



## A Study of the Entrepreneurial Constrains in the Indian Manufacturing Sector

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### ABSTRACT

Promotion of entrepreneurship has been recognized world over as key to accelerate the economic development of a region. India also continues to take steps to directly or indirectly promote entrepreneurship. This paper attempts to find out the constraints being faced by entrepreneurs in the Indian manufacturing sector. For this study the entrepreneurs have been classified as per their gender, region, age and education. This study also highlights the steps that can be taken to overcome the various types of constraints being faced by such entrepreneurs.

**Keywords:** Entrepreneurship, Economic Development, Manufacturing Sector

**JEL Classifications:** E66, L26, L60

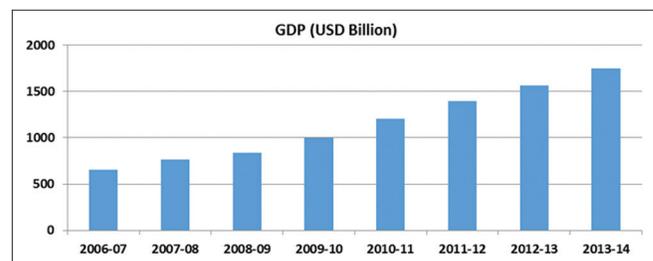
### 1. INTRODUCTION

Studies conducted world over have shown that Entrepreneurship has a wide range of economic benefits, including such as, employment, innovative products and services and economic growth (Reynolds et al., 1999).

Realizing the economic and social benefits of entrepreneurship the India government has taken various steps to promote entrepreneurship. The post-independence Indian business environment was characterized by plethora of regulatory procedures for entrepreneurs. The permission to do business, manufacturing quantity and price all had to be approved by various government agencies. Starting in the early 1990's many changes were made in the Indian central government policies. Entrepreneurship was encouraged by removal and simplification of state-imposed regulatory roadblocks. Procedures to start new business were also simplified. Steps to lower regulatory constraints attempts were also directed at making finances available to businesses.

As a result of the thrust on economic development the gross domestic product (GDP) rates have shown a remarkable growth. As per data of Central Statistical Organization, 2014 (Figure 1) the

**Figure 1:** Indian gross domestic product growth



Source: Central Statistical Organization, 2014

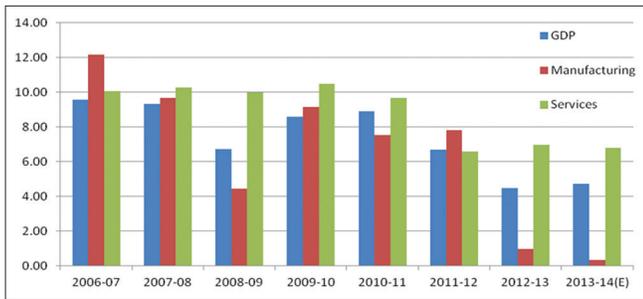
GDP has increased three times in less than a decade and is around 1.8 trillion USD. But a cause of concern is the slower growth rates in the Indian manufacturing sector. As illustrated in Figure 2, the Indian manufacturing sector continues to grow at a slower pace than the overall economy. The sector's contribution to GDP has declined from 16.1 to 15.2% in the past 5 years (till March 2013). Growth rate in manufacturing slowed down to around 1% in 2012-2013 from around 8% in the two previous years. In FY13, only 3.3% of the country's growth was contributed by manufacturing sector as compared to 83% by services sector. The manufacturing sector growth rate is acting as a drag on the overall GDP growth rate (Figure 3) and the percentage contribution of service sectors to the overall GDP is increasing (Figure 4).

## 2. LITERATURE REVIEW

Authors have ascribed various distinguishing qualities to an entrepreneur: Such as alertness (Kirzner, 1973); aspiration, accountability and self-reliance (Timmons, 1978, Sexton, 1980; Dunkelberg and Cooper, 1982; Gorman et al., 1997); innovator (Schumpeter, 1934; Kirzner, 1973; Timmons, 1978); desire

for power and independence power (Dunkelberg and Cooper, 1982); leadership (Sutton, 1954; Brockhaus and Horwitz, 1986); orientation (Gasse, 1977; Timmons, 1978) and risk-taker (Timmons, 1978; Lynskey and Yonekura, 2002). Entrepreneurship is the key to economic growth as well as technological progress (Birch, 1979; Reynolds et al., 1994; Sheshinski et al., 2007).

Figure 2: Sector-wise Indian economic growths



Source: Central Statistical Organization, 2014

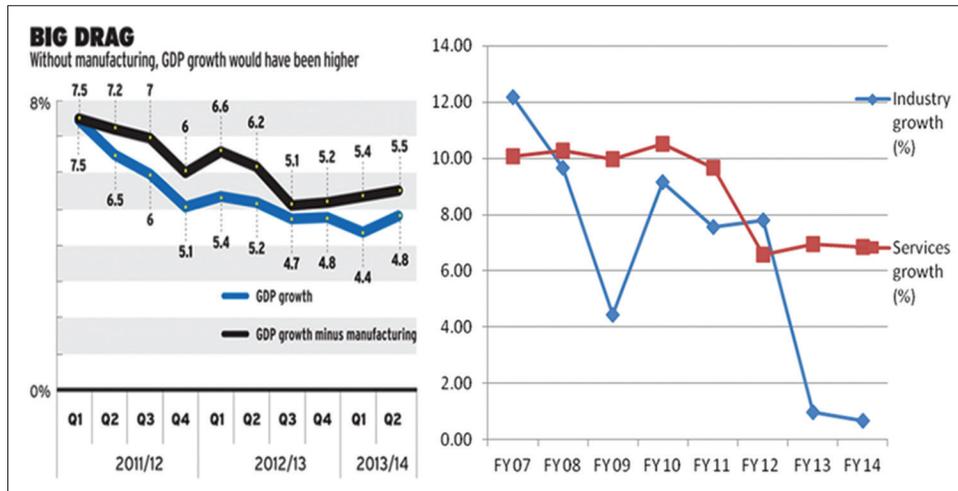
Manufacturing sector is critical for the economy’s growth as the sector has a multiplier effect for job creation in the services sector as well. Every job created in the manufacturing sector creates two-three additional jobs in related activities. The National Manufacturing Policy (2011) aims to create to 100 million jobs in the manufacturing sector and increase the share of manufacturing in GDP to 25% by 2022.

### 2.1. Constraints to Entrepreneurship

#### 2.1.1. Lack of personal motivation

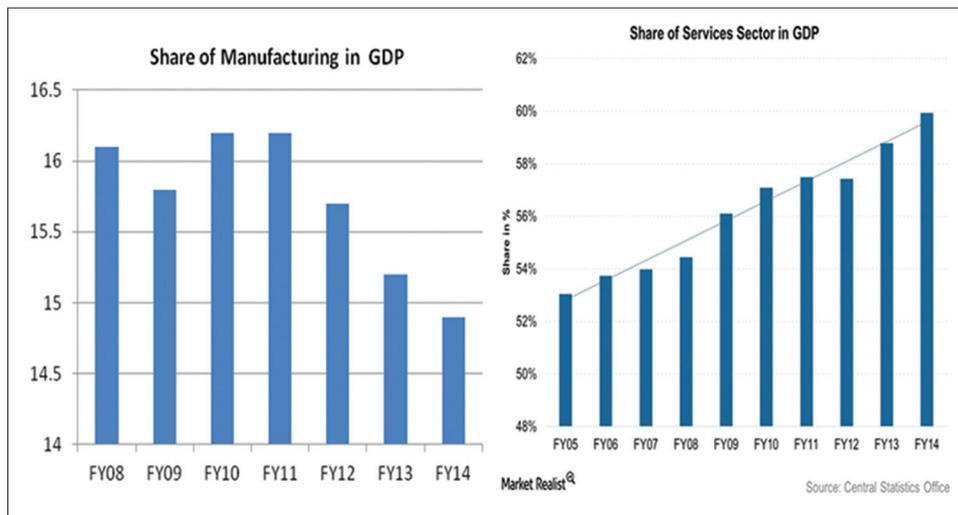
Motivation plays an important role in entrepreneurship and a feeling of being content with the present status acts as

Figure 3: Manufacturing sector and Indian gross domestic product



Source: Central Statistical Organization, 2014

Figure 4: Share of service sector in gross domestic product



Source: Central statistical Organization, 2014

barrier to entrepreneurship. Many researchers have shown that motivation is an important for entrepreneurship (Shaver and Scott, 1991).

### 2.1.2. Lack of access to finance

Finance is an important for the establishment and growth of entrepreneurial forms (Cull et al., 2006, Berger and Udell, 2006).

### 2.1.3. Lack of business contacts

Entrepreneurs depend networks for emotional support, social influence and experience, which are fundamental to whether or not a person becomes entrepreneur and also does so successfully (Halinen and Asta, 2001).

### 2.1.4. Lacks of role models

Role model are persons that influence others by generating interest and sincerity to follow a particular course of action, in this case becoming an entrepreneur. Studies reveal that a person is influenced by another person of the same category, as one's aspirations and choices tend to be more influenced by persons of the same category (Segal, et al., 2005).

### 2.1.5. Bureaucratic hurdles

In countries such as Australia and America it take just 2 days and 5 days respectively to start a new business while in India it takes around 89 days. This is due to the bureaucratic rules and regulations in India difficult which results in more time and cost. The cost of opening new business in India in terms of gross per capita national income is 100 times more than what is needed in the United States. (Gupta, 2004).

### 2.1.6. Lack of experience

Work experience has an impact on the ability of a person to ascertain and take advantage of opportunities to create a new business (Robinson and Sexton, 1994).

### 2.1.7. Lack of education

Studies have found that more educated individuals are the more likely to become entrepreneurs. Education has an influence on business performance as it increases decision-making skill and thus enhances the prospects of entrepreneurship (Fairlie and Meyer 1996).

## 3. RESEARCH METHODOLOGY

Data was collected from both primary and secondary sources. Secondary data was collected from the websites of government of India. For primary data a survey was conducted on the entrepreneurs in India. For this purpose a pre-designed questionnaire was used. The entrepreneurs were selected through systematic sampling form the list of industry associations.

The method of questionnaire development as suggested by Churchill (1979) and Gerbing and Anderson (1988) was used. Based on the literature review and interview with experts the questionnaire was developed. Then the questionnaire was tested on a select group of entrepreneurs. Based on the feedback of pre testing some modifications was done.

For this study a structured, undisguised questionnaire was also used. For more information on the attributes under study a five - point scaled responses is used, where the respondent entrepreneurs were asked to rate their perspectives with regards to the various problems related to entrepreneurship on a five-point scale.

## 4. OBJECTIVES OF THE RESEARCH

The purpose of this study was to find out the constraints faced in entrepreneurs in the Indian manufacturing sector. The entrepreneurs were further classified based on:

- i. Gender
- ii. Region
- iii. Level of education
- iv. Age

$H_{10}$  = There is no gender wise differences in the constraints to entrepreneurship in the Indian manufacturing sector

$H_{20}$  = There is no region wise differences in the constraints to entrepreneurship in the Indian manufacturing sector

$H_{30}$  = There is no education wise differences in the constraints to entrepreneurship in the Indian manufacturing sector

$H_{40}$  = There is no age wise differences in the constraints to entrepreneurship in the Indian manufacturing sector.

**Table 1: Demographic distribution of respondents**

| Demographic variable  | Categories          | Number of responses |
|-----------------------|---------------------|---------------------|
| Gender                | Male                | 253 (72.28)         |
|                       | Female              | 97 (27.72)          |
| Region                | North               | 88 (25.14 )         |
|                       | South               | 79 (22.57)          |
|                       | West                | 82 (23.42)          |
|                       | East                | 101 (28.85)         |
| Educational level     | Up to XII (A level) | 170 (48.58)         |
|                       | Graduate            | 153 (42.56)         |
|                       | Post-graduate       | 31 (8.86)           |
| Age (in years)        | 18-30               | 92 (26.29)          |
|                       | 31-45               | 121 (34.57)         |
|                       | 46-60               | 103 (29.42)         |
|                       | Above 60            | 34 (9.72)           |
| Experience (in years) | 0-10                | 124 (35.43)         |
|                       | 11-20               | 138 (39.42)         |
|                       | Above 20            | 88 (25.15)          |

Source: Primary data collected through sample survey

**Table 2: Ratings of the perception of entrepreneurs towards the constraints in the Indian manufacturing sector**

| Constraint ratings                              | 1   | 2  | 3   | 4   | 5   | Average |
|---|-----|----|-----|-----|-----|---------|
| Lack of business contacts                       | 55  | 60 | 112 | 45  | 78  | 3.1     |
| Lack of access to finance                       | 59  | 39 | 73  | 96  | 83  | 3.3     |
| Lack of personal motivation                     | 94  | 58 | 88  | 45  | 65  | 2.8     |
| Lack of role models                             | 113 | 76 | 63  | 59  | 39  | 2.5     |
| Bureaucratic hurdles                            | 88  | 79 | 63  | 103 | 17  | 2.7     |
| Lack of entrepreneurship education and training | 95  | 67 | 56  | 85  | 47  | 3.8     |
| Lack of experience                              | 45  | 58 | 75  | 69  | 103 | 3.6     |

Source: Primary data collected through sample survey

**Table 3: Results of statistical test (t-test and ANNOVA)**

| Barrier   | 1              | 2              | 3                | 4               | 5              | 6               | 7              |
|-----------|----------------|----------------|------------------|-----------------|----------------|-----------------|----------------|
| Gender    | 0.912 (0.362)  | -0.321 (0.748) | -2.855 (0.005)** | 8.275 (0.001)** | -0.525 (0.600) | -1.548 (0.122)  | 9.51 (0.000)** |
| Region    | 1.188 (0.330)  | 3.145 (0.025)* | 1.451 (0.228)*   | 2.230 (0.084)   | 0.982 (0.401)  | 1.092 (0.353)   | 1.440 (0.231)  |
| Education | 4.412 (0.013)* | 1.926 (0.125)  | 1.823 (0.143)    | 2.535 (0.057)   | 3.268 (0.022)* | 4.629 (0.004)** | 3.521 (0.016)* |
| Age       | 2.892 (0.036)* | 2.751 (0.043)* | 3.331 (0.019)*   | 1.212 (0.305)   | 3.341 (0.019)* | 3.421 (0.018)*  | 3.322 (0.020)* |

\*Significant at 0.05% level, \*\*Significant at 0.01% level

## 5. FINDINGS

The Tables 1-3 show the demographic distribution respondents, the average ratings of the perceived constraints in the Indian Manufacturing sector and the results of the statistical test respectively.

Lack of entrepreneurship education and training and lack of role models are perceived as the maximum and minimum constraints by the entrepreneurs in the Indian manufacturing sector.

As per the results of the *t*-test and ANNOVA the following inferences can be drawn;

1. Gender wise differences are found in lack of personal motivation, lack of role models and Lack of experience. Male and female respondents perceived the remaining all others constraints equally.
2. Region wise differences were found in lack of personal motivation and lack of access to Finance. Others constraints are perceived equally across all ages of respondent.
3. Education wise differences were found lack of business contacts, lack of experience and in bureaucratic hurdles. The remaining constraints were perceived equally.
4. Age wise differences were found in all the constraints except lack of role models.

## 6. SUMMARY AND CONCLUSIONS

This study analyzed the response from entrepreneurs in the manufacturing sector as related to their perceptions of the various constraints in the Indian manufacturing sector.

The responses have shown that three highest rated constraints are lack of entrepreneurship education and training, lack of experience and lack of access to finance. While the three lowest rated constraints are lack of role models, bureaucratic hurdles and lack of personal motivation.

The constraints in entrepreneurship should be addressed. Only 22% of entrepreneurs in India as compared to the Asian average of 44% have the opportunity of having access to formal or informal entrepreneurship education and training (Yu and Tandon, 2012). Around 70% of India's population lives in rural areas where the access to entrepreneurship education and training is difficult. Thus there is a need to promote entrepreneurship education and training and broaden its reach to include both urban and rural areas.

Lack of experience is another major constraint in the Indian manufacturing sector. Past business experience increases confidence of the entrepreneur. Studies have shown that prior

experience with a particular assignment diminishes the need for cognitive concentration to perform similar tasks in future (Penrose, 1995). But as we are living in an increasingly unpredictable business environment it is necessary to inculcate in the entrepreneur a method for identifying opportunities, critical thinking, managing change and most of all adjusting to new conditions as these are more important than the actual experience necessary.

Access to finance for entrepreneurs in the manufacturing is another major problem as the manufacturing sector is more capital-intensive with longer working capital cycles, and therefore needs higher working capital. As per reserve bank India around 60% of the demand for finance arises from the manufacturing sector. The combined debt gap and equity gap for finance in the Indian manufacturing sector is 21 trillion INR (approximately 418 billion dollars). The National Manufacturing policy (2011) proposes a shift of lending focus from tangible assets to other kinds of assets so that availing bank finance becomes easier.

The results of the statistical test indicate that there are differences in the perception of the entrepreneurs towards the various constraints in the Indian manufacturing sector. There are differences based on the gender, region, educational level and age. The results are in line with previous researchers which have also found that gender, education and age effect entrepreneurship (Wang and Wong, 2004).

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