

**An empirical study of growth and  
inclusiveness of entrepreneurship in India**

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Abstract-

The importance of entrepreneurship development has been accepted universally. Entrepreneurs offer solutions to varied economic and social challenges such as unemployment, slower growth rates, regional imbalances, poverty, inequality in income distribution, technological backwardness and lack of financial inclusion. Entrepreneurship development is a common key to attain economic, social and psychological well being of the people and the nation. It is definitely not just a sheer coincidence that the countries with higher incidence of entrepreneurship are also the ones with higher national income and the ones creating series of innovations. All the policy makers of different nations are busy designing measures that will systematically develop entrepreneurial aspirations and activities through promoting appropriate institutional framework. Educational institutions, research centers, incubations, financial institutions, tax authorities and many technical institutions are working together to promote entrepreneurship. Leading management institutions are running special programs to develop and nurture entrepreneurship.

Indian policy makers have also taken active steps to enhance entrepreneurship since 1950s. The present study aims at analyzing the impact of MSME Act 2006, on the progress made by India in the field of entrepreneurship development. The progress is measured in quantitative terms such as growth of number of Micro, Small and Medium Enterprises (MSME), total number of jobs created by MSME and the share of output of MSME in aggregate industrial output. The extent of 'inclusiveness of entrepreneurship' a concept used in Global Entrepreneurship Monitoring (GEM) report is measured on the basis of gender, caste and type of industry. The study also measures India's progress in the field of entrepreneurship as notified in Doing Business Report 2012, a report published annually by the World Bank. Some policy measures are suggested to boost the entrepreneurial spirit in modern India.

Key words – Entrepreneurship, MSMEs, MSME Act 2006, Doing Business Report and GEM report.

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## **Introduction –**

As a core factor of production, entrepreneurs have always enjoyed a place of pride in classical economic theory. Schumpeter assigned a key role to entrepreneurs as innovators while explaining his famous process of creative destruction and economic development<sup>1</sup>. Peter Druker provided empirical evidences establishing relationships between entrepreneurship, innovation and economic progress<sup>2</sup>. Today, we all know that entrepreneurship is the key to combat ill effects of business cycles, create more jobs, attain higher production, economic growth, promote exports and most importantly to maintain continuous flow of innovation. With the largest amount of young population, India needs to create sufficient job opportunities to absorb and engage the young minds in a productive way. Higher growth rates, higher exports and better regional balance can also be attained through the promotion of entrepreneurship.

Way back in 1951, we had our first policy document in place –Industrial development Act 1951. Creation of the Coir boards (1953), Khadi and Village Industries Commission (KVIC- 1956), National Small Industries Corporation (NSIC - 1955), Small Industrial Development Bank of India (SIDBI-1990) were some of the strong measures adopted by government to promote small scale and cottage industries. Second phase of policy measures gave more focus to infrastructure and credit requirements of MSMEs, such as Small Industry Cluster Development Program (SICDP- 1998, 2003), Credit Linked Capital Subsidy Scheme (CLCSS- 2000).

MSMED Act 2006 can be considered as a major milestone in the policy measures aiming at promotion of entrepreneurship in India. On 9<sup>th</sup> May 2007, Ministry of Small scale Industry and Ministry of Agro and Rural Industry was merged to form Ministry for MSME. The ministry with the help from State governments and through the provisions made under MSMED Act 2006 aims at developing MSMEs and thus supporting growth of entrepreneurship. The act provides number of new schemes as well as revival plans for traditional Coir industry and Khadi and Village industry. Some of innovative initiatives under MSMED Act2006 are National Manufacturing Competitiveness Program (NMCP), Rajiv Gandhi Udaymi Mitra Yojana (RGUMY), Cluster Development Program (MSME- CDP) and Toll free helpline for first generation entrepreneurs for any support and guidance.

## **The objectives of the present study**

1. To assess the performance of MSMEs on the basis of Ministry of MSME reports in the post MSMED Act era
2. To examine the extent of entrepreneurship inclusiveness.
3. To evaluate the performance of India on Doing Business Report 2012.
4. To suggest some policy measures to further boost the entrepreneurial spirit in India.

## **Methodology-**

The study is based on the secondary data, published in the following reports -

1. The annual reports of Ministry of MSME
  2. The annual reports on Doing Business published by World Bank
- a. To assess the entrepreneurial activity in India, the performance of MSMEs is tracked for past ten years on the chosen parameters as –Number of MSMEs, Production of MSMEs, Employment generated by MSMEs and Contribution of MSMEs in India’s export. The extent of MEMEs share in India’s industrial production and GDP is also assessed to determine the progress of MSMEs and hence the entrepreneurship.
  - b. Inclusiveness of entrepreneurship is measured on the basis of industry origin, gender, caste and region.
  - c. Doing Business report is analyzed by using the research data base available for individual country at a disaggregated level.

Based on the findings of the study, some measures are suggested to enhance the entrepreneurial activity in India.

**1. Assessment of the performance of MSMEs on the basis of Ministry of MSME reports in the post MSMED Act era**

Table 1.1 – Performance of MSME on units, production, employment and export.

Year	Number of MSME in lakhs	Production in crores	Employment in lakhs	Exports in crores
2001-02	105.21	282270	249.33	71244
2002-03	109.49	314850	260.21	86013
2003-04	113.95	364547	271.42	97644
2004-05	118.97	429796	282.57	124417
2005-06	123.42	497842	294.91	150242
2006-07	261.01	709398	594.61	182538
2007-08	272.79	790758	626.34	202017
2008-09	285.16	880805	659.35	NA
2009-10	298.08	982919	695.38	NA

Source - MSME Annual Report 2010 -11

- The number of MSMEs was increasing at 4 to 5% prior to 2006, whereas, in 2007 the number increased at 111.5%.
- The production of MSMEs registered a growth at 14 to 15% per annum prior to 2006, whereas, in 2007 there appears a quantum jump of 42.47%
- The employment generation was increasing at a moderate rate of @4%, which suddenly registered a robust rate of increase at 101.62%.
- The data on export does not indicate the similar change. We need to consider the fact that the exports are determined by the in-house production capacity and more importantly by the demand conditions in the trading countries. The years from 2008 have been affected by financial crisis in the US followed by economic crisis in European nations.

Table 1.2 – Contribution of MSE in GDP at 1999-2000 prices

Year	% of Industrial production	% of GDP
2000-01	39.71	6.04
2001-02	39.12	5.77
2002-03	38.89	5.91
2003-04	38.74	5.79
2004-05	38.62	5.84
2005-06	38.56	5.83
2006-07	45.62	7.20
2007-08	45.24	8.00
2008-09	44.86	8.72

Source - MSME Annual Report 2010 -11

Table 1.2 also indicates increasingly important contribution from MSEs in industrial production, which is at 45% and the MSEs are contributing more than 8% in Indian GDP. This also highlights the positive impact of MSMED Act of 2006.

As indicated in Table 1.1 and 1.2, the growth of MSMEs and so the growth of entrepreneurship has gathered momentum with the boost coming from MSMED Act 2006.

**2. To examine the extent of entrepreneurship inclusiveness.**

Global Entrepreneurship Monitoring (GEM), an annual assessment of entrepreneurial activity, aspiration and attitude of individuals in different countries was initiated by London Business School and Babson College in 1999 with a survey of 10 countries. GEM report 2011 was published on January 19<sup>th</sup> 2012 covering 1, 40,000 million adults of 54 economies. India was not a part of the survey. The report highlights an upsurge in entrepreneurial activity all across. The report uses the term inclusiveness of entrepreneurship to measure the spread of entrepreneurship gender- wise, age-wise and industry-wise.

The parameters used by GEM report to study the inclusiveness are used in Indian context to examine the extent of inclusiveness of entrepreneurship.

Table 2.1 – Gender-wise distribution

	Number in lakhs	%
Male entrepreneurs	13.49	86.28
Female entrepreneurs	2.15	13.72
Total Number	15.64	100

Source - MSME Annual Report 2010 -11

The data indicates that entrepreneurship is dominated by males whereas women entrepreneurs are much less in number in spite of many encouraging facilities being provided under MSMED Act 2006. There are still many obstacles in the path of any career opportunities for women in India. Right from education to career choice, household responsibilities to health, women always get secondary treatment from parents, husbands and society. MSMED 2006 act has made many special provisions for women entrepreneurs, right from tax concession to contributions to the expenses for obtaining ISO certification and travel to abroad for participating in exhibitions and workshops. India has produced very strong global women entrepreneurs but number is very insignificant. Women entrepreneurship can be developed by undertaking strong campaign to spread awareness among women aspirants about the various schemes launched by government to promote women entrepreneurs.

Table 2.2 – Religion – wise distribution of entrepreneurship-

Religion	% in total registered MSMEs
Hindu	81.22
Muslim	9.11
Sikh	3.31
Christen	4.12
Jain	0.52
Buddhists	0.07
Others	1.64

Source - MSME Annual Report 2010 -11

Hindu community is the largest community in India. Obviously the largest share in terms of percentage in the total registered companies is of the same community. In fact this data represents the proportion of each community in the total population mix in India.

Table – 2.3 Caste –wise distribution of entrepreneurship

Caste	Scheduled caste(SC)	Scheduled Tribe (ST)	Other Backward Caste (OBC)	Others
% in MSME number	7.6	2.87	38.28	51.26

Source - MSME Annual Report 2010 -11

The table indicates that the nearly half of the MSMEs are started by the people belonging to socially backward strata. This data also needs additional information to be collected from a different angle. What is percentage of Entrepreneurs

from SC, ST, OBC and others category. On this criterion of inclusiveness, India has a good standing. It suggests that the measures taken up by government are effectively reaching out to the target class.

Table 2.4 – Industry – wise distribution

Industry type	Percentage
Manufacturing	67
Service	33

Source - MSME Annual Report 2010 -11

Table- 2.5 – Area wise distribution

Area	Percentage
Urban	55
Rural	45

Source – MSME Annul Report 2010- 11

Table 2.4 indicates the preference of the MSME towards manufacturing units over the services based ones. Manufacturing sector is offering many options and opportunities and setting up ancillary units becomes an easy start up route for aspiring Indian entrepreneurs. However, in near future, services such as IT, Financial markets, hospitality will provide increasing opportunities.

Table 2.5 provides a very encouraging scenario. The incidence of entrepreneurship is higher in rural area than in urban. This may be due to the simple fact that rural India offers lesser employment opportunities than urban and hence the youths are compelled to start something on their own. The statistics published by the latest round of NSS in March 2012 reveals that the number of poor in India have fallen to 29.8 % in 2009-10 from 37.2% in 2004-05. The fall in rural poverty is sharper at 8% ( 33.8% -rural poverty) than of urban poverty at 4.8% (20.9% urban poverty).<sup>3</sup> This has bridged up the gap between urban – rural poverty to a very large extent.

### 3. To evaluate the performance of India on Doing Business Report 2012.

World Bank undertakes study of the regulatory framework of different countries affecting growth of startups and established companies. The ranking is given to the economies on ease of doing business based on the average of ten percentile ranks scored by the country. The ten topics covered for the study are starting a Business, Dealing with construction permits, Getting Electricity, Registering Property, Getting Credit Protecting Investors, Paying Taxes, Trading Across the border, Enforcing contracts and Resolving insolvency.

India is ranked at 132nd position out of 183 countries in Doing Business Report 2012 as against 139th position in 2011. The ranking is very low and clearly indicates inappropriate regulatory structure hindering the progress of firms. Singapore has retained the first position clearly indicating the best regulatory structure for encouraging the growth of startups and established firms. China is at 91<sup>st</sup> position , Brazil at 126th and Russia at 120<sup>th</sup>. Among the BRIC economies India is at the lowest rank.

Some important observations about the report –

- The countries with higher ranks in Doing Business report are also the ones with higher GDP, PCI and HDI. This confirms the high degree of correlation between entrepreneurship development and economic progress of the nations.
- In Asian continent, the countries like Singapore, Hong Kong, Taiwan, Japan, Malaysia, Thailand and Korea are enjoying higher ranks in the 2011 as well as in 2012 report
- The countries in Middle East regions such as UAE, Bahrain, and Oman have been placed on higher ranks in 2011 as well as in 2012, indicating consistency and continuity of the efforts.

A closer look at India’s performance indicates that though India is at a very low level, the ranking has improved by seven ranks over 2011 ranking. The detailed analysis of Indian performance leads to following observation

Table No. 3.1- India’s comparative Performance on ten parameters-

Sr. No.	Topic Ranking	Rank2012	Rank 2011	Change

	Doing Business	132	139	+7
1	Starting a Business	166	166	No change
2	Dealing with Construction permits	181	181	No change
3	Getting Electricity	98	109	+11
4	Registering Property	97	96	-1
5	Getting Credit	40	37	-3
6	Protecting Investors	46	44	-2
7	Paying Taxes	147	165	+18
8	Trading Across Borders	109	107	-2
9	Enforcing Contracts	182	182	No change
10	Resolving insolvency	128	140	+12

Following data provides in-depth analysis of India's performance on the ten parameters as compared to South Asia and OECD average. This comparison really provides a roadmap for Indian policy makers to focus on the weaker areas.

Table 3.2.1 - Starting Business-

	India	South Asia	OECD
No. of procedures	12	7	5
Time in days	29	23	12
Cost (% income PC)	46.8	21.6	4.7
Paid in Min. Capital (% Income PC)	149.6	19.1	14.1

There is vast scope to improve on all the four parameters. Starting Business is lengthy, complex and costly in India as compared to South Asia and OECD.

Table 3.2.2-Dealing with construction permits -

	India	South Asia	OECD
No. of Procedures	34	16	14
Time (days)	227	222	152
Cost as % PCI	1631.4	980	45.7

Obtaining construction permits involves more no. of procedures, time and cost in terms of % PCI which might prove as a discouraging factor for entrepreneurial growth

Table 3.2.3 - Getting Electricity

	India	South Asia	OECD
No. of Procedures	7	6	5
Time	67	145	103
Cost	216	1775.9	92.8

India has made a remarkable progress in this area and hence the rating is improved by eleven ranks on this criterion.

Table 3.2.4 - Registering Property

	India	South Asia	OECD
No. of Procedures	5	6	5
Time(days)	44	103	31
Cost as % PCI	7.3	7.3	4.4

Here India needs to reduce the time for the registration procedure.

Table 3.2.5 -Getting Credit

	India	South Asia	OECD
Strength of legal rights	8	6	7
Depth of credit information	4	3	5
Pub. Registration coverage	-	1.7	9.5
Private registration coverage	15.1	5.8	63.9

India's performance in this regard is quite satisfactory. Reservations for priority sector, microfinance policies and widespread network of financial institutions have helped entrepreneurs in starting up and scaling up of their business.

Table 3.2.6 - Protecting Investors

	India	South Asia	OECD
Disclosure index	7	5	6
Director Liability Index	4	4	5
Ease of shareholders suite	7	6	7
Strength of investors protection	6	5	6

In this field, India's performance is at par with most of the high ranked nations. A new organizational form such as Limited Liability Partnership provides protection to the investors as well as flexibility in operations.

Table 3.2.7- Paying Taxes

	India	South Asia	OECD
Payments (No. per year)	33	18	13
Time – (hours per year)	254	281	186
Total tax	61.8	44.4	42.7

Though India's ranking has improved by eighteen ranks in this field, there is still scope to reduce the number of payments, number of taxes and time needed for the payment of taxes.

Table 3.2.8 - Trading Across the border

	India	South Asia	OECD
Number of documents for export	8	8	4
Time to export(days)	16	32	10
\$ cost per container of export	1095	1590	1032
Number of documents for Imports	9	9	5
Time to Import(days)	20	33	11
\$ cost per container of import	1070	1768	1085

Trading across border is time consuming and costly in India. We need substantial improvement in this area.

Table 3.2.9 -Enforcing contracts

	India	South Asia	OECD
Time(No. of days)	1420	1070	518
Cost - % of the claim	39.6	27.2	19.7
No. of procedures	46	43	31

India's performance in this respect has remained very poor. It takes enormous cost, time and more number of procedures to enforce the contracts in India. Substantial efforts need to be put in to make this process simpler and quicker.

Table 3.2.10 - Resolving insolvency

	India	South Asia	OECD
Time (years)	7	3.4	1.7

Cost 9% of estate)	9	9	9
Recovery rate	20.1	29.0	68.2

India's ranking in this area has improved by twelve points. If some measures are taken to reduce the time involved in the process, India's rating in this context will improve further.

#### 4. Major findings of the study-

- a. Number of MEMEs, their production, the employment generation of MEMEs have increased substantially in 2007. This highlights the positive impact of MSMED Act 2006 on entrepreneurial activity in India.
- b. The contribution in Industrial production and GDP has also taken up a quantum jump in 2007, again emphasizing the key role played by MSMED ACT 2006.
- c. Entrepreneurial inclusiveness points out the need to encourage women entrepreneurs as the data is skewed in favor of male entrepreneurs. However, urban- rural , caste wise and industry origin data indicates appropriate inclusiveness in the spread of entrepreneurship.
- d. India's rank on Doing Business report has improved from 139 in 2011 to 132 in 2012. India has performed well on the parameters such as Paying Taxes, resolving Insolvency but yet needs to focus on simplifying the procedures and enforcement of the laws.

#### 5. Policy measures to further boost up entrepreneurial spirit in India –

Ministry of MSMEs Reports and Doing Business Reports indicate the progress of entrepreneurial activity in local as well as in a global perspective. Less number of women entrepreneurs, India's position at 132<sup>nd</sup> rank are matters of concern and it is the time for introspection and action.

Following are some measures suggested to boost entrepreneurial aspiration and activity in India.

1. The important grey area appears on Male- Female proportion of entrepreneurs as given in MSME Report 2011. In fact there are many provisions made under the MSMEs ACT 2006 to promote women entrepreneurship. We need to spread the awareness among women about the same. Families, Societies in rural and urban areas need to set up support group to inspire, motivate and support women. Formal education and then EDPs focusing exclusively on women is the need of the day.
2. Our schools, colleges and higher education institutes are required to be well equipped with appropriate courses, faculty, pedagogy and incubation centers. If government and education institutions come together to inculcate and support the entrepreneurial aspirations among youth, a remarkable increase in the number of entrepreneurs can easily be achieved. Instilling the idea of entrepreneurship at a younger age will also promote innovation and experimentation.
3. Compared with other nations, efforts undertaken in India to promote entrepreneurship appear miniscule. Focus on cluster development, easier and quick procedures and appropriate legal framework will encourage youth to venture in India, as we are emerging as a very strong and robust economy. The domestic market is very promising and we have huge untapped rural market to support any business activity. A strong push and buzz is needed to attract the attention of youth, women and even elderly prospective entrepreneurs.
4. Government needs to take utmost care to stabilize the policies and create an atmosphere of certainty, transparency and assurance. Frequent policy shifts, changes in retrospective effect, corruption and decision delays are the main deterrents in the development of entrepreneurship

In fact India is passing through a very favorable economic phase with higher growth rate of GDP and PCI, largest amount of young population, increasing literacy levels and declining poverty. All we need to do is to take strong and powerful measures and honest efforts to implement the same to promote entrepreneurial development.



Notes –

1. Process of creative destruction explained by Joseph Schumpeter in his book- Capitalism, Socialism and Democracy
2. Peter Drucker in his book - Innovation and Entrepreneurship
3. The Economic Times-Tuesday 20<sup>th</sup> March 2012 -Poverty estimates announced by Planning Commission

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4. Report of Expert committee to Review the Methodology for Estimation of Poverty- [www.planningcommission.nic.in](http://www.planningcommission.nic.in).