

Significance of entrepreneurship to the indian economy



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Population is both our strength and weakness. On one hand, the population puts heavy burden on our meager resources and on the other hand it provides abundant resources in the form of human capital. Population will remain our strength only if we keep them happy, providing them with opportunities and sustainable employment. It is this aspect where India has been floundering for the past century.

India has around 7% of our population as unemployed and we add nearly 1.5 million to our employable population. At this rate, to sustain a healthy economy with an active human capital, we need to add nearly 2 million jobs every year and grow our per capita GDP at 9% every year.

As we began our economy as a socialist one, government has been the largest creator of employment. Even today government is the largest employer in India. But over past 60 years, the central and state government has together being able to create only 18.5 million jobs. That is the government has been able to meet only 15% of the total requirement. If we go this rate, the disillusionment among people will result in collapse of the system altogether.

As it is clear from the above trivia, it is high time that government outsource the work of job creation to the people itself. The government in effect should hand over the baton of leadership to champions of innovation and ingenuity ie entrepreneurs. These entrepreneurs will become the engines of employment creation and will establish the base on which economy can be build. In an economy as buoyant as India, part played by entrepreneurs is

indispensable as it is impossible for government to take care of such a huge population.

What is Entrepreneurship

Entrepreneurial activities are starkly different based on the type of organization that is being created. Ideally it should force creative destruction across markets and industries, largely responsible for dynamism of industries as well as to propel economic growth through inclusive growth and equal opportunities for all.

History of entrepreneurship in India

During the earlier days of trading, India was a buzzing centre of commerce. Indian society consisted of self made entrepreneurs consisting of farmers, artisans, traders etc. The concept of world trade was revolving around Indians with merchants from Persia, Europe and far eastern countries having flourishing trade relations with India, and by 1750, 22.6% of the world trade was controlled by India, by trading pepper and textiles.

After the European invasion and colonisation, India got insulated from the industrial revolution, this combined with the large scale resource pillage by the British, resulted in low growth of Industry. Although a few families who colluded with the imperialists benefited, majority were shielded from the benefits of the large scale industrialisation occurring in the western countries.

In the first half of the 20th century, because of the world wars, Indian entrepreneurs got an opportunity to make it big for the first time, on sale of

textile and steel which had huge demand. Since India had a partisan economy which was closed for imports, the few business houses reaped benefits out of the situation because of absence of competition. But in general, due to the prevailing anti British sentiment, people did not like businessmen.

After the independence, India, with a prevailing socialist inclination, did not give much say for businessmen to begin with. Businessmen colluded to form a cartel which is known as Bombay plan which demanded establishment of license raj, to establish businessmen friendly, rather than a business friendly environment. Government needed help from industrialists for nation building at that time; hence they formulated an accommodating 5 year plan. But after a few years, license raj was introduced, which licensed particular sectors, restricted trade volume, introduced import substitution etc which paved way to dark times for entrepreneurs

In 1964, India saw the death of Nehru, and emergence of Green revolution, which helped some of the entrepreneurs of Punjab, but not everyone in general. Lal bahadur shastri consolidated the license raj by giving reservation to SSIs and introducing MRTP act. Indira took over, and the wave of nationalisation followed, many of the profit making private companies were overtaken by the government. Government's aim of creating a socially conscious private sector backfired and bribery and corruption became rampant.

This created a situation which required government to introduce peace-meal reforms by de licensing selected sectors and broad banding of existing

business houses creating a set of intrapreneurs. During these testing times, the most important external event that affected our economy, the gulf war and the second oil crisis occurred.

Extreme conditions necessitated the winding up of license raj, and with the fall in import duty, we saw increase in competitiveness, and financial deregulation and depreciation of rupees helped competitive exports and emergence of new knowledge sector entrepreneurs. Tax reforms opened up huge corporate market.

Entrepreneurship

Entrepreneurship has gained significance in recent years with a shift in focus from traditional agricultural and trade practices towards emerging knowledge intensive regions. Thus, roughly the four levels of entrepreneurship found in India today are Agricultural, Trading, Traditional and Emerging Sectors. [*]

The Knowledge Intensive Sector:

While companies in Level 1 are found to be fast growing, thanks to an impetus provided by crucial efforts initiated by liberalization greater efforts to make finance more easily accessible to entrepreneurs and other institutional support to ' techno-preneurs'. The software industry has taken giant strides in the last decade, contributing tremendously in placing India on the global map. The seeds for growth were sown when Jawaharlal Nehru set up the premier education institutions of the country- the IITs, that produced highly skilled engineers who created a name for the Indian skill set in the USA. The dot com spending that took place in laying fiber cables

further enabled India to establish greater connectivity with the rest of the world. Eventually, when the Y2K bug and its associated paraphernalia hit the Americas, India was ready to take on the work of reconfiguring systems for the new millennium. [*] This also marked the tipping point of India's IT boom. Tax holidays to Software Technology Parks in India (STPI) further helped the budding companies to invest in infrastructure and grow. All these factors paved the way for a multitude of BPO, KPO and other software startups that contribute to the boom of Level 4 in the above diagram.

Motivators for Entrepreneurship in India

Although there is no single motivating factor for entrepreneurship in India, a few motivators that were found to recur in most cases include Family Background, Independence, the Challenge posed, an Idea and Market Opportunity. Each of these cases face their own challenges and have to struggle through the initial years to make their mark.

Family Background could be said to be a motivating factor for the likes of the Birlas or Ambanis. Family businesses in India are fascinating because of their marriage of business and family which are inherently conflicting characteristics [*]. Conflicts arise in issues of succession planning, remuneration, and rewards planning, recruitment and rewards for nonfamily professionals, ownership structure and wealth preservation. Leadership varies across generations, signaling changes in organizational structure, competency focus and switch in sector. A term often associated with family businesses is a Serial Entrepreneur. The second or third generation entrepreneurs might either carry on the same business as before, or might sell out and move to another sector altogether. Serial Entrepreneurship <https://assignbuster.com/significance-of-entrepreneurship-to-the-indian-economy/>

refers to the trend of selling one business and starting a different business. Ajay Piramal who shifted from labour intensive textiles to knowledge intensive pharmaceuticals is a case in point.

Overall, the long run contribution of family businesses to the country's economy is significant especially because of the long term focus of wealth creation for future generations of the family.

Idea Driven

Often the first ones to set out on the undiscovered road, some entrepreneurs are fuelled by an idea that takes birth and eventually finds its way to reality and a profitable venture. Such entrepreneurs often face the initial challenge of funding in the harshest manner. "The bruised knee syndrome" is ubiquitous to most such idea driven entrepreneurs who have to go from door to door begging on their knees in a bid to convince a venture capitalists or angel investor of the potential held by the project.

Another facet of this segment is that innovation in India is extremely low. Product driven innovation is negligible, with most new ventures being in the incremental changes or the 'Me too' Entrepreneurs. However, it is relevant to keep in mind that even the startup hotbeds of the world, such as Silicon Valley, have had to grow through the following three phases : [*]

The first decade is largely that of the Me Too Entrepreneurs, copying what works elsewhere, the VCs and entrepreneurs are largely doing it for the first time. Successes are few and far between many failures. This was roughly the period from 1965 to 1975 in Silicon Valley.

The second decade is when entrepreneurs are doing it for the second or third time. Serial Entrepreneurs are beginning to succeed. The infrastructure and the ecosystem has evolved and lawyers, VCs and recruiters are growing in number. And it is easier to get talented employees to do a startup. This is where Silicon Valley was from 1975 to 1985.

In the third decade, the ecosystem is fully formed and producing great companies. That is where Silicon Valley has been from the mid 80's on and where India must aim to reach.

Ajit Nagral, a 1st generation entrepreneur who returned from the USA after fifteen years of successful entrepreneurship found the search for funding and the Indian bureaucracy particularly difficult hurdles to cross. A Business opportunity in India doesn't necessarily convert to an Entrepreneurial opportunity and "working the system" becomes more important than "working the business". He describes the Entrepreneurial ecosystem in USA in terms of access to capital, well defined investment rules, access to basic infrastructure, access to talent and acceptance of failure.

Socio-cultural factors

The Indian cultural fabric has a constellation of factors woven into it that guide and nurture entrepreneurship in India. A few of them are as discussed below;

Credit facilities have been extended through community banks and credit networks (including profit-sharing schemes). Common to few communities like the Marwaris, these credit systems serve to maintain a ready source of liquidity.

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Infrastructural support: Traditional networks assure infrastructural support such as access to storage facilities for goods along trade routes and remittance facilities. It is typical to find villagers travelling to a big city in the hope of making it big, and arrangements for accommodation maintained for the mercantile community have provided support.

Market development: In certain geographical locations such as Mumbai and Kolkata, the presence of entrepreneurial communities led to the development of futures markets. Further, migration of the community to commercial centres such as ports and trading hubs encouraged Entrepreneurship in these places.

Gender : Women find it a challenge to enter the traditionally male bastion of entrepreneurship. Proving their reliability and resilience is the first hurdle they face. It has been found that women in India enter into business for two main factors[*] : Pull factor refers when women are encouraged to start a venture in a bid to do something independent, something particularly tough in the male dominated Indian society. The Push factor is when women are compelled to take up their own businesses in order to tackle economic difficulties. Many Indian women are starting up because of the flexibility in time management provided and their inherent ability to multitask.

Caste System The breakdown of the caste-system, particularly in the South, has been a slow process that has been encouraged right from independence through various government schemes. Efforts have been made to abolish untouchability, reservation of seats for lower castes who have never had fair opportunities and subsidies to bring up their standard of living. While all of

these have been a drop in the ocean which requires a change in the fundamental mindset of people, they have succeeded in breaking a few barriers. Unlike northern India, the people in the south have concentrated on economic development and education as a route to prosperity. This has resulted in a large number of successful entrepreneurs from the smaller towns and villages of south India as compared to the North.

Challenges faced by entrepreneurs in India

India offers abundant opportunities for entrepreneurs these days. But vis-à-vis opportunities, India also offers a plethora of challenges an entrepreneur should thread through to be successful.

Funding

Funding is a problem for entrepreneurs all over the world. In India, the problem is all the more aggravated as in India, there is pretty much only one legal way of getting money for business - take debt from bank. The risk-averse banking style followed in India does not even lend to small businesses, so getting money for starting up is almost impossible. So the entrepreneurs are left with only 2 options - either use your own savings or take debt at exorbitant rates from money lenders.

If one look at the nature of funding, entrepreneurs have been receiving in India, we find the above mechanism in action.

Figure 1: Type of funding received by entrepreneurs

Figure 2: Distribution of self financed capital

Majority of the funding comes from close friends or the entrepreneur's savings. Banks lending especially under policy restrictions form another portion and the new age mechanisms like venture capitalists, angel investors, private equity has miniscule presence. In the recent past, the rise of concepts such as micro finance, micro equity and mutual guarantee associations have provided options to the small time entrepreneurs who are just setting up their shop.

India as we suggested earlier in this report has always been a hot pot of innovation and entrepreneurship. The sub castes coming under vaishyas like marwaris had innumerable informal institutions which provided the fodder for innovation and entrepreneurship years ago. Institutions such as sarafi (an informal credit system where in micro loans in the form of money and goods are lend between people of the community and the accounts are settled on a yearly basis generally during diwali), basa system (infrastructure for budding entrepreneurs are provided by established businessmen), apprenticeship, mentoring etc existed which had supported and helped the rise of entrepreneurship in India.

Socio-Cultural factors

India has a risk-averse culture. We love jobs with job security and even the brightest of our graduates want to find a job at the end of their studies. Even when a person vies to take up entrepreneurship, the pressure from family prevents him from taking the risk. This environment is one of the main reasons why entrepreneurship stifles in India.

The constraints in the Indian psyche such as the caste system and the way women is looked down upon also add problems to the risk takers who want to go and beat the world.

Policies and Bureaucracy

India is one of the toughest destinations in the world to do business. It takes 35 days to start a business in India (11 point procedure) and years to close down a business. If the business is in labor intensive manufacturing sector, then closing down is almost impossible legally. The restrictions imposed on an entrepreneur by our dilapidated policies, bureaucracy and government machinery is almost stifling. Major overhaul is required in our policies related to labor, agriculture etc if we want to see more entrepreneurs budding out.

Infrastructure

Infrastructure is a major issues faced by entrepreneurs in India. As suggested by Arjun Kalyanpur of Teleradiology, an entrepreneur has to by default have a mechanism to generate his own power in the power deficient India. The situation of infrastructure including power, road and rail, airways, logistics are poor in India putting a strain on small time entrepreneurs who are already struggling with resource crunch.

Conclusion from all challenges

If we plan to fix the problems faced by entrepreneurs, we have to pin point the major challenges faced by them out of the sea of problems they face.

The major challenges faced by entrepreneurs are -

Risk Averse nature

Final aim is getting a job

Best manager out of IIMs join the industry rather than trying out entrepreneurship

Families that does not support risk taking

Job security still a big motivator

Policies

Dilapidated and not supporting Efficiency or Innovation

Time is never an essence

Bureaucracy and Red Tapes

Markets

Absence of a debt market , VC and PE funding

Dysfunctional government funding agencies

Absence of corporation and mentorship

Fostering entrepreneurship in India

If we want to foster entrepreneurship in India, we need to find a solution for the above problems. According to our analysis, we have propose the following recommendations to do the same -

Education

Education should impart confidence to become risk takers

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Business Incubation centers in top management and technical institutes

Change the metric of performance from top salaries to capitalization of new ventures/people employed

Policies

Accommodating towards first generation entrepreneurs

Incentivizing entrepreneurship in less attractive industries

Institutions like SIDBI which are public proxy for VCs

Promoting technologies which reduces externalities such as electric cars, solar water heaters etc

Market

A strong VC and PE market should develop in India which can finance ideas rather than relationships

Development of cluster parks which can do the similar activities for SSIs and MSMEs

Database of information to help new ventures providing consulting and support to new ventures

Advertise the success stories and motivate new entrepreneurs