

INDIAN ENTREPRENEURSHIP AND THE CHALLENGES TO INDIA'S GROWTH

Dr. Amit Kumar Goel
Assistant Professor
Faculty of Management & Research,
Integral University Lucknow

Ms. Asma Farooque
Sr. Assistant Professor
Faculty of Management & Research,
Integral University Lucknow

Entrepreneurs are driven to achieve success in their business along with the qualities of a Leader, Manager, Dreamer, Innovator, risk taker, continues learner, decision maker & most important is to implement all these qualities into the work. There are a lot of examples of the entrepreneurs in India who are now called synonymous of 'Success'. They saw the bigger picture but wisely started their business as a very small unit. Entrepreneurs set the example of turning their dream into reality.

And the story behind to achieve the dreams into reality is to set massive goals for themselves and stay committed to achieving them regardless of the obstacles they get in the way, with the ambition and the unmatched passion towards achieving the goal. It looks fascinating, attractive and motivating after listening stories of the entrepreneurs, but success is not as easy as it looks always. There are some obstacles which we call the challenges to overcome by looking forward the prospects to be a successful entrepreneur.

This paper tries to force on the challenges on Indian Entrepreneur and how to overcome these challenges.

Introduction:

Entrepreneurship means different things to different people. An entrepreneur is a person who operates a new venture and also inherits some risks and is able to look at the environment, The great ones are ready to be laughed at and criticized in the beginning because they can see

their path ahead and are too busy working towards their dream, True entrepreneurs are resourceful, passionate and driven to succeed and improve. The term "entrepreneurship" is derived from the French word '*entreprendre*' and German word '*unternehmen*' which literally means, 'to undertake' – indicates the minimum characteristics of an entrepreneur.

In early 16th century, the Frenchmen who led military expeditions were refereed to as 'entrepreneurs'. Around 17th century this term was used for architects and contractors for public works. Later it was applied to the function of engaging labour and buying materials and selling the resultant products at contracted prices. Infact, it was in 18th century that the term 'entrepreneur' was applied initially to business by the French economist Cartillon who designated him as a dealer who purchases the means of production for combining them into marketable products. Another Frenchman J. B. Say, expanded Cartillon idea and conceptualised entrepreneur as an organiser of a business firm. In case of a developing economy like India, it refers to one who starts a new business, undertakes risk, bears the uncertainties and performs the managerial functions of decision making and coordination. In

many countries, the entrepreneur is associated with a person who starts his own new and small business.

In other words, 'Entrepreneurship is 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'.

Importance of Entrepreneurship

It has been said that entrepreneurship is essential for economic development. In capitalistic economies, the entrepreneurs played an important role in their development. In socialist economies, the state played the role of the entrepreneur. But in a developing country like India which followed the path of mixed economy, both the government and the private entrepreneurs played an

equally important role. Of course, there has been a significant increase in entrepreneurship in India in the post liberalisation period. People have now begun to realise the crucial role the entrepreneurs have to play for achieving the goal of economic development. They are regarded as the prime movers of innovations and act as key figures in economic development of a country. Thus, entrepreneurship:

- (a) helps the formation of capital by bringing together the savings and investments of people;
- (b) provides large-scale employment opportunities and increases the purchasing power of the people;
- (c) promotes balanced regional development in the country;
- (d) helps in reducing concentration of economic power (power to own the factor of production in a few hands).

Current Scenario of Entrepreneurship in India

Entrepreneurs play an important role in developing and contributing to the economy of a nation. It is all the more in a developing world where there are ample opportunities for innovations to exploit the available resources and initiate entrepreneurial ventures.

Entrepreneurship has gained greater significance at global level under changing economic scenario. Global economy in general and Indian economy in particular is poised for accelerated growth driven by entrepreneurship. Admits environment of super mall culture we find plenty of scope for entrepreneurship in trading and manufacturing.

Entrepreneurship has been 'embedded in the Indian genius and is a part of its tradition'. To quote the renowned economist, T.N. Srinivasan, 'India has been an entrepreneurial society...we had the entrepreneurial skill but suppressed it for too long a time... and now it is thriving.' The entrepreneurial spirit is an ongoing characteristic of India's history, particularly visible in a number of communities engaged primarily in trading. Traditionally, the Entrepreneurship of such communities is facilitated principally by the successful use of informal 'entrepreneurial ecosystems' and interdependent business networks. Further, there is also a rich tradition within the Indian diaspora, spanning the past several hundred years, whose spirit of enterprise is legion.

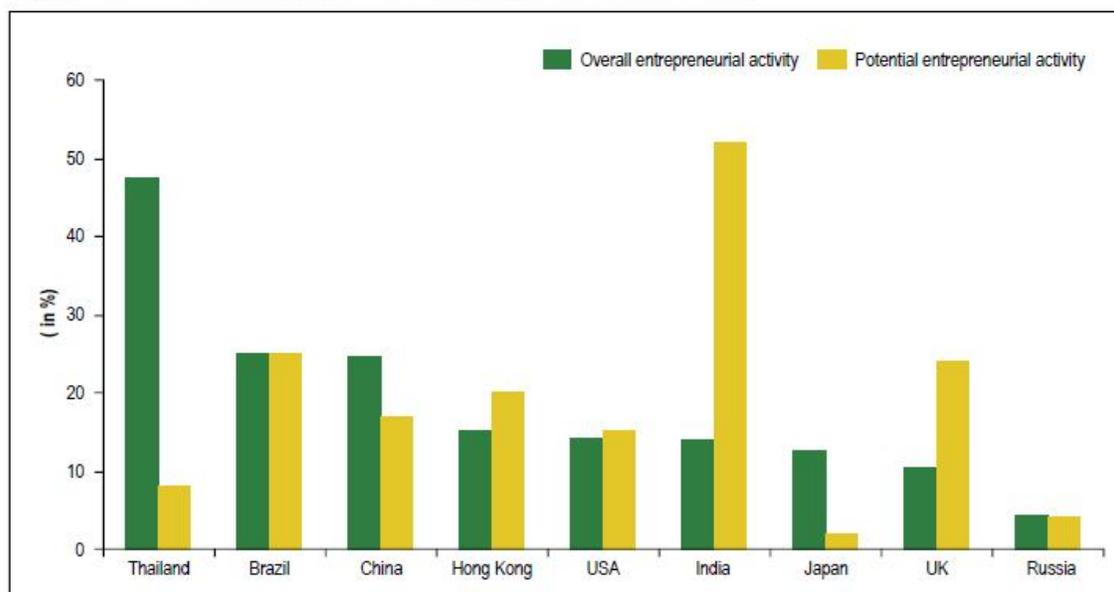
Entrepreneurship in India occurs in 'far more encompassing and far reaching ways than in developed countries', and could therefore be far more complex, 'for there is so much more that needs to be done'

The salience of Entrepreneurship in India has intensified in recent times, particularly with the rise in knowledge-intensive services. New entrepreneurs who do not belong to traditional business communities have begun to emerge in large numbers. Entrepreneurship has grown rapidly, visibly so, creating wealth and generating employment, especially in the past twenty years. Crucial efforts initiated after economic liberalization — including systematic attempts to reduce the 'licence raj', greater efforts to make finance more easily accessible to entrepreneurs and other institutional support to 'techno-preneurs' — have helped improve the climate for Entrepreneurship.

According to the Global Entrepreneurship Monitor (2007) report, India's High-Growth Expectation Early-Stage Entrepreneurship (HEA) rate is only one-fifth of that of China. Further, among medium and low income countries, while China's nascent and new entrepreneurs appear to be the most growth-oriented, with more than 10 per cent of them anticipating high growth. Early-stage entrepreneurial activity in India is marked by low levels of growth expectation. This is despite the extremely

high levels of potential entrepreneurial activity as perceived by the non entrepreneurially active population in the country

Figure 60: Overall and potential entrepreneurial activity



Source: Global Entrepreneurship Monitor, 2007

According to the NSS 62nd round, in rural India, almost 50 per cent of all workers are self-employed – 57 per cent among males and nearly 62 per cent among females, while the corresponding figures in urban India are 42 for males and 44 for females. The NSSO defines a self employed person as one who has worked in household enterprises as own-account worker; worked in household enterprises as an employer or worked in household enterprises as helper. The essential feature of the self-employed is that they have autonomy (decide how, where and when to produce) and economic independence (in respect of choice of market, scale of operation and finance) for carrying out their operation. According to the 5th Economic Census conducted by the Central Statistical Organisation (CSO), there are 41.83 million establishments in the country engaged in different economic activities other than crop production and plantation. Five states viz. Tamil Nadu (10.60 per cent), Maharashtra (10.10 per cent), West Bengal (10.05 per cent), Uttar Pradesh (9.61 per cent) and Andhra Pradesh (9.56 per cent) together account for about 50 per cent of the total establishments in the country. The same five states also have the combined share of about 50 per cent of total employment.

Statistics on the growth of India’s technology driven entrepreneurship are telling. In a recent survey by the Deloitte group, India ranks 2nd globally as home to the fastest growing technology firms. 82 Indian companies entered the Deloitte Technology Fast 500 list of Asia-

Pacific Companies in 2007 and the companies that have made it to the Technology Fast 50 of India have an average three-year revenue growth of 489%.¹⁹ In this respect, particularly in high skill innovation driven Entrepreneurship, the opportunities offered by complex and interconnected global networks are also relevant. The ability to ‘adapt to changing market conditions and anticipate future technologies and economic trends’²⁰ and leverage across a large number of markets provides ‘opportunities for exploiting economies of scale.’²¹ As such, comparative knowledge leverage at lower costs would play a key role in the race to achieve economic competitiveness. Recent surveys, such as those undertaken by Goldman Sachs and Pricewaterhouse Coopers, have estimated that India has the potential to be among the world’s leading economies by 2050.²² Further, India’s economy can potentially gain significantly from the country’s characteristic features — a democratic open society, a strong technology base (with capacity for leapfrogging), unparalleled diversity, vibrant capital markets (including growing private equity and venture

capital markets), an increasingly youthful population (50% of India is 25 years and younger), a sizeable market of a large number of customers with vast unmet needs as well as an environment of full and free competition in the private sector.

India enjoys enormous potential for the creation of wealth through knowledge. Entrepreneurship and innovation are the key drivers for generating wealth from knowledge, supported principally by the availability of skilled human resources, access to finance and the ability of the State to create an enabling environment.

The Entrepreneurship 'Pyramid' in India (in terms of sectors and numbers of people engaged) is made up of the following:

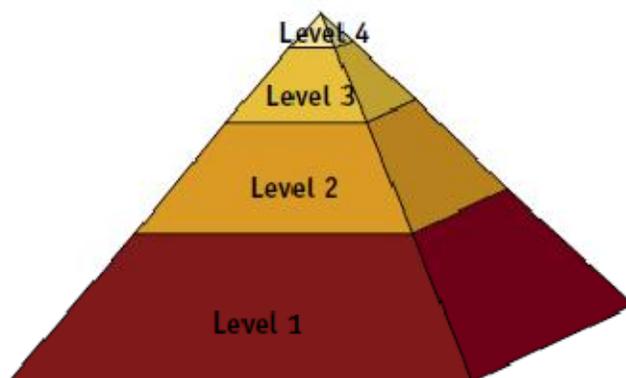
Level 1: Agriculture and other activities: Crop production, Plantation, Forestry, Livestock, Fishing, Mining and Quarrying.

Level 2: Trading services: Wholesale and retail trade; Hotels and restaurants

Level 3: Old economy or traditional sectors: Manufacturing, Electricity, Gas and Water supply

Level 4: Emerging sectors (including knowledge intensive sectors): IT, Finance Insurance and Business services, Construction, Community, Social & Personal Services, Supply Chain, Transport- Storage- Communications etc.

Entrepreneurship Pyramid



Levels 2 and 3 (Trading and Manufacturing) of the above pyramid comprise the traditional areas of Entrepreneurship. Level 4, on the other hand, is an emerging/modern sector of Entrepreneurship with high growth rates. In future we may expect a broadening of Levels 3

and 4 with the activities from Levels 1 and 2 migrating to the other levels.²⁵ Such trends are already being seen upon analyzing time series data regarding registration of new companies according to sectors. The number of new companies registered (a proportion of which relate to Entrepreneurship) has in general been increasing over the past years. The figure below clearly shows that the number of new companies in Level 4 has been growing at a much faster rate compared to those in the other levels. At the same time, it must be noted that most entrepreneurial ventures in Levels 1 and 2 do not register themselves as companies and instead function largely as self employed entities.

Issues in Current Framework

A business enterprise comes into existence due to the pioneering efforts of entrepreneurs. However there are several issues and problems faced by the entrepreneurs while giving shape to their ideas. These are as follows:

Selection of the business

The entrepreneur might be having a very good business idea. However, successful implementation of the idea into business activity involves a painstaking exercise. First of all, he/she has to study the market to know whether the idea of products or services could be accepted by the market. For the purpose, the entrepreneur has to determine the market demands of the intended products/services and carry out exercises to find out the projected costs of the product or services. In this way, the entrepreneur

shall be able to know as to whether the venture is profitable or not. This systematic exercise is known as a 'feasibility study' and presented in the form of a report known as 'Feasibility Report' or 'Project Report'. Not only that, an entrepreneur may conceive a number of ideas and identify many new business opportunities. In view of limited resources he may like to give shape to most the profitable one. The feasibility studies shall help him/her to identify the same.

Choice of Business Enterprise

There are various options available to the entrepreneur as far as the choice of form is concerned. He/She may go in for sole proprietorship, a partnership or a joint stock company. The choice is rather difficult issue. However, there are certain lines of business where one has no choice. Foreexample, take the case of banking and insurance. These can only be taken up by the joint stock companies. The size of the business will determine the form of organisation. Apparently, company form of organisation is suitable in case of large-scale operations, while sole proprietorship or partnership is considered more suitable for small scale and medium scale operations.

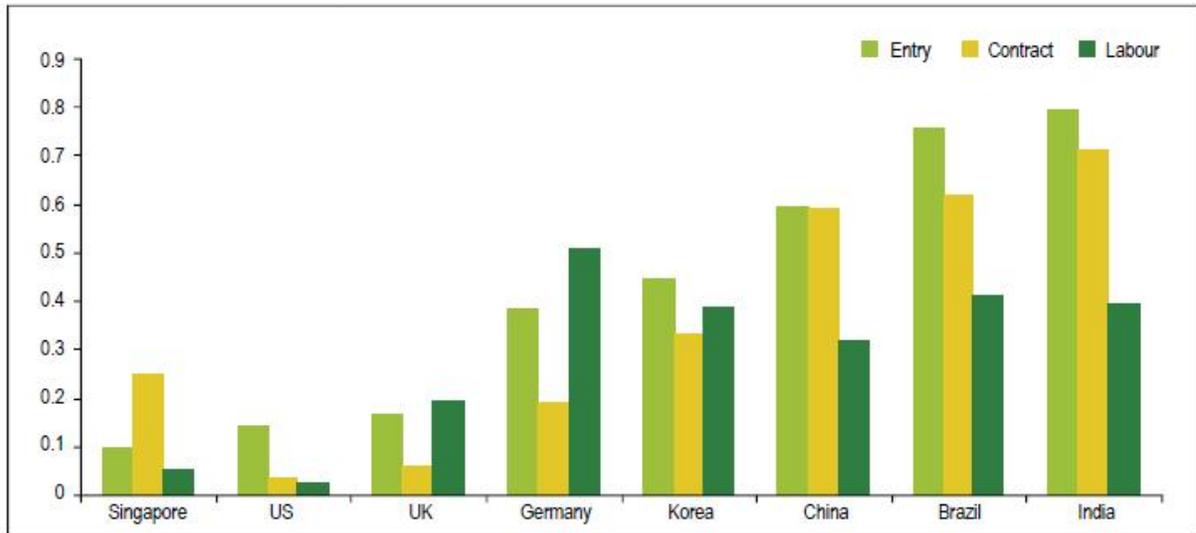
Finance

Starting Business on credit is one of the key problems faced by the early stage entrepreneurs in India. Getting financed by the Banks is still tough, after a lot of practices of the governments. There are some more ways of funding like venture capital, angel funding, and private equity which are becoming popular these days, But still institutional finance is not able to meet the entrepreneurial demands.

Regulation and governance

Government regulations are definitely established for a cause, but as far as setting up a business or becoming an entrepreneur is as tough as to deal with the government. An entrepreneur has to deal with regulatory & compliance issues, which includes, registering the business, obtaining government clearance and license of that particular business, high taxes, and complying the labor regulations. Difficult paper works, and a long delay on every issue, creates unnecessary burden to the entrepreneurs, which surely affect the ability & productivity of the business. As seen in the Doing Business 2008 rankings, India performs poorly in these indicators. A study investigating the effect of regulation on entrepreneurship using the GEM dataset shows India to be having one of the worst regulatory indices. (See the Figure below). Moreover, lack of clarity on information relating to legal and procedural aspects of starting an enterprise, as well as those relating to clearances, licenses and government schemes further aggravates the problem.

Figure 61: Regulatory indices



Source: Explaining International Differences in Entrepreneurship: The Role of Individual Characteristics and Regulatory Constraints, Silvia Ardagna and Annamaria Lusardi, 2008

Manpower:

Availability of skilled manpower is another crucial issue for entrepreneurs. For example, in a survey of entrepreneurs conducted by KPMG and TiE in 2008, skilled manpower emerged as the second most important factor for fostering entrepreneurial growth. Further parameters reflecting labour market efficiency and flexibility are dismal. In the Global Competitiveness Index, India ranks 102nd in hiring and firing practices and 85th in employing workers in the Doing Business 2008 report.

Size of the unit

Size of the business is influenced by several factors like technical, financial and market considerations. When entrepreneurs feel that they can market the intended products or services and can raise sufficient amount of capital, they can start their operations in a big way. Generally, the entrepreneurs may start their operations on small scale and expand gradually. For example, the owner of Nirma Limited, Dr. Karsanbhai Patel used to sell washing powders taking rounds in bicycles in 1980s and with increase in operation it has now become Nirma Limited. There is no doubt that if an entrepreneur starts on a small scale, it is easier for him/her to adapt to changes without much risk as huge investments will not be blocked in permanent assets. However, in the changing business scenario, many entrepreneurs start their ventures on large scale and are prepared to take big risks. Of late, many new entrepreneurs, particularly technocrats (who are professionally trained and employed) have joined in the economic development after leaving their lucrative jobs and started their new ventures in a big way.

Machines and Equipments

The choice of machines, equipments and processes is a delicate problem before starting a new venture. This depends on various factors like availability of funds, size of production, and the nature of production process. The emphasis should be placed on productivity. Availability of facilities of repairs and maintenance, availability of spare parts and after sale service are also an important consideration while selecting a particular equipment and machinery.

Infrastructure

India's physical infrastructure – roads, rail, ports, power, and telecom – is also considered to be a bottleneck to the smooth operation of entrepreneurial activity. The high transport and supply chain costs that poor infrastructure entails can be affect competitiveness to a great extent, particularly for a small and medium enterprise. Enterprises surveyed in the Global Competitiveness Report 2007-08, rated inadequate infrastructure as 'the most problematic factor' for doing business in India.

Education

While the influence of education on entrepreneurship is considered debatable, increasingly education is being seen as part of the larger ecosystem that impacts entrepreneurship and entrepreneurial motivations. Greater practical exposure, critical analysis, entrepreneurship curriculum, incubation and mentoring, industry-research linkages can help in fostering entrepreneurship

Location

The problem of locating the business unit is another issue for consideration that should be carefully handled by entrepreneur. Location of a business unit depends upon many factors like availability of raw material, availability of transport, power, water, nearness to market etc. The government also provides many incentives in the form of tax holidays, rebate in power and water bills etc. to the unit located in a backward area or underdeveloped area. Thus, the entrepreneurs need to look at all these factors before setting up a business unit. Thus an entrepreneur has to find out solution to many problems and issues while launching a new business. The success is ensured by making proper choices and arrangements

Challenges faced by entrepreneurs in India

i. Family Challenge

The topmost challenge for an entrepreneur is to convince his family for the risk of his choice of business. The Indian Family is still consider Jobs easy & Risk free, as it does not require funding , risks, & more time to get successful. Or either they have options of joining their own old business. Most of the family tries to choose the most easy & safest way for their child regarding earning money. The worst problem is the high involvement of the family in once decision-making, which affect a lot of people mind to think about starting a business.

ii. Social Challenges

Social challenges come from the society and the social environment a person belongs to. Generally it involves a comparison between an entrepreneur and a nearby person friend or relative who is successfully doing job in an MNC or Govt. Job. A job holder person can easily obtain luxury of life like Car, Home, Air conditions and an urban lifestyle in a very short time. But for an entrepreneur it takes time to get successful and also has to compromise with the luxury because of funding and increasing his business and requires the patience as well. These type of social challenges sometimes demotivates the early stage entrepreneurs.

iii. Technological Challenges

Indian educational system is convincingly not making aware of current technological evolution & its importance to the students. An entrepreneur equipped with the latest technology can grow multiple than an ordinary entrepreneur. These technological unawareness keeping far behind Indian entrepreneurs to the Other countries like China, Japan & US.

iv. Financial Challenges

(Difficulty in borrowing fund): It is always a big issue for the entrepreneurs to finance a new business. It is because of the high poverty and middle class ratio in the country. Most of the people does not have financial support from the family. Also Very high interest rates of the non-banker firms make it more difficult to start a business. The Government has some policies for SME's for funding through nationalized banks, but the ratio of passing the loan is very low almost 20%.

v. Policy Challenges

Now and then there is lot of changes in the policies with change in the government. i.e.

- Problems of raising equity capital
- Problems of availing raw-materials.
- Problems of obsolescence of indigenous technology
- Increased pollutions Ecological imbalanced.
- Exploitation of small and poor countries etc.

Conclusions

Entrepreneurship is recognized as a primary engine of economic growth. Without it other factors of development will be wasted or frittered away. Entrepreneurship stimulates economic growth through the knowledge spill over and increased competition of the entrepreneurs (Carree & Thurik, 2005). While policy makers are important in establishing the right conditions for entrepreneurs, the organizations who will follow these plans through need to be involved in the dialogue. As Barbara James Founder and CEO of Henshaw Capital Partners, stated; 'what we need to all do, is to engage more with the legislators, and the institutions that define the framework and sector.' All concerned partners need to be involved in the conversation to ensure the right institutions and legislation are in place to ensure entrepreneurs have access to the resources they require to start, grow and find finance. Entrepreneurship is a critical aspect of the knowledge economy and India has a large pool of entrepreneurs, who have the ability to make a difference and need to be nurtured to achieve their potential, and provide a further boost

to the Indian economy. India needs entrepreneurs for two reasons – first, to create employment and wealth and, second, to get the most out of existing opportunities. However, an unstructured business environment and a high level of bureaucracy often discourage potential entrepreneurs to take risks and build innovative enterprises. Government regulations and policies, which are not in line with global standards, not only affect existing entrepreneurs, but also create diffidence in the minds of talented individuals who have the inherent capacity to take risks and make a success of it. Indian entrepreneurs are also often shackled by lack of skilled manpower to support their business enterprise and often have to do with average talent or limited resources, as the cost of skilled manpower is very high. To help the growth of entrepreneurship in India, investments have to be made in training people to develop the requisite skills and an entrepreneurial mindset. It is important for India to create the right environment for building entrepreneurship, by providing the right training, knowledge support, skill sets, networking opportunities and forums, simplified regulations, etc.