Entrepreneurship in Small Industry

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This paper seeks to emphasise the role of "imitative", as opposed to "innovative", entrepreneur-managers in the newly industrialising countries.

Two postulates are preferred:

One, small enterprises constitute the predominant form of private industrial endeavour in most of these countries; and,

Two, small enterprises serve as the seed-bed for spotting and nurturing much-needed entrepreneurial talent.

The discussion is largely qualitative and is illustrated from the author's observations in the field in various parts of India.

The Schumpeterian risk-bearing and innovative entrepreneur-managers played a vital role in the industrial development of the newly-developed countries. Their emergence in these countries was spontaneous, having largely been the outcome of the "challenge-response" mechanism inherent in the various phases of the industrial revolution. In the newly-developing countries, however, neither their existence nor their emergence over time can be taken for granted. In fact, in most developing countries of Asia and Africa, entrepreneurship has been found to be the most important limiting factor in their economic development.1 Absence of entrepreneurial talent in any significant measure in these countries is partly traced to the socio-political situations historically obtaining in these countries; doubts about its automatic emergence over time are attributable to the fact that the process of industrial development is sought to be compressed into decades, thus removing one of the important conditions for the emergence of the visionary entrepreneur of the Schumpeterian conception.

Business Leader

Enough has happened since the publication of the "Theory of Economic Development", both in respect of the processes of industrial development and of the structure and organisational pattern of industrial enterprises, to call for re-orientation in the basic traits necessary in an entrepreneur. The "irrational vehicle of economic progress" has since been replaced by the "public" or "private" business leader. His operations are guided by known and predictable principles. His main risk-bearing attribute has for its guidance and backing the entire resources of the modern corporation or the Governmental machinery, so that the typi-
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 Poor Management, Cause of Failure

A survey conducted in 1953 revealed that nearly 90 per cent of small business failures were due to management deficiencies. In the words of the American Small Business Administration, "poor management is the reason for most business failures. Many of these men who failed believed that more money would solve their problems, but found it did not. It is this category of 'embryonic' entrepreneurs, who are to be found in fairly good measure in all societies and who can be developed as potential entrepreneur-managers by appropriate educational and training facilities. It is not unoften that one encounters examples of two more or less identical enterprises as regards size, resources and industry-line, faring unequally — one record-considerable success, the other verging on commercial disaster. Many factors, such as finance, "connections" in appropriate quarters, "backing" of influential circles, or mere "luck" are attributed as the cause. But in reality, in most cases, it is "managerial" ability of the one which has been responsible for success. Resources that are adequate for the one have been inadequate for the other. McCrory found this true of the enterprises he studied in a North Indian town and Bema of the medium enterprises of Madras.

A contrast in the working of a bake-lite electrical accessories unit in a mofussil town in Maharashtra State under two managements will illustrate the importance of managerial skill as the decisive factor in the successful performance of an industrial venture. The unit was owned by a merchant (trading in oil, tanned and law leather and tobacco), with considerable resources and connections. The unit had modern equipment but was inadequately staffed in key sections such as production, stores purchase, maintenance, general administration and liaison work.

The unit worked for four years. It incurred loss during the first year, broke-even in the next year, but accumulated stocks and incurred loss during the third and fourth years. The merchant-owner disposed of the unit at cost to a retired railway maintenance engineer. The new owner's first task was to reduce the staff by 19 and appoint one experienced (non-technical) manager. He reorganised the plant, introduced a simple system of costing, budgeting and inventory control. It was discovered in a few months that they carried an unbalanced basket of raw material stock; goods in process was disproportionate to the technical production cycle and the stock of products was inadequate to feed the flow of dealer demand. On these findings they re-organised the working, and took a loan for working capital from a local bank. In the second year after taking over they put the unit on a profit-earning footing. This example illustrates how better management can substitute for both capital and labour, and how improved planning and control can drastically reduce costs and raise profitability. Governmental measures in most developing countries, and more so in India, which have hitherto been concerned with the provision of subsidised finance, marketing facilities and raw material should be reoriented increasingly to augment what has come to be termed the "management" input into such units.

Growth from Small Beginnings

Most developing countries are characterised by the preponderance of artisan industries, with only a few clusters of organised large-scale industries. Most artisans are self-employed rather than employees in factory industry. For them, transition from shop to small factory is not difficult and may take place so gradually that they are not aware of their changing functions. They may be able to attract a number of skilled workmen and apprentices to their shop; they may have accumulated a little capital, generally through their own savings and have been able to extend the market for their goods outside the immediate neighbourhood. The next logical step is to become a full time manager. Berna's Madras study of medium enterprise bears out how artisan units with humble beginnings managed to grow into medium sized enterprises surmounting the various obstacles in their way, mainly because of their capacity to exploit situations to their advantage — in other words, owing to their managerial skill.

If the desire to introduce technical change involving installation of improved machinery can be regarded as desire for expansion, then it could be stated that this impulse is predominant among artisan units especially in such industries as have the potential for technical reorientation. As revealed in my study, all the sample units from the following industries indicated desire for technical change and sought assistance in procuring improved machinery: (1) hand pressing of utensils, (2) lime-kiln, (3) pottery, (4) brick making, (5) general engineering, (6) machine pressing of utensils, (7) soap making, and (8) oil pressing. More than 75 per cent of sample units in the following industries desired various kinds of technical assistance including training, in this respect: (1) black-smithy (88%), (2) weaving (83%) (3) hand pressing of utensils (75%), and (4) pottery (100%).

Motivation

It is important to recognise here that the problem is not one of training alone. For, apart from the drawback of general illiteracy found among most artisans and craftsmen, which in itself is a severe handicap, there are other important pre-requisites to be taken care of. Of these pre-conditions, the general level of intelligence, motivation, knowledge and opportunity are rated as important factors for the emergence of potential entrepreneurs. While education, in most cases, happens to be the privilege of a certain class, intelligence is not. If the level of intelligence can be reckoned as a single criterion, then one can expect to spot potential entrepreneurs in any group in a society.

Motivation is largely a cultural trait. It is not inherited but can be acquired in life. For being a successful entrepreneur, motivation appears to be -a basic prerequisite. An enterprise can be started with good knowledge of the trade and the market, modest intelligence and education, but it requires these plus strong motivation or urge to know more and move forward. An entrepreneur is a generalise he is the leader. It is in the exercise of this attribute of leadership that he makes the best use of the resources at his command. The extent to which he is able to exploit a given situation to his advantage depends not only on the various attributes required of an entrepre-
neur, but also on the extent to which he is able to add to his existing fund of knowledge and acquire skills of ever-increasing complexity. It is helpful if he knows something about the technical aspects of production, but this is not an essential condition. He is essentially a person who makes the basic decisions relating to sales, supplies, production processes and numerous other problems.

The particular social, cultural and economic background of the individual is a very important factor governing the attitude each brings to bear on his enterprise. For example, McCrory found that entrepreneurs who had a commercial background generally expected quick returns on their capital, did not generally believe in ploughing back their resources either in expanding the units or in diversifying; whereas people with technical education or artisan background or engineering training or skill believed generally in long-term investment, were willing to wait, and were desirous of expanding and diversifying their product-lines.

Different Attitudes

This difference in disposition towards expectations stems as much from lack of perspective as from the background of the individual. This can be illustrated by observations from the field. A lohna blacksmith artisan, again in one of the districts in Mysore State, set up a small smithy shop in 1955, involving total investment of Rs 6,000 partly saved out of his earnings and partly from his life insurance which fetched him Rs 2,750 in one lump sum. The Bhilai steel plant, work on which was progressing then, attracted his attention and through the good offices of a local politician-contractor he managed to get contract work for a few simple builders' hardware articles. This flow of regular orders prompted him to install a few pieces of essential modern equipment in his original smithy shop. After three years, through persistent ploughing back of earnings and enlarged contacts, the unit ceased depending on the Bhilai project and, instead, diversified its activities to include manufacture of agricultural implements, cycle parts, etc, and was planning to manufacture composite diesel pumps. When the unit grew in size to come under the purview of the Factories Act, the owner was fortunate in having the services of his son who had by then obtained an engineering diploma as also the managerial assistance of a working partner. It was after considerable hesitation that the working partner (who originally was in the employ of the Bhilai contractor) was taken in with a capital contribution of about Rs 15,000 or so. In 1959, a moderately equipped foundry and machine shop replaced the humble smithy shop.

A Brahmin merchant-cum-money lender from one of the towns in the Bangalore district of Mysore State provides a contrast to the above enterprising lohna blacksmith. The area specialises in cotton, woollen and art-silk powerloom weaving. An employee of one of the Mysore Government industrial undertakings was running (through proxy) a small unit for the manufacture of loom parts. After retirement from service, he took to the manufacturing line full-time, and it was at this time (in 1959) that he invited the local Brahmin-merchant money lender to join his unit as a partner, his financial contribution being Rs 18,000. The merchant agreed after initial hesitation. The unit was expanded with the addition of some modern equipment. Unfortunately, there was a slump in the powerloom industry and hence in the demand for powerloom parts and accessories. The unit accumulated stocks; uncleared orders started flowing in and there was severe financial strain, resulting ultimately in substantial loss. During this period the Brahmin partner sought ultimately in substantial loss. During this period the Brahmin partner sought 

Depth of Commitment

In fact, one of the reasons for sluggishness of industrial entrepreneurship (as opposed to financial or commercial entrepreneurship) in most developing countries is due to the fact that the talents required to guide an industrial enterprise differ from those needed in commercial or financial entrepreneurship. This may be attributed to the "depth of commitment" involved in industrial entrepreneurship. Those in commerce or trade are accustomed not only to relatively lower capital commitments in the business, but also to quicker turnovers. The larger financial commitments and the longer waiting period involved in industry are something they are not accustomed to, and hence the difference in expectations and attitudes noted above.

Appropriate and informed training coupled with "demonstrative" examples set by others in the changed circumstances of a developing economy will help bring about a change, albeit gradual, in such persons. But as David McClelland says, there is a significant relationship between achievement motivation and entrepreneurship; a tradition-bound agricultural population could be started more rapidly on the road to industrial development through education of children for what he categorises as high "n-achievement", than by trying to change the adult population.

Another factor which is of prime importance for fostering entrepreneurial talent is the social environment. The various attributes that go to make for entrepreneurship in individuals will be of no avail if there are no opportunities for the free play of entrepreneurial talent in practice.

Notes

1 Cf L Dupriez (Ed) "Economic Progress: Papers and Proceedings of a Round Table held by the International Economic Association" (1955). Also, Ragnar Nurks, "Problems of Capital Formation in Underdeveloped Countries".
3 (i) cf Berna, J J, op cit.
9 Stepanek, J E, op cit.
10 Shetty, M C, op cit.
11 McCrory, J T, op cit.
12 Rohnas are nomadic blacksmiths originally from Rajasthan, but are now found in most parts of Gujarat and Maharashtra.