

Entrepreneurship: Problems and Challenges Faced

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Abstract

India has seen a surge in its entrepreneurial spirit in the last decade. However, the end of the decade saw the economic slowdown spoiling the euphoria and putting breaks on this growth story. The growth in entrepreneurship holds the key to turning around the slowdown.

Many factors such as limited access to finance, poor infrastructure, lack of required skills, etc. pose challenges to the growth of entrepreneurship. In this paper, we would like to limit our study to three important factors namely cultural bottlenecks, bureaucratic procedures in setting up and lack of distribution.

It is argued that attitudes towards entrepreneurs and entrepreneurship are important determinants for future entrepreneurial activity. Despite the presence of certain business communities, the culture of India continues to remain risk averse. Stability and tag of a big company continue to be the middle class aspiration. This cultural attitude hinders the growth of entrepreneurial spirit among the young. The Indian economy provides a revealing contrast between how individuals react under a government-controlled environment and how they respond to a market-based environment. Evidence suggests that recent market reforms that encouraged individual enterprise have led to higher economic growth in that country. Distribution is a major challenge that Indian entrepreneurs face towards scaling up. The difficulties of setting up the firm's own distribution network coupled with the lack of internet penetration place Indian entrepreneurs at a disadvantage when compared with counterparts in other countries.

Keywords: Entrepreneurship, culture, well being, distribution, government.

1. Introduction

The last decade has seen a surge in the number of new ventures in India (National Knowledge Commission, 2008). The change in government policies and the shift in business environment have fuelled this unprecedented growth. However these growth figures do not tell the entire story. Primary studies conducted on entrepreneurs clearly suggest that they had to fight many odds and an unfriendly environment just to keep their ventures afloat. When compared to the situation in many developed and developing countries, the Indian business environment falls well behind on many parameters for supporting entrepreneurship (World Bank & IFC, 2011). India is ranked 132 on the list of ease for doing business (World Bank & IFC, 2011).

In-fact, given a choice many Indian entrepreneurs feel that they would have been better off starting a business in the developed countries than in India (Wharton, 2010). The problems faced by Indian entrepreneurs include limited access to finance; cumbersome bureaucratic procedures in setting up, operating, and sustaining a business; poor infrastructure; and the lack of effective institutional structures (Jahanshahi A.A., et al., 2011). In a discussion on entrepreneurship at the 14th Wharton India Economic Forum in Philadelphia 2010, entrepreneurs discussed the major obstacles faced by Indian entrepreneurs. Distribution, cultural bottlenecks and government regulation were pointed out as three major challenges facing Indian entrepreneurs and we would enunciate more on these problems in this paper.

2. Literature Review

Kshetri Nir (2011) examines various indicators related to entrepreneurship in India and analyzes factors affecting

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India's entrepreneurial performance and it does a comparative study between India and China. The paper points out Indian and Chinese differences in entrepreneurial culture, regulatory framework, access to finance and market environment. Kshetri makes a conclusion that the structural inertia of Indian economy has acted as a barrier to foster modern entrepreneurship.

Venkatramana G (2006) discusses the views of foreign returned India entrepreneurs. These innovators discuss the challenges they face in India and the reasons which make it difficult to conduct business in India. Though many foreign returned entrepreneurs have set up businesses they feel that the red-tapism in India is clearly a hindrance to entrepreneurial growth. Even when we compare India to many other developed Asian countries we find ourselves lacking in providing the right entrepreneurial environment. Ponmani R (2011) compares the development of SME's in India, Singapore and Sri Lanka. He evaluates the situation in the three countries based on multiple factors namely infrastructure, government regulation, finance accessibility, technology and communications. The study points out that India lags behind Singapore on all the parameters evaluated which is interesting to note but not an unexpected though.

Various studies have been conducted to understand the attitude of Indian youth to entrepreneurship. In a study conducted on the youth of Orissa, Manjusmita Dash and Kulveen Kaur (2012), discuss the challenges that young entrepreneurs face. The entrepreneurs have stated their opinions on stigmas of the society, cultural problems and regulative barriers. A research conducted by IIM-A (Abhisek Goel, et al, 2006) studies entrepreneurs in different parts of India. The researchers do an in-depth study on various perceptions of Indian entrepreneurs. The perceptions range from attitude towards entrepreneurs as life partners to family life. They conclude that the Indian youth have a more negative approach to entrepreneurship than the Chinese. These stem from deep rooted social perceptions and norms as entrepreneurship suffered cultural problems and was not supported to take it up as career.

In a study comparing three nations, Vishal Gupta and Cheryl Fernandez (2009) study differences in entrepreneurs in India, Turkey and US. Major cultural differences are pointed out. Malika Das (2001) talks about the challenges faced by women entrepreneurs in the states

of Kerala and Tamil Nadu. Many women have stated that they face work-family conflicts which are not faced by women entrepreneurs in the developed countries which are vital points to be noted.

3. Objective Of The Study

Many studies have been conducted to explore the challenges faced by entrepreneurship. However, very few studies have made in-depth analysis on each of the problems. In our study we focus on three of these challenges namely lack of distribution, entrepreneurial culture and regulatory policy. At the India Economic Forum at Wharton 2010 these three have been identified as the main challenges faced by Indian Entrepreneurs. This paper studies other researches and data and does an in-depth analysis on these three specific problems.

4. The Challenge of Distribution

Distribution is one of the biggest obstacles faced by entrepreneurs in India. Marketing distribution channels are sets of interdependent organizations involved in the process of making a product or service available for use or consumption (Kotler et al., 2009). The process of delivering market offering to customers or reaching out to potential customers is costlier in India when compared to many other western countries. Bad infrastructure (Kshetri, 2011) and low internet penetration (Wharton, 2010) are the two major factors which hinder a good distribution.

"The self-evident thing about India is distribution is hard," said Samir Patil, founder and CEO of ACK Media in Mumbai. The firm bought a controlling stake in Indian comic series "Amar Chitra Katha and Tinkle" from India Book House in 2007 and is redefining them for new markets in gaming, animation and character development. In a market like US his company would solely focus on content development. But in India he has to set up his own distribution system network with kiosks and stores (Wharton, 2010).

A good transport distribution system would consist of high quality roads, rail roads, ports and airports. A robust system allows entrepreneurs to save time and cost in distribution (Ponmani, 2011). However bad roads coupled with poor maintenance have translated into higher costs for the distributor. In 2007, one-third of products were reported to be rotted before reaching customers (Hamm and Lakshman, 2007). In a survey conducted by the

National Knowledge Commission, 56% of entrepreneurs found the infrastructure in India to be unfavorable rating it as extremely unsatisfactory or somewhat satisfactory. A better picture of infrastructure shortcomings is highlighted when comparison is made with other countries.

I. Ranking of India with respect to other countries

Quality of roads	-90
Quality of railroad	-23
Quality of Port	-83
Quality of Air transport	-71

(World Bank & IFC, 2010/2011)

Though India has been a part of the IT revolution story, the reality is that India has low Internet penetration. The lack of internet penetration has been a major challenge for many entrepreneurs. A higher Internet penetration translates into faster reach and scaling up for start-up companies.

Sudhir Syal, a producer of a show on entrepreneurship called “Starting Up” on ET Now, an Indian television channel, recalled his experience at Sulekha.com, an internet portal for classified advertisements. “In the U.S. to book an ad, you log on and punch in your credit card details -- there is no sales force at all,” he said. “In India, there is a sales force that only exists” because customers come personally to offices to buy advertising space. That increases distribution, employee and infrastructure costs “and makes it extremely difficult for an entrepreneur to grow,” he added (Wharton, 2010).

According to a study released by Google India in the mid-2011, only 2 million out of 35 million SMEs were online (Narasimhan, 2011). Though India boasts of its presence in IT industry, in comparison to other countries, India seems poorly connected.

II. Ranking of India with respect to other countries

Availability of latest Technology	41
Firm – level adoption	39
Internet users	118
Broadband internet subscriptions	100
Internet bandwidth	119

(World Bank & IFC, 2010/2011)

The above comparisons clearly show that India lags behind in its infrastructure to support a good physical

distribution. The low Internet penetration has resulted in a technological distribution which is found to be wanting.

5. Regulatory Framework

The regulatory system set up by the government is a very important factor in fuelling entrepreneurial growth. In the same way that good policies encourage entrepreneurs, bad policies discourage entrepreneurs. In comparison with developed countries, dealing with the Indian government and regulations continues to be a challenge for entrepreneurs. In a study conducted on foreign returned entrepreneurs (Goel et al.,2010), they clearly mention that “the red tape” has to be removed. This red tape is constituted by huge government bureaucracy and a plethora of regulations.

At the Wharton India Economic forum, Mr Anjan Malik, founder and director, said that although his firm eClerx is in an unregulated business, the reality is different. “We are supposedly untouched by government, but it is amazing how quickly you get touched by government.” Fifty-seven government departments regulate his business, he added. Mr. Malik noted that he encounters government regulation when trying to buy land for expanding operations, offering an example: A “letter of possession” is essential to start operations in one of the government-run “special economic zones” set up to promote high tech industries. “It makes the difference between whether you are able to start in six weeks versus 12 months,” he said.

In a study done on young entrepreneurs tax rates, subsidy policies and trade policies emerged as major regulative barriers. (Manjusmita and Kulveen ,2012). Of these tax rates emerged as the major regulative barrier.

According to the survey conducted by the National Knowledge Commission, 2008 : 50% of the entrepreneurs experienced difficulties while seeking statutory clearances and licenses. Two-thirds faced hassles while filing taxes and 60% claimed to have encountered corruption. Another hurdle was in accessing reliable information on registration procedures, finance and other schemes.

Indian state banks play a major role in financing for entrepreneurial firms (Economist, 2009). However a major issue faced is that business merits play a little role in loan disbursements (Bikchandani, 2010). Lending is disproportionately oriented towards powerful economic and political interests. The Knowledge Commission stated

that from the survey it conducted, it is observed that access to early stage finance from banks is perceived to be very difficult at the start-up stage but becomes comparatively easy at the growth stage. Of the entrepreneurs interviewed, 42% said that it was difficult to obtain finance at the start-up stage, 20% said that it was easy and 38% scored the ease or difficulty of access as 'average'.

The above studies show that entrepreneurs clearly find the regulatory framework cumbersome. Tax rates, trade policies and financing from national banks are identified as problem areas. Lack of accountability and corruption add to the problems created by regulations.

6. Entrepreneurial Culture

Though certain of its communities have a history of entrepreneurial culture, studies show that compared to other societies, Indian society lacks the entrepreneurial zeal. Mr. Amar Goel, founder and CEO of Mumbai based Komli Media, a digital advertising firm, complained that he comes up against cultural barriers when he goes for campus recruitment. Students in U.S. university campuses say, "It's cool to work at a startup," he said, but not so in India. "In India I have spent hours with many smart kids who say they have to check with their parents," Goel said. "Some of them say, 'My dad says I won't get married if I work at a startup because the bride's family will say he works at a little company. Why can't he work at Infosys or Microsoft?'" Goel described those mindsets as "a real issue... there is little entrepreneurship by choice."

The above described attitudes can perhaps be traced to the history of India society and the underlying values that drive a society (Goel et al., 2007). Almost 80% of the Indian population is Hindus. One of the important philosophies of Hinduism is centred on Karma. The philosophy of Karma propagates that one should do one's duty (karma) with a certain sense of detachment and not to be affected by success or failure. The Indian values have always centered round the philosophy of sacrificing for others rather than individuality and independence which are the basis of US culture (Radhakrishnan, 2003). These moral codes seem contrary to entrepreneurship which encourages passion and reward. In fact "passion is said to be a secondary and "being non-passionate is a superior state of being. Hence several beliefs and values run counter to capitalism and entrepreneurship explains Dana (2009).

Another factor that has restricted the growth of entrepreneurship to certain communities is caste system. Though the rigidity of the caste system has been fast reducing, its impact on work culture has been very strong. It was once believed that business was the job of only the Vaishyas (Elliot, 1998). It comes as no surprise that the few communities in India driven by entrepreneurship belong to the Vaishanava class.

The religious ideology and history of a nation have a great influence on the youth and the proof of the above arguments is validated by various studies which have been conducted on the attitude and perceptions of youth towards entrepreneurship. In study conducted on youth entrepreneurs in Orissa more than 50% of the respondents felt that entrepreneurship was perceived by the society as a risky career. (Manjusmita and Kulveen, 2012) Similarly social risks and stigma associated with failure worked as de-motivating factors for these youngsters. In another similar study conducted on youth across India, 50 % entrepreneurs stated that they would not search for an entrepreneur as life partner. Only 43 % of respondents felt that entrepreneurs have a good family life. Majority Youth rank MNC jobs, government jobs higher than entrepreneurship ventures (Goel et al., 2007). India has a predominantly risk averse society and these studies are a reflection of this attitude. Unless this attitude changes we will not be able to inculcate a thriving entrepreneurship culture.

7. Conclusion

The arguments above clearly establish the fact that there is a lot of concern in the three areas that have been mentioned namely distribution, govt. regulation and entrepreneurial culture. Distribution is plagued by bad infrastructure and low internet penetration. Government regulations form barriers in the form of taxes, licenses and difficulty in procuring finance. Corruption in the system further de-motivates the Indian entrepreneur. Indian culture continues to be risk averse and the social risks de-motivate youth. There is no easy solution to these problems. The government needs to frame a more transparent and helpful regulatory policy. Distribution is a challenge that has to be handled by both the public and private participation. Even the future of existing businesses depends on the development of a robust distribution system. The attitude and perception of people are probably the most challenging obstacles facing the growth of entrepreneurial spirit.

Though there has been a change in attitude over the last decade, there is a long way to go. Success begets success. The success of entrepreneurs and the examples they set are probably the best way to create a drastic change in the attitude of people towards entrepreneurship.

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