power

Thus entrepreneurship can play a pivotal role in giving a boost to the economic development to one of the largest populated country like India. Innovation plays an important role in entrepreneurship. It is proved that there is positive correlation between economic development, innovation and entrepreneurship [Guin

K.K., 2014]. Entrepreneurship not only creates large scale jobs thereby increasing the national income, but also function as a bridge between innovation and the market [Barot D. H., 2015]. Entrepreneurship is also considered as an important ingredient along with knowledge which differentiates the level of wealth among rich and poor countries [Nickels W.G., 2004]. This is a concept paper which looks at the growth of entrepreneurship development in India and its present status in promoting economic development of India.

### LITERATURE REVIEW

About 101 articles about entrepreneurial literature about India have been down loaded, books of famous authors referred and the relevant articles which had come in newspapers have been referred for preparing this paper. After extensive reading, articles and chapters particularly relevant to the area of present study, that is the role of entrepreneurship in the economic development of India have been selected and analysed for the study to arrive at the conclusions.

### METHODOLOGY & ANALYSIS

For analysis, the articles were categorized under the following headings which made the analysis easier. The categories were 1) Entrepreneurship in India, ahistorical perspective, 2) Entrepreneurship in India compared with other fast growing economies like China and Brazil, 3) Entrepreneurship- provider of large scale employment/ self-employment, 4) Growth of Service Sector, 5) The role of MSME in economic development and 6) Promoting entrepreneurship and entrepreneurship training in India

#### Entrepreneurship in India, A Historical Perspective

Before the advent of the British, India was an important economic power in the world accounting for almost 25% of the world trade. This was because of the entrepreneurial skills of its artisans and craftsmen. During the end of Mughal period, India's share in world trade was almost 25% [Kular I.K.A.S.B.J.S.]. Indian society consisted of a unique economic and social

system called Village Community. These Village communities were almost self sufficient to meet all the needs of the villagers. Organized industrial activity was seen in selected cities like Banaras, Allahabad, Gaya etc. [Khanka S., 2014]. But due to the two centuries of colonial rule by the British, India was transformed from a net producer to consumer and the industrial backbone of the country was crushed by the British to promote their industries. The world famous Indian handicrafts industry declined by the later part of eighteenth century due to British colonial rule [Gadgil D., 1959].

During the British rule, very few industries started by Indians flourished, that also under the patronage of the ruler. The Parsis were the first Indian community which established businesses like ship building, textiles, steel manufacturing etc. [Pavlov V., 1964]. Other commercial communities namely Jains and Vaishyas lagged behind in entrepreneurial ventures during the 19<sup>th</sup> century [Tripathi D., 1971]. The "Swadeshi" campaign gave boost to entrepreneurship and many industrialists like Jamshetji Tata had started industries totally under Indian Management [Joshi A. And Ram L.S., 1975].

Entrepreneurship in India got a boost after the First World War due to the "discriminating protection to certain industries" and the Indian entrepreneurs had benefitted from this and established manufacturing industries. During the first 4 decades of 20<sup>th</sup> century, the influence of Parsis as a business community had declined and the Gujarathis and Marwaris gained importance in the entrepreneurship scene [Khanka S., 2014]. The emergence of "Managing Agency System" was another important development in India during this period.

After independence, the Government of India had realised the importance of the growth of entrepreneurship and had been promoting it with a focus on small businesses. The Government of India had come out with Industrial Policy Resolutions starting with IPR 1948. The IPR of 1956 was a landmark one which gave major thrust to small enterprises and had reserved 128 items exclusively to be manufactured under small scale sector [Khanka S., 2014]. The IPR of 1977 had given thrust to the Cottage and house hold industry, Tiny sector and Small scale industry. Various measures were suggested for the promotion of small-scale and cottage industry also. The IPR of 1980 planned for promotion of industries in backward districts, promotion of village and rural industries [Khanka S., 2014]. Government of India had come out with a policy exclusively for small scale sector called "New Small Enterprise Policy in 1991 to provide accelerated growth to small scale sector. This policy was instrumental in widespread growth of small scale sector [Khanka S., 2014].

The Government had started to promote small industries from the third five year plan onwards in the form incentives, capital, technical know-how, marketing assistance and land. All the subsequent plans had given

major concessions to promote small industries in backward areas for balanced regional development and also to provide large scale employment [Khanka S., 2014]. Even though, the small enterprises had increased in numbers, they lacked entrepreneurial ability which resulted in industrial sickness and closure. But, some entrepreneurs had grown from small to medium to large enterprises by taking advantage of the environment. This development was limited to some family enterprise units like, Tata, Birla, Mafatlal, Dalmia, Kirloskar, Reliance etc. [Khanka S., 2014].

The Micro Small and Medium Enterprises (MSMED) Act, 2006 of the Government of India had set up a separate ministry to promote Micro Small and Medium enterprises. The Act envisaged for the promotion of small enterprises by providing legislation, credit support and fiscal support. The Act also provide for the "Cluster based development" of small enterprises, marketing support, entrepreneurial and management development, empowerment of women owned enterprises etc. [Khanka S., 2014].

Nearly two centuries of colonial rule and half a century of socialistic leanings did not help in bringing an entrepreneurial culture. Even though many small enterprises were started, it did not attain a growth rate as happened in the advanced countries. Thus, the thinking that growth of entrepreneurship is essential for economic development and the necessity to move to an entrepreneurial culture has been a recent phenomenon [Dubey R., 2014]. The Government realised the importance of promoting entrepreneurship and employment and had recently enacted National Policy on Skill Development and Entrepreneurship 2015. A separate ministry has been set up under the Government of India for the promotion of skill development and entrepreneurship with a greater focus.

### **Entrepreneurship in India Compared with Other Fast Growing Economies like China and Brazil**

Indian economy has become the second fastest growing economy in the world even during the recent world-wide recession [Kular I.K.A.S.B.J.S.]. It is expected to be the fastest growing economy in the years to come. Small and medium enterprises are considered world-wide as the promoters of economic development. In India, they constitute 95% of the industrial units, accounts for 40% of the total industrial production and 34% of the exports. They provide employment to about 312.5 lakh people in 128.5 lakh units as on 2006-07 [Kular I.K.A.S.B.J.S.].

China gives more importance to SMEs than India, where over 68% of China's exports come from small and medium sector. The growth of SMEs in China has been phenomenal that in the last 20 years it has created more SMEs than the total number of SMEs in US and Europe combined. In the case of Brazil, another fast growing economy, SME's constitute 96.8% of the registered business employing 59% of the active population [Kular I.K.A.S.B.J.S.]. This shows that India

has a long way to go in the case of promoting entrepreneurship to foster faster economic development.

The policies being followed by India and China are different in promoting entrepreneurship. While India have taken steps to stimulate consumer demand and concentrated on entrepreneurship, China has encouraged resource mobilization. While the growth China has achieved through rapid growth of its physical infrastructure, it may have affected social investments in primary and secondary education [Kalyanaram G.K., 2009].

**Entrepreneurship-Provider of Large Scale Employment/ Self-Employment**

India is a country with the youngest population. According to the 2011 census, the population is over 120 crores and 31% (37.9 crores) of the population are in the age group of 18-35 years. This is a great demographic advantage for India. But India cannot give jobs to all these young people. According to the survey conducted by National Sample Survey Office 2013, only one person out of 4 urban educated males are employed. The Government has realised that promoting entrepreneurship will help create large-scale employment which will result in growth of the economy [Abhyankar R., 2014]. If India want to fight unemployment and poverty and take advantage of the globalisation, it need to concentrate on entrepreneurship development [Barot D. H., 2015].

The government has realised that entrepreneurship is the main mechanism to provide large

**Table I: Average GDP Share (%) & Trend Growth Rate (% P. A.)**

Year	Primary		Secondary		Tertiary	
	GDP Share	Gr.Rate	GDP Share	Gr.Rate	GDP Share	Gr.Rate
1950s	56	2.7	16	5.8	28	4.1
1960s	48	1.5	21	5.5	31	4.5
1970s	43	1.8	23	4.5	34	4.6
1980s	36	2.9	25	6.5	39	6.6
1990s	29	3.2	27	6.2	44	7.7
2000s	22	3.9	24	7.2	54	9.2

Source: Central Statistical Organisation

Note: For 2000s decade data is from 2000-01 to 2008-09

Thus from the table, we can see that the GDP share and growth rate of service sector has been increasing consistently over the years and now it is the fastest growing sector in the Indian economy.

In this era of globalization, India can achieve leadership position with “transportable, tradable and scalable modern services” which will lead to service led growth of her economy [Singh B., 2012]. Thus, the future of entrepreneurship in India lies with the services sector and the Government has recognized this and providing support to it [Dubey R., 2014].

**Role of MSMEs in Economic Development**

In India small enterprises are now included in the category MSME, Micro Small and Medium

scale employment as well as for capital formation. Realising its importance, the national and state Governments of India are initiating policies and programmes to promote entrepreneurship and self-employment to foster economic development [Ahluvalia M.S., 2005]. But most of the population are not having an entrepreneurial culture or are not oriented towards it. So educating potential entrepreneurs about entrepreneurship has become necessary to achieve the objectives of the state [Barot D. H., 2015].

Thus, entrepreneurship and entrepreneurship education have become a thrust area for the Government.

**Growth of Service Sector**

In India, the service sector has overtaken the manufacturing sector in the case of growth rate as well as provider of employment. This is a very unique phenomenon. It is evident that the Indian economy withstood the global meltdown due to the resilience of the service sector. Various studies have shown that GDP growth of India is feasible through service sector growth. This growth model is sustainable not only from an economic view point but also from a social and environmental angle [Singh B., 2012]. The service sector share in GDP has grown consistently over the years. The share of services has gone up from 28% in 1950s to 54% in 2000s. The growth rate of the sector has shown a rising trend from 4.1% in 1950s to 9.2% in 2000s [Singh B., 2012]. The following table shows the GDP share and growth rate of Primary, Secondary and Tertiary (service) sectors of Indian economy from 1950s to 2000s.

Enterprises. These small enterprises are equated with entrepreneurship and their growth is considered as growth of entrepreneurship which in turn will facilitate economic development. The MSMEs generate “highest employment per capita investment” as well as it will reduce rural urban migration by providing employment in the village itself [Kular I.K.A.S.B.J.S.].

It is very easy to start an SME as compared to large industry. Analysis of census data on SMEs have shown that an investment of Rs.0.72 lakh is required for creating one employment in the MSME sector as compared to Rs.5.56 lakh in the large scale sector [Kular I.K.A.S.B.J.S.]. So employment generation is more in the MSME sector.

Small enterprises offer “cost effective and customised products to niche markets and provide employment to local talents” [Majumdar S.]. They are a source of products for large organizations and it is very easy for small enterprises to adapt to changing environment [Majumdar S.].

Like other small businesses in the world, small enterprises in India face challenges in their activities. Then there are problems they face which are unique to India. Challenges like efficiency and global reach can be overcome through embracing information technology. Those related to risk taking, innovation and proactiveness can be met by encouraging entrepreneurship [Patricia R Todd R.G.J., 2007].

India has abundant unskilled labour, widespread underemployment while it lacks skilled labour, enterprising and experienced entrepreneurs and managerial talent. By promoting small enterprises, India can overcome these adversities and promote a democratic socialistic society and prevent concentration of economic power [Barot D. H., 2015].

Due to liberalisation and globalisation, the small enterprises in India began to face competition from foreign companies. Due this intense competition, these domestic firms have to change their ways and improve their efficiency in order to survive [Patricia R Todd R.G.J., 2007]. The recent advances in the IT front and communication infrastructure have helped the Indian SMEs to cater to the global markets. Encouraging and supporting entrepreneurship, encouraging innovation and providing necessary finance are necessary for Indian SMEs to go globally [Patricia R Todd R.G.J., 2007].

According to the National Sample Survey of 1999-2000, the total workforce as on 01-01-2000 was 40.6 crores. Only 7% of the workforce were employed in the organized large scale sector. 93% were employed in the unorganized small scale sector. The unorganized sector employed 36.9 crores people during 2000. This data shows the importance of entrepreneurship in the economic development of a developing country like India [Barot D. H., 2015].

#### **Promoting Entrepreneurship and Entrepreneurship Training in India**

The approach paper for the 12<sup>th</sup> plan accepts that the MSME sector as the foundation for the manufacturing sector. In order to increase the competitiveness of MSMEs, it has identified few thrust areas like “absorbing new technology, improving productivity, growth of dynamic clusters, skilled human resources, linking skill development and training initiatives with requirements of the industry” [Patra K.B. PK, 2013].

The Government of India has enacted the MSME Act of 2006 and these industries were brought under MSME ministry to provide necessary assistance and promotion to entrepreneurs and small businesses.

Government sponsored Institutes like the National Institute for Micro, Small and Medium Enterprises (NI-MSME), National Institute for Entrepreneurship and Small Business Development (NIESBUD), Indian Institute of Entrepreneurship (IIE) or the Development Commissioner MSME (DC-MSME) provide training to potential and existing entrepreneurs. Other private players are also in the field to provide training and consultancy. “It is considered to be the best roadmap towards fast economic development that emerging economies like China and Brazil have already undertaken successfully” [Nitu Bose Ghosh G.R., 2015].

A separate ministry has been set up under the Government of India for the promotion of skill development and entrepreneurship with a greater focus in 2015. A national policy on Skill Development and Entrepreneurship has been formulated in 2015 to provide necessary skills to the people and encourage entrepreneurship [MSDE, 2015]

“The Indian experience has established that, when the right environment is created by the policy makers, the entrepreneurial spirit of the people finds expression and the economic activity booms” [Dubey R., 2014]

#### **FINDINGS**

Even though India had a glorious past in entrepreneurship, two centuries of British rule had completely demolished it and India became a poor less developed country at the time of Independence with a large population and rampant unemployment.

After independence, the Government of India had come out with Industrial Policy Resolutions and Five Year Plans to give boost to industrialisation and promote entrepreneurship. But during the initial four decades, it did not produce the desired result in the case of entrepreneurship and an entrepreneurial culture was not evolved in the country. Thrust was not given to entrepreneurship as it was an engine of economic development.

But, things changed from 1991 onwards due to liberalisation and when the New Small Enterprises Policy was announced in the year 1991. The Government has realised the importance entrepreneurship has got in the economic development of the country. All the advanced countries like US, Japan etc. achieved progress due to a vibrant entrepreneurship culture.

When compared with other fast growing economies like China and Brazil, India still has to go long way in the entrepreneurial front.

Service sector in India has grown at a faster rate than other two sectors during the past 6 decades. During the 2000s, the service sector occupied 54% of the GDP. So, when we think about entrepreneurial

development in India, service sector has got a greater role in it.

All over the world, entrepreneurship is associated with small businesses. In India, small enterprises which falls in the category MSME is generating highest employment per capita investment. It is providing about 93% of the industrial employment. Entrepreneurship development is one of the mechanisms adopted by the government of India for creating large scale employment.

MSME Act was passed in 2006 to provide necessary assistance to entrepreneurs and small businesses. A separate ministry was formed to look after the affairs of MSME. Government is providing institutional, financial and fiscal support to entrepreneurs. Government has also realised the importance of entrepreneurship training, which is equally important for the promotion of entrepreneurship. To enhance the skill set of people a comprehensive policy on National Skill Development and Entrepreneurship was formulated in 2015. A separate ministry is also formed for Skill Development and Entrepreneurship Development.

So time is ripe for an entrepreneurial revolution in India. An entrepreneurial culture will slowly develop which will make India an advanced country.

## CONCLUSION

India is one of the fastest growing economies in the world. But it is plagued by an ever growing population and unemployment. India has gone through the Agricultural revolution, White revolution, Blue revolution etc. An entrepreneurial revolution is due which will take India in comity with the developed nations. Only an entrepreneurial awakening will make India to grow on a much faster rate and become a developed nation at least by 2050. Government initiatives like 'Make in India', 'Stand Up India', 'PMKVY' are going to jump start the entrepreneurial revolution and mind set.

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