

# Entrepreneurship

## Introduction

Entrepreneurship is considered to be a significant determinant of economic development. New entrepreneurial activities play a vital part in the process of *creative destruction* that fosters innovation, employment, and growth. While India has traditionally been an entrepreneurial country, it fares poorly in numerous global studies exploring the entrepreneurial and business potential of countries. For instance, in the World Bank Doing Business report (2008) which investigates regulations that enhance business activity, India is ranked 120 out of 178 economies. Similarly, in the World Economic Forum's Global Competitiveness Index (2007), India ranks 48<sup>th</sup> among 131 countries.

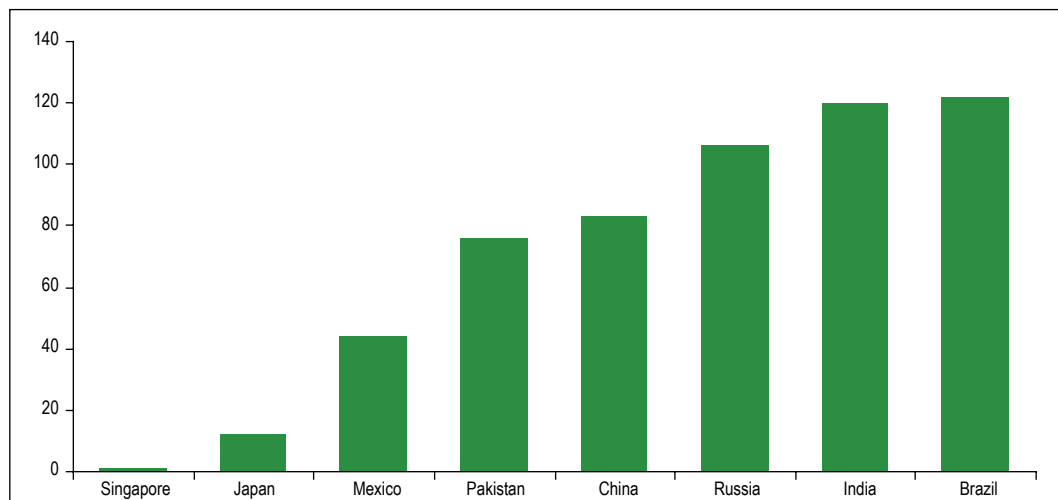
## Current Scenario

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 (See Figure 60).

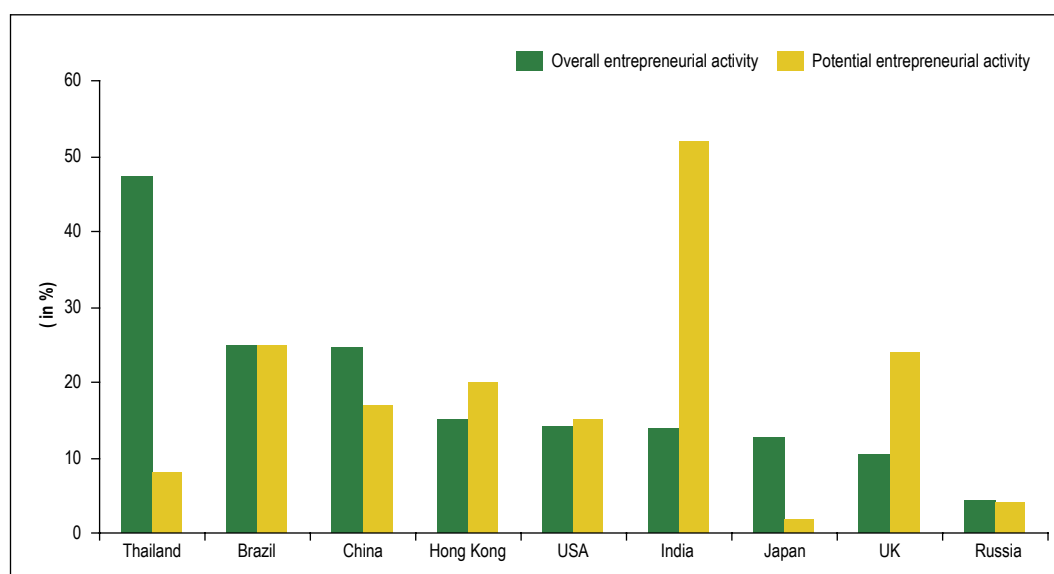
While data on entrepreneurship is hard to come by, the following numbers are telling. According to the NSS 62<sup>nd</sup> round, in rural India, almost 50 per cent of all workers are self-employed – 57 per cent among males and nearly 62 per cent among females, while the corresponding figures in urban 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 5<sup>th</sup> Economic Census

Figure 59: Ease of doing business – Global Rank



Source: Doing Business, 2008

**Figure 60: Overall and potential entrepreneurial activity**



Source: Global Entrepreneurship Monitor, 2007

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.

## Issues in the Current Framework

**Finance:** Access to credit is considered to be one of the key problems faced by entrepreneurs in India. This problem is particularly acute at the start-up stage, where bank finance is hard to obtain. Despite new sources of finance such as venture capital, angel funding and private equity becoming increasingly popular, institutional finance is still not able to meet the current entrepreneurial demands.

**Regulation and governance:** An entrepreneur has to deal with a host of regulatory and compliance issues. These include registering one's business, obtaining government clearances and licenses, paying taxes and complying with labour regulations. Cumbersome paperwork, long delays and red tapism involved in such transactions create unnecessary burdens for entrepreneurs, constraining their productivity and their ability to do 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 Figure 61). 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.

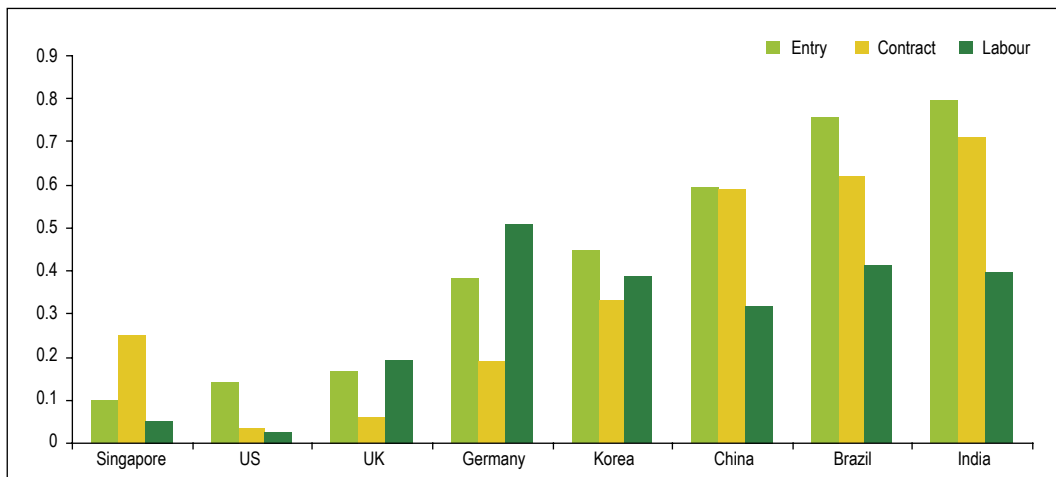
**Table 23: India's Ranking in Doing Business 2008**

Starting a Business	111
Dealing with Licenses	134
Employing Workers	85
Registering Property	112
Paying Taxes	165
Trading Across Borders	79
Enforcing Contracts	177
Closing a Business	137

Source: Doing Business, World Bank, 2008

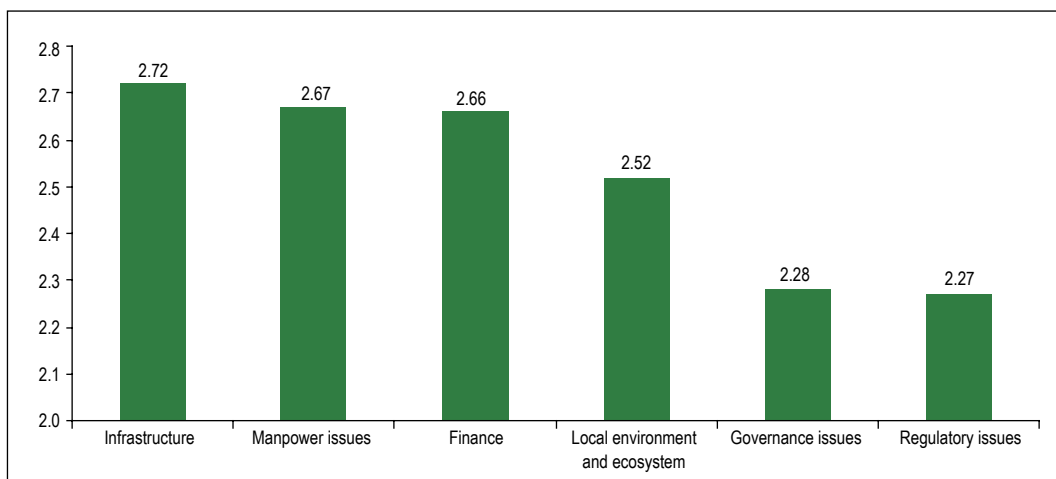
**Manpower:** Availability of skilled manpower is another crucial issue for entrepreneurs. For example, in a survey of entrepreneurs conducted by KPMG and TiE in 2008, skilled manpower emerged as the second most important factor for fostering entrepreneurial growth. Further parameters reflecting labour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

**Figure 61: Regulatory indices**



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

**Figure 62: Relative importance of factors on a scale of 1-3**



Source: Entrepreneurial India, KPMG-TiE Report, 2008

**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 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.