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A Case Study on Entrepreneurship: An Art Explored

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Abstract:

Most people in our country strive for security in their careers, but there are few who make other's career secure and they are the entrepreneurs. By this case study we have tried to focus upon how an entrepreneur can generate employment and thus lead to socio economic growth.

On the road to success, entrepreneurs face numerous challenges but they come out victorious as every hindrance is a milestone for them. We have uncovered the huge entrepreneurial potential in India and tried to give every youngster a hope to think out of the box and create a difference.

Our primary objective is to focus upon the evolution that the Indian entrepreneurs have been through, the challenges faced by them, discovering the potential of Entrepreneurs in India and we have also tried to observe the role of incubators and Government.

We have gathered our data mainly from secondary sources comprising of online journals, websites, reports, newspapers. Our primary data pertains to an interview with Vishal Agrawal, Chairman of MPRTC.

At the end the researchers concluded that it is the innovative ideas of the entrepreneurs that fuel our economic growth and they ensure the poverty reduction and employment generation in our country thus emerging as a necessity in today's world.

Key words: Challenges, Potential, Economic Growth, Poverty-Reduction

1. Introduction

Entrepreneurial education and training = Growth, business creation and reduction of poverty

Entrepreneur is the artist who innovates, thinks and creates layman goods into a commercial phenomenon. The underlying spirit of entrepreneurship is innovation (Schumpeter, 1950).

An entrepreneur not just creates employment for himself but for the society as whole, efforts of one person lead to the development of the world. In developing countries entrepreneurship plays a vital role in the process of socio-economic development. Their journey is no less than a motion picture; they face a lot of challenges in the process, find companion, get help from various sources and finally reach their destination.

2. Methodology of the Study

Information in the case study is based on primary and secondary resources. Our primary resource includes an interview with Vishal Agrawal, Chairman of MPRTC and secondary resource includes data from books, newspapers, websites and reports and journals.

3. Story of Entrepreneurship in India

3.1. Origin of Entrepreneurship in India

Long years of colonization left severe scars on Indian Economy. 200 years of foreign suppression wiped out the independent mindset among the work force with little or no decision making ability whatsoever.

Entrepreneurship is a type of art and an entrepreneur is an artist. From time immemorial people have taken part in various entrepreneurial activities it may be hunting, agriculture, handicraft or industry. **Entrepreneur was defined by Schumpeter in 1964: "Entrepreneurs are innovators who use a process of shattering the status quo of the existing products and services, to set up new products, new services"**¹. He is an artist who imagines and innovates ideas for his 'target audience'. The 'target Market' is, in common terms, the set of customers to whom the entrepreneur pitches his products to. We think that development of this art of entrepreneurship also roots from 'desire' – a key objective in the Hindu Philosophy. Every entrepreneurial venture has a motive and a desire. It is this desire to change the status quo and to make the world a better place that he feels to experiment with this art.

3.2. Evolution of Entrepreneurship in India

India followed a centralized planning system after independence based on the soviet model of economy, the key character being the five year plans which was administered by the planning commission. The architect of this plan was Pandit Jawaharlal Nehru, India's 1st Prime Minister, this era is also sometimes referred to as Nehruvian era.

The initial years of independence saw high growth rates and macro stability. The state undermined the role of individual enterprises and went ahead with building state owned enterprises dependent on centralized planning. Based on the successful experience of the former Soviet Union, Indian policy makers concluded that, particularly for a poor country, centralized planning was essential for the efficient allocation of an economy's resources. It was inspired by the fund raising campaign that happened during the second Indo-Pak War in 1965-66. However, this entrepreneurship campaign failed to give expected results. The policy implementers did not realize that business development in a region is a long term process and there is a huge need for follow up on each venture. 1980's sparked the new beginning for the small and medium entrepreneurs in India with the new government choosing to move towards a market oriented economy. The economic crisis of 1991 brought about the major change in Indian economic policy, the regulated economy shifted to an unregulated one – Liberalization, Globalization, Privatization (LPG). Soon by 2000, it was common to see young professionals preferring to become entrepreneurs and the least preferred career path was a stable government sector job. The capitalist India has since relieved millions from the burden of poverty.

4. Challenges Faced By Indian Entrepreneurs

The colonization left a deep scar on the already depleting Indian economy and after this India was plagued by the sociological mindset of Nehruvian era which discouraged capitalism. We will explain in detail few problems faced by Indians.

4.1. Cultural problem

We never sought new opportunity and always stick to the status quo by not innovating and experimenting with resources at hand. Job security and financial gains are expected out of the young graduates.

4.2...Maslow's Theory of Human Motivation²

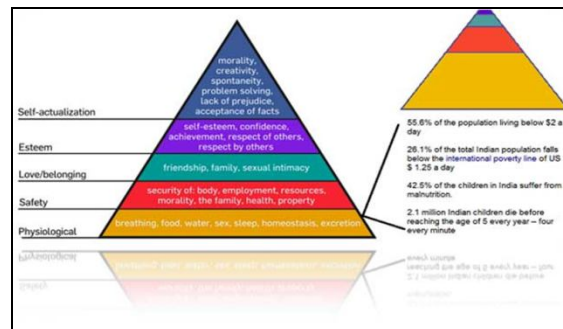


Figure 1

We present you the famous Maslow's theory of human motivation. Abraham Maslow, an American psychologist came up with his theory in 1943. He stated that the urge to reform the world only begins when the lower part of the triangle i.e. the basic needs of a man like food, shelter, sleep are satisfied.

¹Schumpeter, J. (1989) Essays on Entrepreneurs, Innovations, Business Cycles and the Evolution of Capitalism, edited by Richard V. Clemence, New Brunswick, N.J.: Transaction Publishers

²A theory of human motivation, Maslow, A. H. Psychological Review, Vol 50(4), Jul 1943, 370-396. doi: 10.1037/h0054346

Given the data from the triangle on the right side it is self-explanatory that majority of the Indian population lies in the yellow part of triangle. We have incorporated this analytical data in our case study only for analysis purposes. When we see the growing population of India and the urgent need to secure children and family to provide security for their future, we find that very few of them manage to go up the triangle and take risks, which an entrepreneur has to take.

4.3. Bureaucratic Challenge

Narayan Murthy, Founder of Infosys once said that 'An environment conducive to entrepreneurship is possible only if government becomes catalysts to business, and allow business full freedom'. Right from license of telephone connection to license of getting a piece of land –it was a rigid process to go through. Trading of goods also posed a major issue that made sure that Indians were behind their counterparts by at least two generations.

4.4. Brain Drain

Better pay packages, good economic climate, high quality of life has made lot of young graduates to search for jobs outside India. A report by Associated Chamber of Commerce and Industry of India (ASSOCHAM) pointed out that when a large number of students flocking to foreign universities, it costs India a whopping Rs. 95,000 cr. per year.

5. Discovery of Potential in India

The very thought of Entrepreneurship reminds us of names like Tata, Ambani, and Premji. The immeasurable population of over 1.15 billion not only acts as a huge challenge for the country but also creates great amount of opportunities. We will have 400 million people below the age of 35 years within the next 20 years and India has been predicted to become the youngest nation.³ Furthermore, India, being a democratic as well as a capitalistic country has competitive advantages over other countries. Success of Indian entrepreneurs in Silicon Valley is great to prove that we have the required knowhow and technology to take the challenge. World class educational institutions like IIMs and IITs have started with the concept of incubation and thus are helpful in contributing to the increasing potential in India for entrepreneurs.

5.1. Can The Journey Of Entrepreneurship Begin In College?

It will be wise to remind the words of Victor Hugo who once said 'no force can stop an idea whose time has come'. Young minds are bubbling with passion and energy which helps them bring new ideas on the table. Thus, All the youngsters should dream big to come out of the trend of following the path of already established norms and be the change of the country.

6. Role of Incubators for Startups

Dr. Paul D. Reynolds, Director, Research Institute, Global Entrepreneurship Centre reports that Worldwide, there are about 300 million persons trying to start about 150 million businesses. Around 203 entrepreneurs are born every minute. So the question remains- Who will provide them necessary technical/non-technical tools to excel them in this competitive world?

This is where the role of incubators is essential. In our case study we have picked some of these incubators to explain how they help in different ways.

- I Pleaders - A legal-education start up has started a diploma course on entrepreneurship and business laws. It empathizes on teaching basic practical knowledge of law required by for day to day activities by a entrepreneur so that majority of legal issues can be managed by themselves. This course has been taken by people from various academic backgrounds.
- Startup Saturday- On the 2nd Saturday of every month, entrepreneurs across 8 cities come together around the campfire to discuss questions and ideas related to the Indian Startup world. On every Tuesday, latest happenings in the Startup world are broadcasted in – 'Starting Up on the ET Now channel'.

³<http://www.thehindu.com/news/national/india-is-set-to-become-the-youngest-country-by-2020/article4624347.ece>

7. Sources of Finance

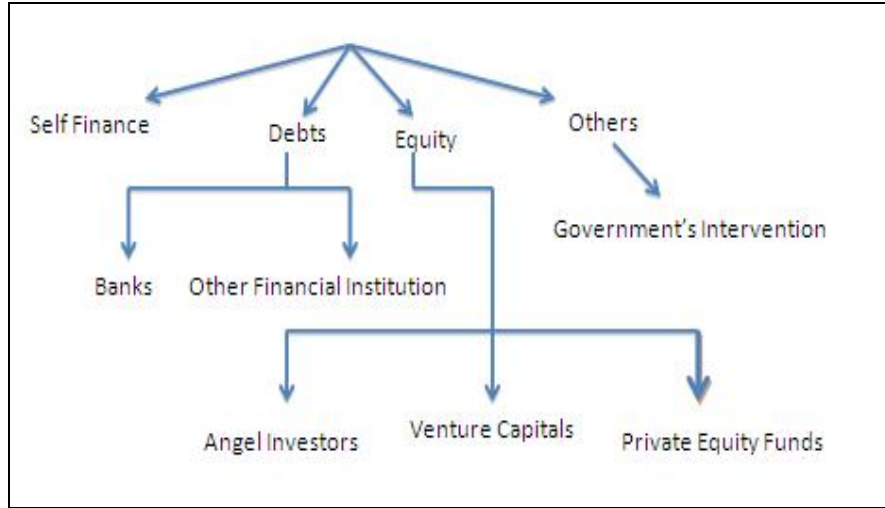


Figure 2

7.1. Self-Finance

Self-finance, as the name speaks it for itself is the investment of one’s own money or capital into the business. This is the most widely used source of finance. The investment includes one’s personal saving; borrowing from relatives etc. this is the number one form of financing used by most business start-ups.

ADVANTAGES	DISADVANTAGES
One’s own money is invested into the business so he is the sole owner of the business. Self-funding also allows the owner of the business to exercise control over the day-to-day activities of the business. Thus, it brings in autonomy.	Self-funding is a small source of finance. Capital invested from savings is, in most of the cases, very exhaustive. The owner is totally liable and hence there is amount of risk since, its his own money at risk.

Table 1

7.2. Venture Capital

In a Venture Capital, the investors give money to young business and startup firms that have long-term growth potential. This source of funding is very crucial for those young entrepreneurs who do not have access to capital markets. There is a high risk for the venture capitalists but they can earn above average returns and a substantial amount of equity in the firm. Majority of the venture capitalists are investment banks, wealthy individuals and other financial institution

ADVANTAGES	DISADVANTAGES
Venture capital funding minimizes the amount of risk. When a loan is taken from the banks there is a need to pay it back with interest added. No need of collateral. When taking loan, possessions such as home etc. is listed as collateral, which is not required in Venture capital. Expertise accompanies the VC funding. Most of these VCs consist of experienced and talented businessmen, which often bring in their advice, and invest their knowledge in the startup. This leads to the birth of innovative new ideas that maximizes their chances of success.	Loss of autonomy. Start-ups must give a substantial amount of share or equity to the VC, this means VCs acquire a say in the company’s decision making. This result in the loss of autonomy. There are certain restrictions on the part of the startup firm when a VC deal is signed. This includes employee salary and start up’s management team amongst others. This could be a lengthy and complex process. One needs to draw a complete business plan, and put forward company’s financial projection etc. Accounting fees and Legal expenses. At the deal negotiation stage one need to handle these external costs, which would add on to the financial pressure.

Table 2

7.3. Angel Investors

They are also known as Business Angels or Investment angels. They are investors who provide financial backing for small startups or entrepreneurs. Angel investors are usually found among an entrepreneur's family and friends. The capital they provide can be a one-time injection of seed money.

ADVANTAGES	DISADVANTAGES
IAs are free to make investment decisions quickly No need for collateral – i.e. personal assets Access to your investor's sector knowledge and contacts Better discipline due to outside scrutiny Access to BA mentoring or management skills No repayments or interest	Not suitable for investments below £10,000 or more than £250,000 Takes longer to find a suitable IA investor Giving up a share of your business Less structural support available from an IA than from an investing company.

Table 3

8. Government's Intervention

There are various schemes launched by the government to help young entrepreneurs to stand on their feet. One such legislation is the Micro Small and Medium Enterprise Act (MSME) 2006. Section 12 of the MSME Act also calls for the constitution of one or more funds for the sector, to which the government would provide grants.

Another brilliant examples is Mukhya Mantri Yuva Swarozgar Yojna (MYSY Scheme)⁴ being implemented in the State of Madhya Pradesh which aims at promoting entrepreneurship in the state without the need for collateral security.

9. MYSY Scheme

The Objective of this scheme is to promote entrepreneurship in the Madhya Pradesh without the needs for collateral security. Following are some details about this scheme:

Nodal Office for implementation and monitoring of the scheme is the Department of Commerce, Industries and Employment.

Implementing Agencies: Panchayats and Rural Development Department for Rural Areas and Department of Commerce, Industries and Employment for Urban Areas.

Repayment: Not exceeding 84 months excluding the moratorium period.

Quantum of Finance: Rs. 25 lac

Margin: State Government will provide 20% of the project cost as Margin Money or Maximum Rs.10000 one shot basis for project cost up to Rs.50000

Rate of Interest: For Loan up to Rs.10 lac : BR+0.50%, For Loan above Rs.10 lac and up to Rs.25 lac: BR+1.00%

Security: No collateral security if the account is covered under CGTMSE. In other case security of 100% of amount of loan sanctioned to be taken.

10. Conclusion

Through this case study we analyzed the hindrances faced by the entrepreneurs in India and how they overcame the hurdles in their careers. We also discovered various sources of finance like venture capitalist, private equity fund and angel investors apart from the traditional ones like banks and other financial institutions, which plays a very integral role in the development of entrepreneur. Lastly, we also discovered the significance of government intervention in an entrepreneur's career. We thank our teacher and mentor Dr. Surya Rashmi Rawat for providing the guidance in this case study.

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⁴Mukhya Mantri Swaraj Yojna, An initiative by Madhya Pradesh Government for Young Entrepreneurs

12. Questions

- What are the alternate sources of finance for entrepreneurs other than traditional sources like loans from banks and other financial institutions?
- Which is the Incubator which provides practical legal education for Entrepreneurs?
- As an Entrepreneur, What are your comments on the economic and business climate in India?