

# 5

## ENTREPRENEUR



Dr. Kiran Mazumdar Shaw founded Biocon Ltd in 1978 with a capital of Rs 10,000 and over the years has grown it into the world's top 20 biotechnology companies.

### Learning Objectives

After reading this chapter, you will be able to answer the following questions:

- Who is an entrepreneur and what is entrepreneurship?
- What are the functions of an entrepreneur?
- What are the various types of entrepreneurs?
- How is entrepreneurship related to economic development?
- How did entrepreneurship evolve as a discipline in India over the period of time?
- What are the barriers that impede entrepreneurship?

### ■ ■ MEANING OF ENTREPRENEUR

*[Def]* An entrepreneur is defined as a person who innovates, organizes, operates, and assumes the risk for a new business venture. The term *entrepreneur* has been derived from old French *entreprendre*, which means *to undertake*. A *venture* is a business enterprise involving risk in expectation of gain.

The above definition of entrepreneur has four components, which highlight the facets of an entrepreneur. Firstly, an entrepreneur *innovates*, i.e. comes up

 with a new concept, product or service. Secondly, an entrepreneur *organizes* a new business venture, i.e. initiates or starts a new business enterprise. Thirdly, an entrepreneur *operates*, i.e. runs a new business venture and strives hard to sustain and grow it. Fourthly, an entrepreneur *assumes the risk*, i.e. takes the responsibility of the (positive or negative) outcomes of a business enterprise.

*"Whatever the type, everyone is an entrepreneur only when he actually carries out new combinations, and loses that character as soon as he has built up his business, when he settles down to running it as other people run their business"* (Schumpeter, 1934, p. 78). In contrast to this view, Cantillon (1755) described the entrepreneur as a rational decision-maker "who assumed the risk and provided the management of the firm" (Kilby, 1971). Thus, in this view the entrepreneur's role encompasses the activity of managing the firm after having started it. In this book, we would support this view, as the entrepreneur's role is critical not only in the survival, but also the growth of the new venture.

*"And what have they done: they have not accumulated any kind of goods, they have created no original means of production, but have employed existing means of production differently, more appropriately, more advantageously. They have carried out new combinations! They are the entrepreneurs. And their profit, the surplus to which no liability corresponds, is the entrepreneurial profit"* (Schumpeter, 1934, p. 132). According to Schumpeter, *innovations*—the carrying out of new combinations—can be categorized into five groups:

- introduction of a new good or of a new quality of a good,
- introduction of a new method of production which is unproven,
- opening up of a new market,
- conquest of a new source of supply of raw materials or part-manufactured goods, and
- carrying out of a new organization of industry.

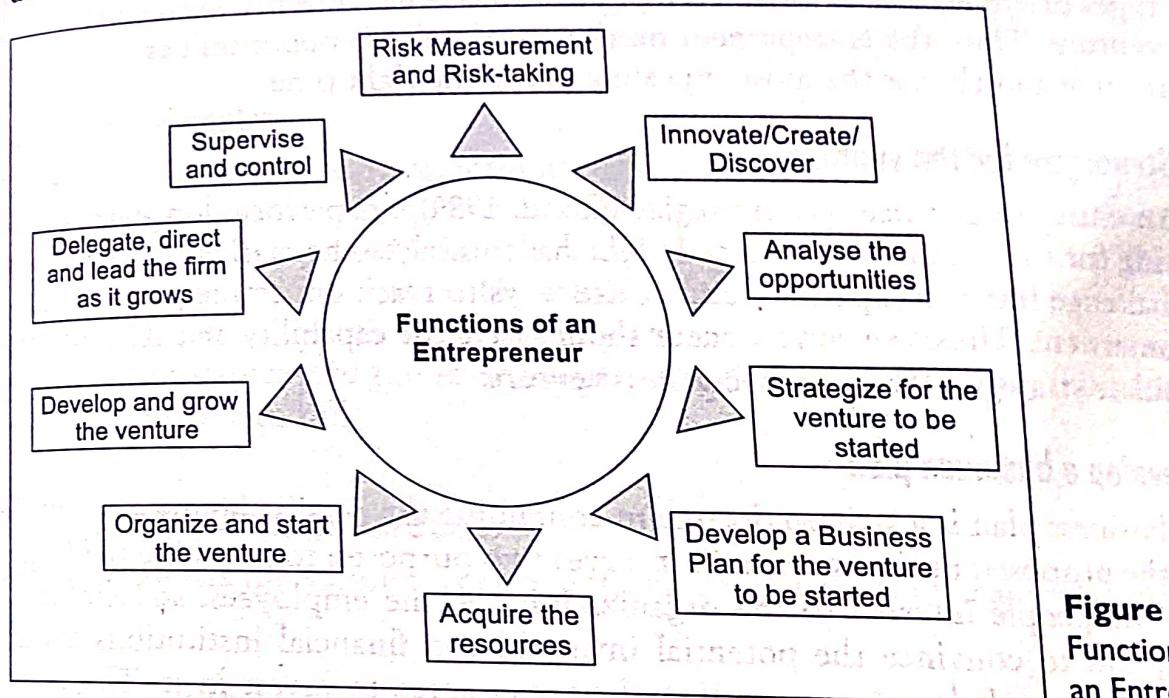
## ■ Evolution of the Concept

In the early sixteenth century, entrepreneurs were thought of as Frenchmen who undertook to lead military expeditions. The term was broadened by 1700 A.D. to include contractors who undertook to build for the military: roads, bridges, harbors, fortifications, and the like. At that time, French economists also used the word *entrepreneur* to describe people who bore risk and uncertainty in order to make innovations (de Farcy, 1973; Berthold, 1951).

 Richard Cantillon was the first to define an entrepreneur as the "agent who buys means of production at certain prices in order to combine them into a new product" (Schumpeter, 1951). Joseph Schumpeter in 1934 defined an entrepreneur as an innovator, who develops untried technology. According to David McClelland (1961), an entrepreneur is an energetic, moderate risk-taker; while according to Peter Drucker (1970), an entrepreneur maximizes opportunities.

## ■ Functions of an Entrepreneur

There are various functions of an entrepreneur as shown in Figure 5.1. We will discuss each of these in this section.



**Figure 5.1**  
Functions of  
an Entrepreneur

### Risk measurement and risk-taking

Palmer (1971) suggested that the entrepreneurial function primarily involves risk measurement and risk-taking. The risks are not only in relation to the uncertainty to the success of the new business venture, but also on the personal and professional front like career opportunities foregone for the sake of starting the new venture, family relations, and psychic well-being (Liles, 1974; Sarachek, 1978).

Risk-taking is not a desire to try one's gambling skills in Las Vegas. Instead, entrepreneurs prefer to take moderate risks in situations where they have some degree of control or skill in realizing a profit. They do not prefer situations which involve either extremes of risk or certainty (McClelland, 1961; McClelland and Winter, 1969).

### Innovate/create/discover

Innovation, creativity, and discovery are at the heart of the functions of an entrepreneur. According to Schumpeter (1934), the key ingredient of entrepreneurship is innovativeness of the individual and may not involve ownership at all (i.e. the entrepreneur might not have invested his own money in the venture). If the principal function of the entrepreneur is to carry out new combinations of means of production, then these "combiners" need not necessarily be owners.

### Analyse the opportunities

An entrepreneur has to have the opportunity-seeking style of management that sparks innovation (Peterson, 1985). The environment may throw up various types of opportunities for an entrepreneur to take advantage of in creating a new venture. Thus, the entrepreneur needs to analyse such opportunities from time to time and choose the most appealing one at the right time.

### Strategize for the venture

An entrepreneur needs to strategize (Good, 1989), i.e. perform long-term planning for the venture to be started. (S)he has to analyse the markets to penetrate, challenge tough competition and devise ways to reach out to the potential customers etc. Thus, the entrepreneur should have the capability and skills to formulate strategies for the new business venture.

### Develop a business plan

A business plan is a written document containing the details about every aspect of the proposed business venture. It serves two purposes: to provide a *road map* for the people internal to the organization, i.e. the employees, stakeholders, etc.; and to convince the potential investors and financial institutions about the viability of the venture so that they may agree to invest in it. Thus, the entrepreneur has to be adept in performing this critical function of drafting a convincing and viable business plan.

### Acquire the resources

The entrepreneur has to acquire various types of resources (Good, 1989) like capital, manpower, machinery/equipment, land, buildings, etc. to start a venture. Many of these resources may not be easily available for the proposed new venture. Thus, the entrepreneur needs to have suitable skills to line-up the resources as and when required.

### Organize and start the venture

An entrepreneur should be a good organizer, i.e. he should deploy suitable resources in the right activities at the right time in order to avoid wastages and to optimally utilize the resources in starting-up the new venture.

### Develop and grow the venture

Just starting the venture does not complete the role of the entrepreneur, as it is necessary to provide it with able support to develop and grow it in the times to come. Many of the start-up ventures are not able to survive for long. Therefore, active involvement of the entrepreneur during the development and growth stage is important.

### Delegate, direct and lead the firm

During the growth stage of a new start-up firm, it starts growing in size and thus, requires that the entrepreneur delegates the routine matters to other colleagues in the organization, while providing strategic direction to the firm as a leader. This function demands leadership skills on part of the entrepreneur.

### Supervise and control

Delegation of authority and responsibility of routine matters to the subordinates does not mean that the entrepreneur should not exercise any control. In fact, it becomes imperative to have suitable control mechanisms in place so that the entrepreneur may track the overall health of the enterprise. Occasional personal supervision is also required to be done by the entrepreneur to ensure that all is well with the firm and the standard procedures created are being followed religiously by one and all.

## ■ Types of Entrepreneurs

Figure 5.2 shows the various types of entrepreneurs with four major classifications.

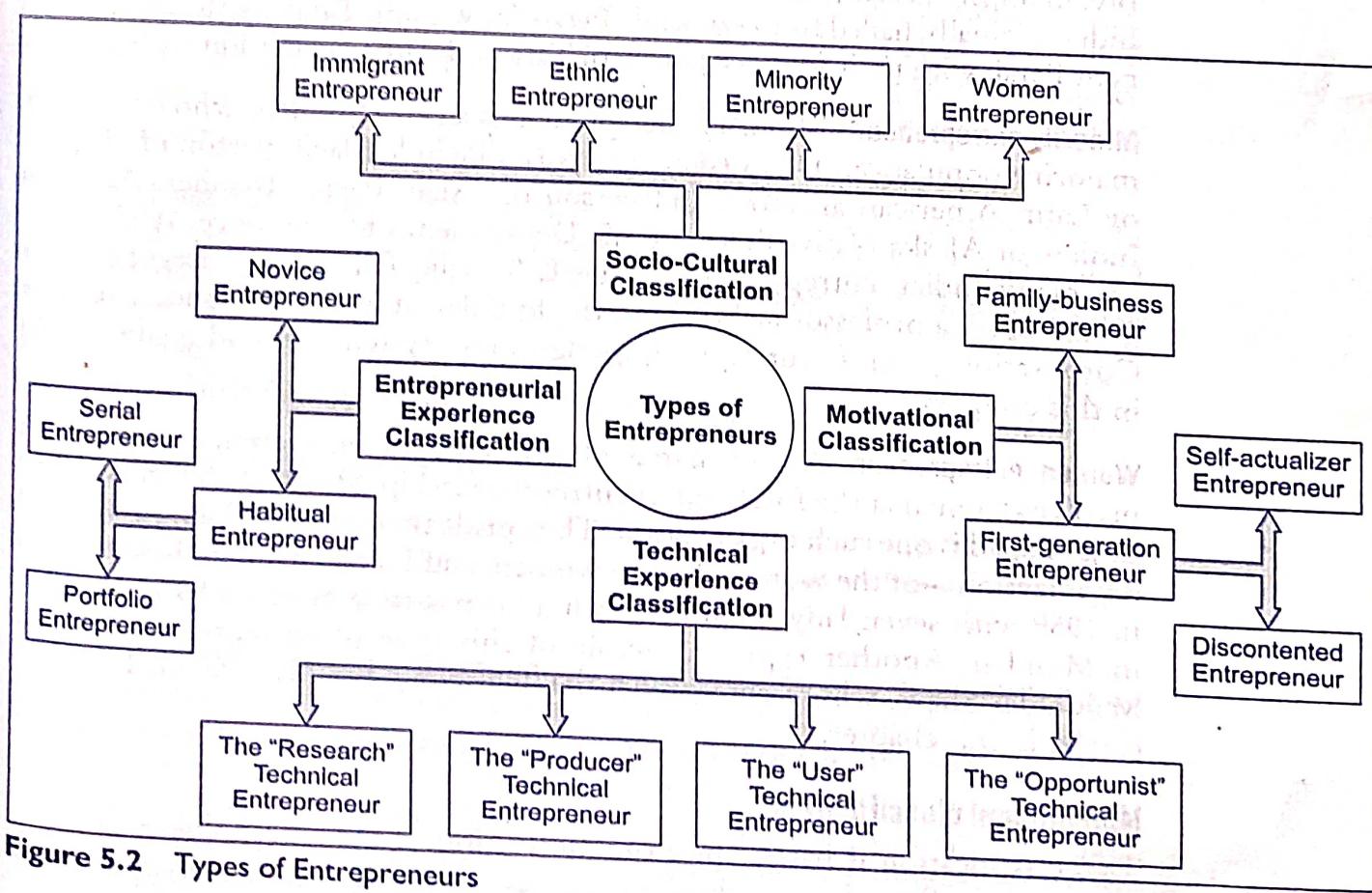


Figure 5.2 Types of Entrepreneurs

### Socio-cultural classification

This classification of the types of entrepreneurs is based upon socio-cultural factors.

**Immigrant entrepreneur.** An individual who has a recent arrival in a country and starts a business as a means of economic survival is called an *immigrant entrepreneur*. This group may involve a migration network linking migrants, former migrants, and non-migrants with a common origin and destination (Butler & Greene, 1997a). For example, Sabeer Bhatia of Hotmail.com fame would fall in this category of immigrant entrepreneur, as he migrated from Bangalore to the US and started this venture there. Later, Hotmail was acquired by Microsoft and Sabeer made a good money out of the deal.

**Ethnic entrepreneur.** Ethnic entrepreneurs have "...a set of connections and regular patterns of interaction among people sharing common national background or migration experiences" (Waldinger, Aldrich, and Ward, 1990, p.3). The *Marwaris* who migrated long back from their native place Marwar in Rajasthan to create businesses in West Bengal would fall in this category. Prominent Marwari entrepreneurs are the Birlas, Singhaniyas, Laxmi Niwas Mittal (the Steel Baron), Kishore Biyani (of Big Bazaar), etc. Similarly, the Parsi businessmen in the Western part of India originally hailed from erstwhile Persia (now Iran). Tatas are the most prominent Parsi, with their founder Jamshetji Tata as the first-generation entrepreneur.

**Minority entrepreneur.** Minority entrepreneur is an entrepreneur who is not of the majority population. U.S. Federal categories include Black, person of Hispanic or Latin American ancestry, and person of Asian, Pacific Islander, American Indian, or Alaska Native descent (U.S. Department of Commerce, 1997). There are many Indian entrepreneurs in the U.S., who fall in this category. Amar Gopal Bose, a professor at MIT and the founder of immensely successful Bose Corporation (manufacturing leading-edge audio systems) would qualify to fall in this category.

**Women entrepreneur.** As the name of this type of entrepreneur suggests, it involves women at the forefront of entrepreneurship. Shri Mahila Griha Udyog Lijjat Papad is one such organization. They pride themselves in being a women's organization —of the women, by the women, and for the women. It was started in 1959 with seven lady members with a borrowed sum of Rs 80 at Girgaum in Mumbai. Another typical example of this type of entrepreneur is Kiran Majumdar Shaw, whose entrepreneurial endeavour has been detailed out in a caselet in this chapter.

### Motivational classification

This classification is based upon the motivation of the entrepreneur to start a new venture. Broadly, this classification has two categories, namely *first-generation entrepreneur* and *family-business entrepreneur*.

**First-generation entrepreneur.** A first-generation entrepreneur does not have any family business prior to starting his/her own business venture. Dhirubhai Ambani (Reliance), Kiran Majumdar Shaw (Biocon), N.R. Narayana Murthy (Infosys), Naresh Goyal (Jet Airways) all belong to this category. First-generation entrepreneurs are of two types:

**Self-actualizer entrepreneurs** Self-actualizer entrepreneurs are those who started their business driven by a thirst for achievement and a sense of independence and autonomy (Dubini, 1989). For example, Sunil Bharti Mittal (Airtel) is driven by self-actualization.

**Discontented entrepreneur** Discontented entrepreneur is the one who is unhappy with present working conditions in the organization where he is serving and decides to move on to start his own enterprise (Dubini, 1989). The erstwhile MD of Taj Hotels, Ajit Kerkar was ousted unceremoniously by Ratan Tata in 1997 due to the growing discontent between the two. Immediately afterwards, Kerkar set up Tulip Star Hotels as an entity to manage and own properties. In a short span after he quit the Taj group in 1997, The Tulip Star either owns, manages or markets a number of properties that include the Bogmallo Beach Resort and the Nizmar Resort in Goa, the Kumarakom Lake Resort, the Aquaserene, Siena Village in Munnar, Renaissance, Cochin which are all in Kerala. Other properties under Tulip Star is Capitol in Bangalore, Tulip Manohar in Hyderabad, and Revival in Baroda. Out of this the company has equity participation in Tulip Star, Mumbai; and the Bogmallo Beach Resort in Goa. It also has stakes in the Juhu Centaur, Mumbai.

**Family-business entrepreneur.** Family-business entrepreneurs are the followers of family tradition role models (Dubini, 1989). A typical example is that of Aditya Vikram Birla (1944–1995), who created about 75 factories for his business group in a career span of 25 years (Piramal, 1997). Aditya Birla was the son of industrialist Basant Kumar Birla (popularly known as BK). His group is now known after him (Aditya Birla Group) and managed by his son Kumar Mangalam Birla.

### Entrepreneurial experience classification

This classification of the types of entrepreneurs is based upon the extent of entrepreneurial experience. There are two broad categories in this classification—*novice* and *habitual* entrepreneurs.

**Novice entrepreneur.** Novice entrepreneurs can be viewed as individuals with no prior minority or majority business ownership experience, either as a business founder, an inheritor, or a purchaser of an independent business, but who currently own a minority or majority equity stake in an independent business that is new, purchased, or inherited (Westhead, Ucbasaran, and Wright, 2003). N.R. Narayana Murthy was a novice entrepreneur when he founded Infosys on July 2, 1981 along with six of his colleagues.

**Habitual entrepreneur.** Habitual entrepreneurs are most often described as persons who have experience owning at least two different firms whether temporarily (serial entrepreneurship) or simultaneously (portfolio entrepreneurship) (Hall, 1995; Westhead and Wright, 1998).

**Serial entrepreneur** Serial entrepreneurs can be viewed as individuals who have sold/closed a business in which they had a minority or majority ownership stake, and they currently have a minority or majority ownership stake in a single independent business that is either new, purchased, or inherited (Westhead, Ucbasaran, and Wright, 2005).

According to Ryan (2000), serial entrepreneurs thrive off the psychological reward of making an impact as opposed to the wealth to be gained from operating successful ventures. These entrepreneurs are risk takers, having built sufficient wealth (relative to their comfort level); they will invest their money on new ventures that often tend to be vague visions of an unsolved problem. They view failure as an experience, which will make them stronger and bolder to take on new risks. Some entrepreneurs seem to thrive on the grueling early stages of starting and building a business, and prefer to hand it over for others to manage while they return to the start-up process (Fraone, 1999). Sunil Bharti Mittal (of Bharti Airtel) would qualify for the category of serial entrepreneur as the caselet based on him in this chapter demonstrates.

**Portfolio entrepreneur** Portfolio entrepreneurs can be viewed as individuals who currently have minority or majority ownership stakes in two or more independent businesses that are either new, purchased, and/or inherited (Westhead, Ucbasaran, and Wright, 2005). Kishore Biyani can be categorized into this category of entrepreneurs, as he owns Big Bazaar, Pentaloon and Central supermarkets (all founded by him) simultaneously.

### Technical experience classification

Jones-Evans (1995) came up with this classification based upon the previous occupational background of the entrepreneurs in the technology sector. A technical entrepreneur is defined as the founder and current owner-manager of a technology-based business, i.e. primarily responsible for its planning and establishment, and currently having some management control of the organization.

**The “research” technical entrepreneur.** These entrepreneurs are involved in technological research activities at an academic institution or a research laboratory prior to creating their own venture. Professor Amar Gopal Bose of Massachusetts Institute of Technology (MIT) is a typical example of this category. He was into researching acoustic systems and later, created his own corporation called Bose Corporation.

**The “producer” technical entrepreneur.** These entrepreneurs have a history of involvement in direct commercial production or development of a product or process, usually in a large organization. A typical example for this type of

entrepreneur is—Subroto Bagchi, the co-founder of MindTree Ltd. Bagchi worked as the Chief Executive of Wipro's Global R&D before co-founding MindTree in 1999. MindTree generated a revenue of Rs 12,375 million in the financial year 2008-09.

**The "user" technical entrepreneur.** Such entrepreneurs may have been involved as an end-users in the application of the specific product or technology (perhaps in support services such as technical support), but without direct involvement in the actual development of the technology.

A typical example is that of Tulsi Tanti, the founder of wind power major Suzlon (see the caselet in Chapter 8). Tanti was into his family business of textiles, when power shortages prompted him to install two wind turbines as captive power. Later, buoyed by the success of this technology, he decided to switch-over from textiles to wind power generation. Hence, Suzlon Energy was born.

**The "opportunist" technical entrepreneur.** As the name suggests, this kind of entrepreneur is an individual who has identified a technology-based opportunity and, while initiating and managing a small technology-based venture, either has little or no technical experience or whose previous occupational experience was within non-technical organizations.

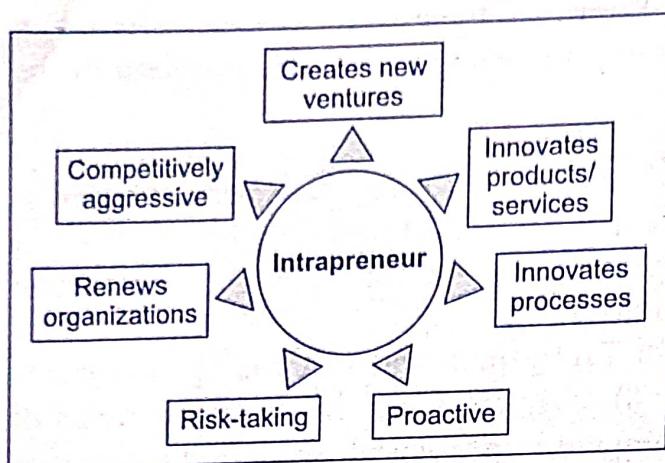
For example, Azim Hasham Premji (see a caselet on him in Chapter 4) inherited Wipro from his father, who was into oil business. Later, Premji realized the potential of information technology and ventured into this business. Rest is history as Wipro is today known as one of India's IT powerhouses.

## ■ Intrapreneur—An Emerging Class

Intrapreneurship is defined as entrepreneurship within an already existing organization (Pinchot, 1985). It is also referred to as *corporate entrepreneurship*. A typical example would be that of Dr Pawan Goenka, who designed and developed the immensely successful Scorpio model for Mahindra and Mahindra (M&M) and redefined the way new car design and development was done. He utilized his vast experience of working with General Motors (GM) in the US prior to joining M&M.

Under his leadership, M&M launched a slew of new products such as Pik-Up, Marshal, Armada 98, Bolero, and Loadking. His best acknowledged contribution is that of the Scorpio project, which brought laurels to M&M, both in India and abroad. The company built this brand-new vehicle with virtually 100 percent supplier involvement from concept to reality for \$120 million, including improvements to the plant. This is about one-fifth of the cost incurred to design and develop a car from scratch anywhere else in the world.

As shown in Figure 5.3, there are many characteristics of an intrapreneur.



**Figure 5.3**  
Characteristics of an Intrapreneur

- *Creates new ventures* Giving birth to new businesses within the existing organizations is the typical characteristic of an intrapreneur.
- *Innovates products/services* A tendency towards technological leadership by way of continual innovation of products/services is desirable on part of an intrapreneur.
- *Innovates processes* Under fiercely competitive business landscape, business processes need to be reinvented time and again by the intrapreneurs for better efficiency, productivity, and quality.
- *Proactive* Intrapreneurs attempt to lead rather than follow the competitors through their proactiveness.
- *Risk-taking* Intrapreneurs have a risk-taking attitude with regard to investment decisions and strategic actions under situations of uncertainty.
- *Renews organizations* An intrapreneur is expected to transform the organizations through renewal of key ideas on which they are built.
- *Competitively aggressive* An intrapreneur has the propensity to directly and intensely challenge his organization's competitors to achieve entry or to improve position.

### **Points to Ponder**

- The entrepreneur's role is critical not only in the survival, but also the growth of the new venture.
- The risks of entrepreneurship are not only in relation to the uncertainty to the success of the new business venture, but also on the personal and professional front like career opportunities foregone for the sake of starting the new venture, family relations, and psychic well-being.
- Delegation of authority and responsibility of routine matters to the subordinates does not mean that the entrepreneur should not exercise any control.

## KIRAN MAZUMDAR SHAW AND BIOCON

In a country where the research and development scenario – on an industrial level – was quite dull and almost always received very low priority, and successful businessmen could only think of borrowing technology through tie-ups with the more advanced multinational corporations, Kiran Mazumdar Shaw embarked upon a business of managing technology. She, in fact, started a Contract Research Organization called Biocon India. Until then, technology was mainly the fiefdom of huge government departments and of some large public sector undertakings. These were all government-funded, highly subsidized organizations, with no particular responsibility for the bottom-line (the profit). People did not think in terms of technology development and profitability going together; in fact, it was perceived that these pull in opposite directions and that anything to do with technology development had to have huge investments. Kiran proved all those assumptions wrong, “R&D is the very life force of The Biocon India Group,” she says (Chary, 2002).

Kiran was born on 23 March 1953 in Bangalore. She had her schooling at Bishop Cotton Girls School and Mount Carmel College at Bangalore. After completing her B.Sc. in Zoology from Bangalore University in 1973, she went to Ballarat University in Melbourne, Australia, and qualified as a master brewer. Kiran confesses, “I pursued Zoology honours from Central College, Bangalore University. That was largely because I could not get into medicine. That was my first failure in life. I completed my degree in 1973 and stood first in the university. So, one of my plus points is that I try and make the most of what I have” (Chary, 2002). Her father was an accomplished brewer who worked in United Breweries (UB group promoted by Vijay Mallya). He inspired her to pursue a qualification in brewing.

Kiran started her professional career as trainee brewer in Carlton & United Beverages in 1974. Kiran laments, “I had the hands-on experience required; I knew how to operate plants, pumps, and that kind of stuff in brewing technology. I was also able to use my knowledge to produce beer. However, when I applied for a job as a brew-master, no brewery would take me because all Indian breweries were hesitant to entrust a plant to a woman” (Chary, 2002).

In 1978, she got a job offer from the UK. Just a week before she was supposed to go, she had a chance meeting with the founder of Biocon in Ireland. He met her in India and said, “I am trying to set up a company in India. I heard about you in Australia. Why don’t you help me do it?” At that point in time, Kiran told him, “I wish you had met me earlier, because I’ve accepted this job in the UK.” But he convinced her that his project was going to be more exciting than taking up a brewing job in the UK (Chary, 2002). In the same year, Kiran founded Biocon India in collaboration with Biocon Biochemicals Limited, with a capital of Rs10,000. The initial operation was to extract an enzyme from papaya.

Kiran recounts the humble beginning of Biocon in India—“This story begins with a humble partnership with an Irish scientist entrepreneur, Mr Les Auchincloss, who came down to Bangalore, and chipped in with his entire stock of Thomas Cook traveller cheques worth \$9,000 at the exchange rate of Rs 11 in 1978. In fact, the gentleman added a few hundred rupees to make it into a princely sum of one lakh, which was the seed money to start the enterprise in an office located in a Koramangala house garage. When we advertised for personnel, there were few takers.

Most of them interviewed me rather than the other way around. With people hesitating to join me, it was my old classmate Prathima Rao who came to my rescue and doubled up as my secretary while teaching in Baldwins School. Funding was not easy either. We had one bitter experience when Vijaya Bank rejected our request for cash credit. On hindsight, it does appear that bankers didn't have confidence in a woman who was single. Hence, they demanded all sorts of guarantees from my father and others. Finally, it was Canara Bank that came to my rescue" (Urs, 2004).

Under Kiran Mazumdar Shaw's stewardship, Biocon transformed from an industrial enzymes company to an integrated biopharmaceutical company with strategic research initiatives. In 1989, Unilever plc. acquired Biocon Biochemicals Ltd in Ireland and merged it with its subsidiary, Quest International. Finally, in 1998, Unilever inked a deal with ICI to sell its specialty chemicals division of which Quest International was a part. Unilever agreed to sell its shareholding in Biocon to the Indian promoters and Biocon became an independent entity. Today, Biocon is recognized as India's pioneering biotech enterprise. In 2004, Biocon came up with an IPO and the issue was over-subscribed by over 30 times. Post-IPO, Kiran Mazumdar Shaw held close to 40% of the stock of the company and was regarded as India's richest woman with an estimated worth of Rs 2,100 crore. Kiran, currently the CMD of Biocon, is ranked 16th in The Billionaire Club. She has also received an honorary Doctorate of Science, from her alma mater, Ballarat University, in

recognition of her pre-eminent contributions to the field of Biotechnology. Recently she also received an Honorary Doctorate from the Manipal Academy of Higher Education (MAHE), in recognition of her outstanding achievements in biotechnology and industrial enzymes. She is married to John Shaw, a Scotsman and Indophile (loves India and Indian culture), who headed a leading textiles MNC, Madura Coats from 1991–1998 as Chairman and Managing Director. John Shaw has since joined Biocon as Director, International Business, and is the Vice Chairman of the Board.

In April 2006, Biocon invested Rs 1 billion in collaboration with Cuba's Centre for Molecular Immunology in a new facility in Bangalore to make monoclonal antibodies for cancer and autoimmune diseases. This JV is named Biocon Biopharmaceuticals Biologics. The facility is India's largest multi-product biologics facility and is located at Bangalore's Biocon Park. The 120,000-square-ft building, spread over three floors, comprises process, laboratory, and technical support areas and is regarded as a significant advancement in terms of technical sophistication over the company's existing facilities and comprises three distinct modules. The state-of-the-art facility is designed to manufacture a broad range of novel and bio-similar therapeutic products through large scale cell-culture fermentation for the treatment of cancer, auto-immune, and metabolic diseases. The facility is also designed to cater to contract manufacturing needs of international biopharmaceutical companies.

### Discussion questions

1. In your view, does a women entrepreneur like Kiran Mazumdar Shaw face a lot of gender bias in our country?
2. What can be the advantages of being a woman entrepreneur?

## ■ CONCEPT OF ENTREPRENEURSHIP

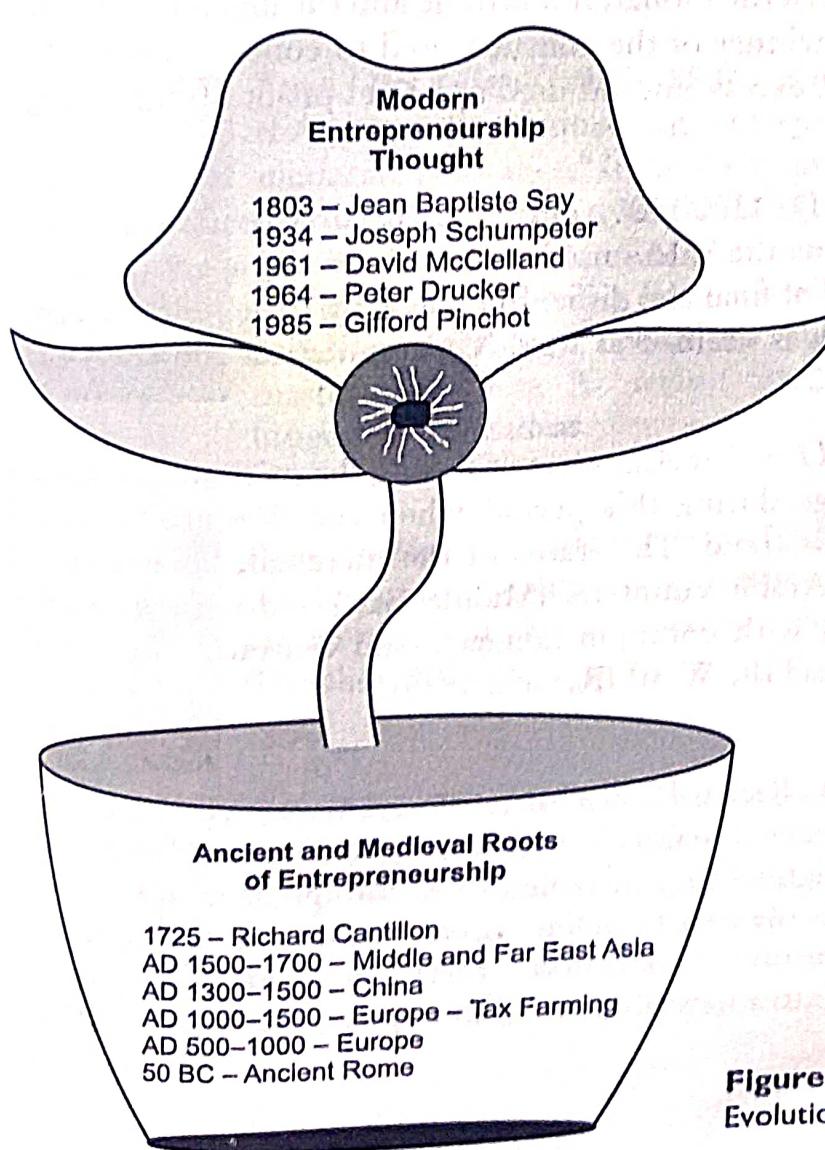
Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort; assuming the accompanying financial, psychological, and social risks; and receiving the resulting rewards of monetary and personal satisfaction (Hisrich, 1986).

## ■ Evolution of Entrepreneurship

Figure 5.4 shows the various stages in the evolution of entrepreneurship. We can broadly classify the evolution process into two stages: *ancient and medieval roots* and *modern entrepreneurship thought*.

### Ancient and medieval roots of entrepreneurship

Murphy, Liao, and Welsch (2006) have vividly captured the pre-historic bases of entrepreneurship:



**Figure 5.4**  
Evolution of Entrepreneurship

**50 BC.** Entrepreneurship started from time immemorial, however in the recorded history, the oldest references can be traced back to *ancient Rome* around 50 BC. During that time, entrepreneurship and business activity was not considered prestigious. It was usually left to the former slaves to get into commercial activities. Wealth generation happened primarily, either by renting the land or by earning interest on loans (Baumol, 1990).

**AD 500–1000.** *Europe* experienced a radically new expression of entrepreneurship during AD 500–1000. This was in the form of acquisition of land, castles, and other assets through warfare. Thus, kings and barons took winning battles and wars as an entrepreneurial means to wealth and prosperity (De Roover, 1963).

**AD 1000–1500.** During AD 1000–1500, *Europe* witnessed a drastic revamping of entrepreneurial activity, and fields like architecture, engineering, and farming provided healthy bases for entrepreneurship. A new innovation in tax collection called *tax farming* came into existence during this time. In this approach, bidding for tax collection on behalf of the monarch was done and the highest bidder used to get the contract. If the winner of the contract used to collect more tax than the bid offered by him, the excess amount used to be net profit for him (Hebert and Link, 1988).

**AD 1300–1500.** During AD 1300–1500, entrepreneurial activity experienced major setbacks in *China*, as the rulers used to confiscate the assets of wealthy businessmen during times of financial difficulties faced by the empire. Engaging in commercial activities was deemed as wealth accumulation and was looked down upon (Baumol, 1990).

**AD 1500–1700.** *Middle and Far East Asia* was witnessing the prime of experiential and skill-based knowledge during this period when the Western world was still catching up with this trend. The status of the merchant became high in the Muslim dominated Arabic countries (Middle East) and entrepreneurship flourished in this region with common language and central location in the world (in between East and the West) (Russell, 1945).



**AD 1725.** Richard Cantillon (1680–1734) was an Irish economist, who spent a major part of his life in France. He is credited with highlighting the role of the entrepreneur in economics. He was the first to define an entrepreneur as the “agent who buys means of production at certain prices in order to combine them into a new product” (Schumpeter, 1951).

### Modern entrepreneurship thought



Jean Baptiste Say (1767–1832), a French economist and businessman, is known for his idea that ownership is distinct from entrepreneurship. Thus, in his view, a person can be an entrepreneur despite somebody else providing the capital for the entrepreneurship venture. He was a staunch supporter of free trade and competition.



Joseph Schumpeter (1883–1950) was an Austrian economist (he taught at Harvard in his later part of academic career), who is known for the term *creative destruction* coined by him. In his view, the entrepreneurs, by virtue of bringing about radical innovations/transformations, render the existing systems of established organizations obsolete. This phenomenon is termed as *creative destruction*.



David McClelland (1917–1998) was an American psychological theorist, who defined an entrepreneur as “an energetic, moderate risk-taker.” In his view, an entrepreneur is primarily motivated by an overwhelming need for achievement and strong urge to build. His contributions to the field of entrepreneurship focus on the attributes of an entrepreneur and the motivations behind entrepreneurial behaviour. His masterpiece “The Achieving Society” (McClelland, 1961) hinges on these ideas.



Peter Ferdinand Drucker (1909–2005), an Austrian-American scholar, portends that entrepreneur maximizes opportunities. He emphasized that entrepreneurship is about taking risks (Drucker, 1970).



Gifford Pinchot is an American entrepreneur and consultant, who coined the term *intrapreneurship* and defined it as “an entrepreneur within an already established organization.” He is known for his best-selling book—“Intrapreneuring: Why You Don’t Have to Leave the Corporation to Become an Entrepreneur” (Pinchot, 1985).

## ■ Development of Entrepreneurship

The origin of programmes for the development of entrepreneurs in India can be traced to the pioneering efforts of the Small Industry Extension Training Institute (SIET), now known as the National Institute for Micro, Small and Medium Enterprises (NIMSME) with whose collaboration, Professor David McClelland of Harvard University attempted to establish that achievement motivation (a key factor in entrepreneurship) could be developed among adults. Under his guidance, six experimental training programmes on achievement motivation were conducted during 1964–65 with the active involvement of SIET faculty.

The effect of such training on entrepreneurial activity was assessed in comparison with control groups. Results revealed that those who participated in the courses showed more active business behaviour, worked longer hours, made more definite attempts to start new business ventures, and actually did start more such ventures. They also made specific investment in new fixed productive capital and employed more workers. These entrepreneurs tended to achieve relatively larger percentage increases in their gross incomes, and demonstrated increased entrepreneurial activity.

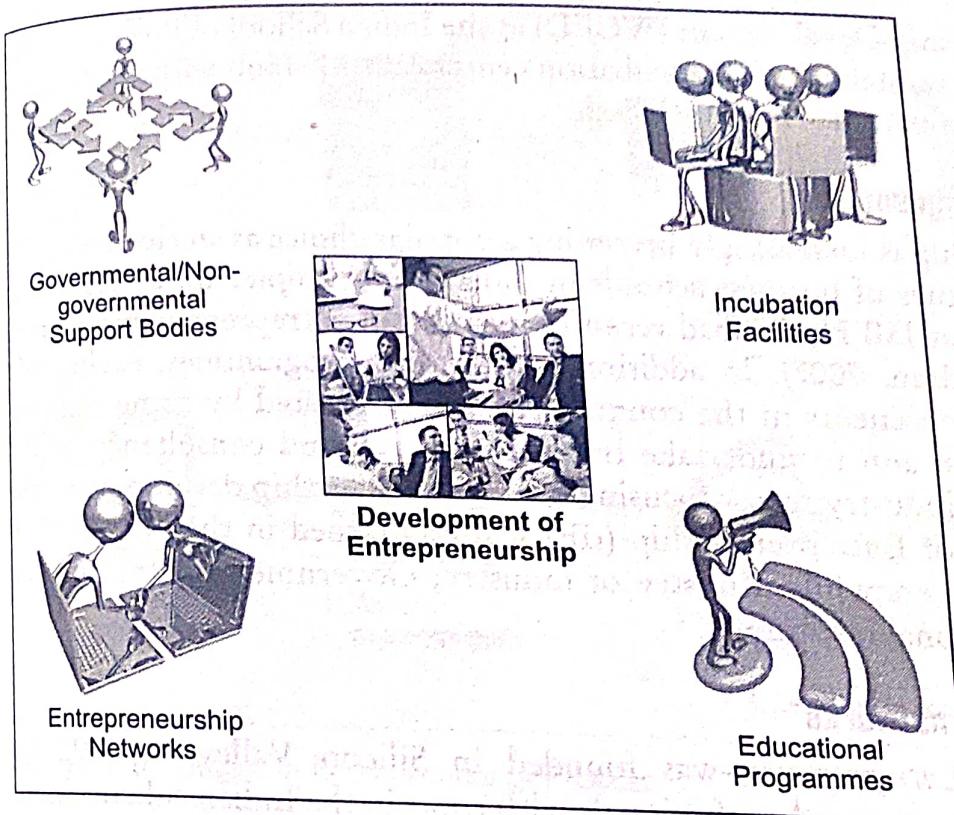
In a developing country like India, there ought to be some issues in entrepreneurship development. According to Prahalad (2004), inability and inconsistencies in enforcing laws, bureaucratic interpretation of rules, lack of firm political commitment, lack of accountability, hooliganism and political musclemanship, lack of rule of law, lack of control of corruption are significant deterrents to entrepreneurship development in developing countries.

Figure 5.5 shows the ways in which entrepreneurship development has been done in India.

### Governmental/non-governmental support bodies

The *National Institute for Entrepreneurship and Small Business Development* (NIESBUD) was established in 1983 by the Ministry of Industry (now Ministry of Micro, Small, and Medium Enterprises), Government of India, as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in entrepreneurship development, particularly in the area of small industry and small business.

In 1983, the *Entrepreneurship Development Institute of India* (EDI), an autonomous body and not-for-profit institution, was set up. It was sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd, ICICI Ltd, and the State Bank of India (SBI). The possibility of establishing a mechanism to develop entrepreneurs may have originated from the encouraging results of an innovative scheme of financing new entrepreneurs, begun in India in 1968, that relied on the competence of the individual and the viability of the proposed project rather than on the more conventionally applied criteria relating to the appli-



**Figure 5.5**  
Development of  
Entrepreneurship

cant's financial background (Patel, 1987). Under this scheme, a wide variety of projects were established by entrepreneurs from non-business communities and castes (Gupta, 1989).

Some evidence of effectiveness of entrepreneurship development (ED) has already been cited. For example, a 1984 sample study of forty units set up by trained entrepreneurs in the state of Gujarat revealed that ED-trained entrepreneurs had less than a 10 percent business closure rate as compared to 20 to 25 percent among other small enterprises. Furthermore, the profit and loss analysis revealed that 80 percent of the trained entrepreneurs were making profits, as opposed to 60–70 percent of other small enterprises (Patel, 1987).

We shall study in detail about such support bodies in Chapter 7 (Institutional Support).

### Incubation facilities

Premier business schools and technical institutions in India have entrepreneurship centers, many of which provide incubation facilities to start-up small businesses. An *incubator* is a facility designed to assist start-up companies, generally with respect to providing knowledge and technical assistance. For example, Nadathur S. Raghavan Centre for Entrepreneurial Learning (NSRCEL) at the Indian Institute of Management Bangalore (IIMB) provides such incubation facilities in the form of an office, computing and telecommunication facilities, and faculty consultancy support at nominal charges. Similarly, Wadhwani Centre for

Entrepreneurship Development (WCED) at the Indian School of Business (ISB), Hyderabad, has established an incubation center called K-Hub with the support of the Government of Andhra Pradesh.

### Educational programmes

Entrepreneurship is increasingly becoming a popular choice as an elective in the MBA programmes of business schools in India. For example, about 8% of the MBA students at ISB Hyderabad recently majored in entrepreneurship (Sarma and Ramachandran, 2007). In addition, educational programmes, exclusively to develop entrepreneurs in the country, have been created by some business schools. With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 at Guwahati by the erstwhile Ministry of Industry, Government of India, as an autonomous national institute.

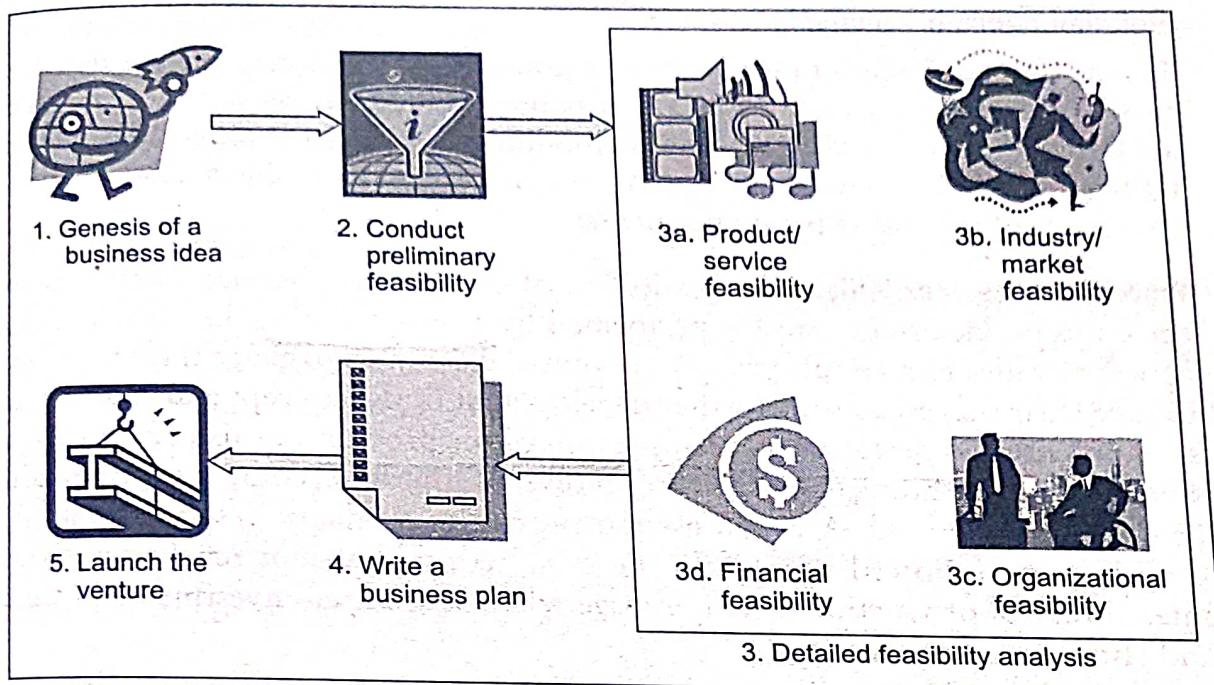
### Entrepreneurship networks

*TiE—The Indus Entrepreneurs*—was founded in Silicon Valley in 1992 by successful entrepreneurs and professionals with roots in the Indian subcontinent (the Indus region). TiE is also known as *Talent Ideas and Enterprise* and is today spread over 53 chapters in 12 countries. It has over 12,000 members and 1,800 plus charter members—including top entrepreneurs, venture capitalists, private equity, angels, law firms, technology and management professionals. TiE's mission is to foster entrepreneurship globally through mentoring, networking, and education. It claims itself to be the world's largest not-for-profit organization for entrepreneurs.

The *National Entrepreneurship Network* (NEN), founded in 2002, is a not-for-profit initiative of the Wadhwani Foundation, working to inspire, educate and support the next generation of high-growth entrepreneurs in India. NEN was co-founded by five of India's premier academic institutions: IIT Bombay; IIM Ahmedabad; SP Jain Institute, Mumbai; IBAB, Bangalore; and BITS Pilani. NEN works with over 425 top-tier academic institute members; has developed a pool of more than 950 entrepreneurship faculty members, growing the number from an initial group of about 50 across the country; has launched more than 350 student e-cells; and reaches over 400,000 young people across 30 cities in India. In addition, NEN provides critical support and community to India's growing pool of young and future entrepreneurs. NEN has more than 65,000 individual members, representing the largest group of new and future entrepreneurs in India.

## ■ Stages in Entrepreneurial Process

Barringer and Gresock (2008) identified various stages in the entrepreneurial process as shown in Figure 5.6. Let us discuss them one by one.



**Figure 5.6** Stages in Entrepreneurial Process

### Genesis of a business idea

This is the first step in the entrepreneurial process and requires critical thinking on part of the entrepreneur to select the most viable business ideas from a set of available options. This not only includes critical analysis of the merits and demerits of the innovative product/service created by the entrepreneur, but also includes the study of the market potential (the existing and potential competitors), marketing, finance, human resources, and operational issues related to the business idea.

### Conduct preliminary feasibility

The preliminary feasibility involves a quick assessment about the potential of the business ideas and screening out an idea with the highest potential. This step is necessary to ensure that comprehensive and detailed feasibility analysis (which involves considerable time and effort) to be conducted in the next step is done only for the single best idea. A checklist proposed by Timmons and Spinelli (2004) helps in selecting the high-potential idea within a couple of hours on the basis of the following four criteria:

- market and market related issues,
- competitive advantages,
- value creation and realization issues, and
- overall potential.

### Detailed feasibility analysis

Having screened out an idea with high potential, it is subjected to the detailed feasibility analysis which may take a couple of days or weeks. The detailed analysis is helpful in making suitable modifications in the business idea before taking it to the business plan stage. As shown in Figure 5.6, the detailed analysis comprises of the following components:

**Product/service feasibility.** The feasibility of the product/service (which is in the concept/idea stage only) is performed by concept testing, i.e. showing the concept or idea to a sample group of potential customers to gauge their reaction, to take their suggestions for further development of the concept and to assess its sales potential. A prototype or a sample unit of the product can also be created in simple form depending upon the cost involved. Otherwise, computer simulation or design can be used. A rough assessment of the production/service delivery process to be followed should also be done to avoid abrupt revelation about infeasibility of production at a later stage when substantial investments of time and effort have been made.

**Industry/Market feasibility.** The feasibility analysis of industry/market involves three considerations. Firstly, how attractive is the market for the new business idea or concept. A market segment experiencing growth, with high profit margins and less competition would naturally be attractive for the entrepreneur. Secondly, efforts should be expended to identify the niche within a large market, i.e. a narrow segment of customers with a common expectation from the product or service. This way, the entrepreneur can buy some time for establishing his venture before competing head-on with existing established players in the market. Last but not the least, a candid assessment of the overall market potential of the new concept should be made in a realistic manner.

**Organizational feasibility.** Two issues should be addressed here: an assessment about the organizational prowess or capability of the initial management team (which would naturally be small for the start-up firm, including the entrepreneur), and the availability of non-financial resources (like office space, talent pool in the area where the venture would be started, etc.). Organizational prowess means passion for the new business idea, professional managerial qualifications, prior experience and understanding of the market in which the venture would be created.

**Financial feasibility.** The total initial cash needed for starting the venture and overall financial attractiveness of the investment are at the heart of financial feasibility. It should be kept in mind that very rarely do new start-up ventures are able to secure funding from the financial institutions as debt or are able to find equity investors (people who are willing to invest money by becoming partners in the venture). Therefore, very clear identification about the sources of sufficient funds to cover all the capital (long-term like land, building, machinery)

expenditures and operating (recurring) expenses to generate first unit of the sales should be done. Financial attractiveness of investment should be assessed by estimating the expected rate of return on investment. This estimation for the new concept would be subjective and can be based upon comparison with similar existing businesses.

### **Write a business plan**

A business plan is a written document containing the details about every aspect of the proposed business venture. It serves two purposes: to provide a "road map" for the people internal to the organization, i.e. the employees, stakeholders, etc., and to convince the potential investors and financial institutions about the viability of the venture so that they may agree to invest in it. A good business plan is based upon comprehensive data and analysis rather than upon gut-feel or judgement of the entrepreneur. It should preferably include details about the screening process and feasibility studies conducted by the entrepreneur to augment its authenticity and appeal.

### **Launch the venture**

This is the final step in the entrepreneurial process and involves launching the venture as per the business plan. Due to the uncertainties of the business environment, the entrepreneur should be prepared to face hurdles and challenges during the launching of the venture as well as in the subsequent periods of time.

### **Points to Ponder**

- In the recorded history, the oldest references of entrepreneurship can be traced back to ancient Rome around 50 BC.
- Inability and inconsistencies in enforcing laws, bureaucratic interpretation of rules, lack of firm political commitment, lack of

accountability, hooliganism and political musclemanship, lack of rule of law, and lack of control of corruption are significant deterrents to entrepreneurship development in developing countries.

### **SUNIL BHARTI MITTAL AND BHARTI AIRTEL**

Sunil Bharti Mittal has been awarded the Padma Bhushan by the President of India in 2006. Other eminent business personalities to receive this honour in 2006 include the Pepsi Chief, Indra Nooyi, and the Chairman of Suzuki Motor Corporation, Osamu Suzuki.

Sunil is not only a successful first-generation entrepreneur, but also a generous philanthropist. He has funded about 50 schools in Madhya Pradesh and has donated Rs 20 crores to IIT Delhi for setting up the Bharti School of Technology and Management.

Success seems to come easily to Sunil Mittal, but few people know his real story, which also has huge disappointments and frustration besides the Midas touch he is known for.

Sunil's father, Sat Paul Mittal, was in active politics in Punjab and had been elected a Member of Parliament (MP) from the Congress party. Sat Paul, himself a *bania*, married a *khatri* lady and was thus denounced by his community for this inter-caste marriage. Their children including Sunil used the surname "Bharti" for a long time and could regain their surname "Mittal" much later.

The early life of Sunil was spent in Ludhiana, which is a manufacturing hub in Punjab. He graduated from Punjab University and founded his enterprise called "Bharti" as a first-generation entrepreneur in 1976 at the age of 18. He borrowed Rs 70,000 from his father and started manufacturing crankshafts for local bicycle manufacturing organizations in Ludhiana. During the next three years, he diversified into manufacturing yarn and stainless-steel sheets used for surgical utensils.

Sunil seems to enjoy the thrill of being a serial entrepreneur. Otherwise, what else could explain the fact that despite his successful ventures in Ludhiana, he sold his factories there in 1980 to move to Bombay and started afresh. His initial forays at Bombay were into trading commodities like brass, imported stainless-steel, plastics and zip fasteners.

Lady luck smiled again on Sunil in 1982 when he struck a deal with Suzuki Motor Corporation of Japan to become an exclusive agent in India for their electric power generators. Sunil was aware of the frequent power outages in most cities in India at that time and saw a great potential in providing this alternative to the businesses and households. As an adept businessman, he created a good distribution system with offices in the four metros

of the country. Sales started climbing and it seemed as if there was no stopping for him.

The big blow came in 1984, when the Government of India gave licenses to the big industrial houses of Shriram and Birla to manufacture gensets in India with collaboration of Honda and Yamaha respectively. These were the initial days of the liberalization process in India and without any warning signal, the government declared the import of gensets illegal. This was despite the fact known to everybody that it would take several years for the licensees to erect their manufacturing facilities to manufacture gensets. Sunil was hit hard and became one of the early victims of the hastily pulled-off liberalization process.

Under these unforeseen circumstances, the entrepreneurial acumen in Sunil pushed him to visit the markets in Japan, Korea, and Taiwan. As luck would have it, these were going to be the defining moments for his entrepreneurial career, as he was about to embark upon the telecom sector, which would become his identity for a long time to come. Sunil came across a new telephone instrument in Taiwan, which did not have the circular dialing system but delicate push buttons instead. The sharp business mind of Sunil gave him a sense of success with this technology in India. Within the next few days, he found a supplier of these instruments and signed a contract.

There were a few hurdles but it was not difficult for him to overcome them. It was not possible to import these instruments ready-made due to the government restrictions. Sunil found the route of importing these legally by disassembling these gadgets in Taiwan, sending these components to major cities in India and later, assembling these back to their original form. Within months, he started selling these instruments in India with a German-sounding brand name "Mittbrau" which in reality meant

Mittal Brothers. Bharti's business started flourishing again.

Sometime later, the government again played around with Bharti by granting licenses to 52 other firms to manufacture touch-tone phones in India. This time around, Sunil was ready to grab a license and simultaneously diversified into manufacturing fax machines, answering machines, and cordless phones. Most of the other licensee firms (big conglomerates), even after getting the licenses, were not focusing upon this low profile business compared to their might. This went in favour of Bharti, as it continued to grow and years later, became India's biggest manufacturer of these instruments, while all other licensee firms perished away in oblivion.

Sunil's bet of the lifetime came around in 1992 after the government embarked upon a major liberalization programme during 1991. In 1992, the government invited license bids for operating mobile-phone networks in various parts of the country. Sunil was new to this technology. He delegated the management of his factories to his brothers and himself went to London to understand the intricacies of this potential business opportunity. There at London, he took the help of world-class experts to come up with a sophisticated tender to be filed with the Government of India for launching his mobile-phone network.

Bharti won the licenses for setting up its mobile-phone networks in four largest cities in the country. Some of the disgruntled competitors who could not get the licenses

went to courts against Bharti, which eventually could go ahead with its network only in Delhi. It was a blessing in disguise for Sunil, who had underestimated the capital required for setting up the network at Rs 2.5 crores per city. In reality, the cost was higher by a multiple of four. Sunil arranged money from all possible sources and put up the network in Delhi. Thus, "Bharti Airtel" was born, which launched its services with the brand name "Airtel."

In the subsequent years, when the government invited bids again for mobile networks in B-category cities, Sunil chose to sit back and relax. The competitors went berserk in tendering sky-high bids, only to realize later how foolish they were. Within a couple of years of setting up their expensive networks, many of these rivals went bust and divested their assets to Bharti Airtel, which was waiting for this opportune moment.

People started writing Bharti off when the biggest Indian conglomerates Reliance and Tatas entered the mobile-networks market. All these years, Sunil has proved that he can maintain a slender lead above these arch rivals. Bharti currently is the market leader having captured 20% of the market share. The revenues are over US\$ 4 billion up from US\$ 510 million in 2003. By the end of June 2006, Bharti Airtel had 24.58 million customers, including over 23 million mobile phone users, with fixed-line and broadband customers making up the remainder.

### **Discussion questions**

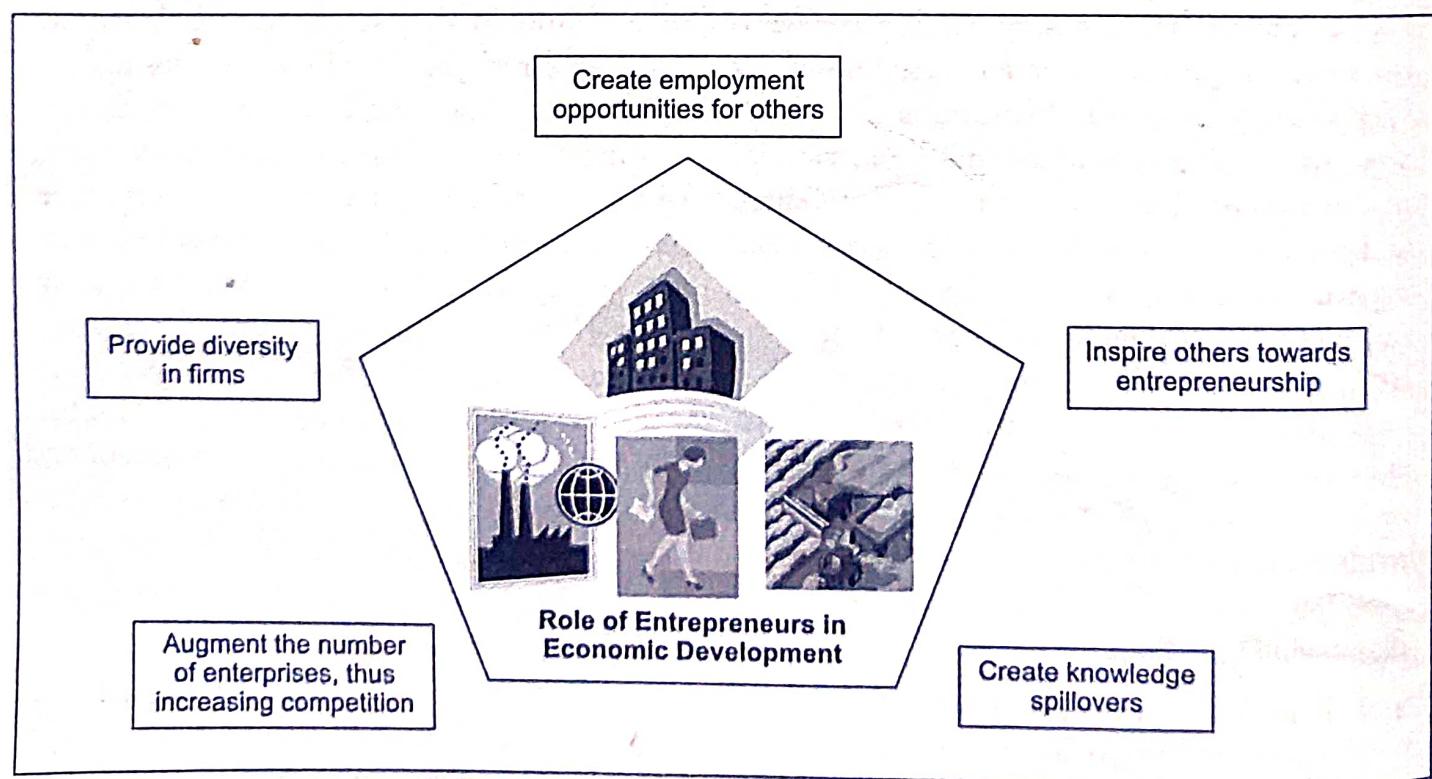
1. It is in the genes of the *bania* community in our country to be successful in entrepreneurship and business. Critically discuss this statement.
2. Do you think Sunil Mittal has gradually become a portfolio entrepreneur from being a serial entrepreneur?

## ■ ■ ■ ROLE OF ENTREPRENEURS IN ECONOMIC DEVELOPMENT

Entrepreneurs play an important role in the economic development of a region. From the fall of Rome (AD 476) to the eighteenth century, there was virtually no increase in per capita wealth generation in the West. With the advent of entrepreneurship, however, per capita wealth generation and income in the West grew exponentially by 20 percent in the 1700s, 200 percent in the 1800s, and 740 percent in the 1900s (Drayton, 2004). Figure 5.7 shows the various ways in which the entrepreneurial activity results in economic development and growth.

### i) Create employment opportunities

By creating a new venture, entrepreneurs generate employment opportunities for others. Unemployment is a major issue, especially in the context of developing economies like India. Educated youth often are unable to get a suitable employment for themselves. Thus, entrepreneurs do a Yeoman's service by not only employing themselves into their entrepreneurial ventures, but also by employing others. Within the last 15 years, Fortune 500 companies and large corporations have endured major retrenchment and eliminated millions of jobs, whereas discoveries in the entrepreneurial sector have yielded an average of 600,000 new incorporations per year and generated millions of job opportunities (Morris and Kuratko, 2002, p. vii).



**Figure 5.7** Role of Entrepreneurs in Economic Development

### **Inspire others towards entrepreneurship**

The team created by an entrepreneur for his new venture often provides the opportunity for the employees-cum-teammates to have a first-hand experience of getting involved in an entrepreneurial venture. This often leads eventually for these employees to become entrepreneurs themselves after being inspired by their earlier experience of working for an entrepreneur. Thus, this process helps in forming a chain reaction of entrepreneurial activity which directly contributes to the health of the economy.

### **Create knowledge spillovers**

When a scientist, an engineer, or a knowledge worker (i.e. an economic agent with endowments of new economic knowledge) leaves an organization to create a new firm, knowledge acquired by her in the organization gets spilled over to the new firm. Hence, entrepreneurship serves as a mechanism by which knowledge spills over to a new firm in which it is commercialized. Naturally, the new firm gets benefited by the experience and knowledge gained by the founder in her erstwhile organization. Knowledge is embodied in a worker and the new firm is created through the worker's effort to appropriate the value of his knowledge by way of innovative activity (Audretsch, 1995). Lucas (1988) established that knowledge spillovers are an important mechanism driving economic growth.

### **Augment the number of enterprises**

When new firms are created by entrepreneurs, the number of enterprises based upon new ideas/concepts/products in a region (say, a city, state, or country) increases. Not only does an increase in the number of firms enhance the competition for new ideas, but greater competition across firms also facilitates the entry of new firms specializing in a particular new product niche. This is because the necessary complementary inputs are more likely available from small specialist niche firms than from large, vertically integrated producers (Jacobs, 1969). Glaeser *et al.* (1992) as well as Feldman and Audretsch (1999) found empirical evidence supporting the hypothesis that an increase in competition within a city, as measured by the number of enterprises, is accompanied by higher growth performance of that city.

### **Provide diversity in firms**

Entrepreneurial activity in a region often results into creation of a variety of firms in a region. These firms operate into diverse activities and it has been found that it is this diversity in firms which fosters economic development and growth rather than homogeneity. According to Jacobs (1969), it is the exchange of complementary knowledge across diverse firms and economic agents that yields an important return on new economic knowledge.

## MOKSHAGUNDAM VISVESVARAYA

The entrepreneurial function can be performed by a relatively small number of people and can have a major impact. As an illustration, we may note the role played by Dr Visvesvaraya in India, particularly in the (erstwhile) State of Mysore (now Karnataka). Here was one man who was responsible for many new industrial enterprises, without his providing equity capital himself or actually running an enterprise (Schloss, 1969).

“Remember, your work may be only to sweep a railway crossing, but it is your duty to keep it so clean that no other crossing in the world is as clean as yours.”

The obsession for perfection and excellence, which is clearly reflected in the above quote, is none other than that of the matchless dreamer, achiever, the great Sir Mokshagundam Visvesvaraya (1860–1962). Any endeavour that he embarked on, he executed with a great degree of perfection (State Bank of Mysore, 2009).

Visvesvaraya was born in Muddenahalli village in Karnataka. His father expired when he was just 15 years old. After completing his high school from Bangalore and Bachelor of Arts from Madras University, he studied engineering at the College of Science (now College of Engineering) at Pune.

After completing his studies, he worked in Bombay before joining the Indian Irrigation Commission. He implemented an extremely intricate system of irrigation in the Deccan area. He also designed and patented a system of automatic weir water floodgates, which were first installed in 1903, at the Khadakvasla reservoir near Pune. These gates were employed to raise the flood supply level of storage in the reservoir to the highest level likely to be attained by its flood, without

causing any damage to the dam. He designed a flood protection system to protect the city of Hyderabad from floods. He was also instrumental in developing a system to protect Visakhapatnam port from sea erosion.

Visvesvaraya retired in 1908 and Sri Krishnarajendra Wodeyar, the then Maharaja of Mysore, was eager to secure the services of Visvesvaraya to serve Mysore. He joined as Chief Engineer in Mysore because he wanted challenging opportunities. He supervised the construction of the Krishnarajasagara dam and the famous Brindavan gardens across the Kaveri River from concept to inauguration. This dam created the biggest reservoir in Asia at the time it was built. He was responsible for building the very first electricity generation plant in Asia at Shivanasamudra near Mysore in 1894. During his period of service with the Government of Mysore state, he was responsible for founding, under the aegis of that government, the Mysore Soap factory, the Parasitoid laboratory, the Bhadravati Steel factory (now a part of the Steel Authority of India), the SJP Polytechnic Institute, Mysore University, the Bangalore Agricultural University (now University of Agricultural Sciences), the State Bank of Mysore, the Mysore Sugar Mills, and numerous other industrial ventures. He was instrumental in the founding of the Government Engineering College (now called University Visvesvaraya College of Engineering) at Bangalore in 1917, one of the first engineering institutes in India.

Visvesvaraya belongs to that small band of eminent Indians whose ideas and achievements have been among the truly creative and formative force of modern India. Visvesvaraya's slogan was “Industrialize or Perish” and

Mahatma Gandhiji's view was "Industrialize and Perish." In 1921 Gandhiji launched his non-cooperation movement which Visvesvaraya did not agree with. Visvesvaraya wrote to Gandhiji urging him to be dressed well in view of the upcoming Round Table Conference. Visvesvaraya himself used to be immaculately dressed always (Karnataka.com, 2009).

While he was Diwan (equivalent to the current time's Chief Minister) of the State

of Mysore, Visvesvaraya was made Knight Commander of the Order of the Indian Empire by the British for his myriad contributions to the public good. After India attained independence, Sir M. Visvesvaraya was given the nation's highest honour, the Bharat Ratna, in 1955. He was also awarded several honorary doctoral degrees from various universities in India.

### Discussion question

How difficult, in your view, is it to inculcate the virtues of honesty, ethics, and integrity like that of Visvesvaraya? Did these virtues

help him to exploit entrepreneurial opportunities? Discuss.

## ■ ■ ENTREPRENEURSHIP IN INDIA

India has a long history of entrepreneurship. During ancient times, muslin from India was exported to Egypt, where it was used in mummification (Datt & Sundharam, 1968). India was known world-over for its spices and many entrepreneurs in ancient India were into the barter (exchange) of goods from other countries.

The East India Company, which was incorporated in Great Britain on 31 December 1600, established trade relations with Indian rulers in Masulipatam on the east coast in 1611 and Surat on the west coast in 1612. The company rented a trading outpost in Madras (now Chennai) in 1639. This trading company later provided a platform for the British to establish their empire in India.

During those times, the "managing agency system" of industrial organization was the result of efforts by British and Indian entrepreneurs to overcome the limitations imposed by a shortage in India of venture capital and business ability. The managing agency system was a type of industrial organization unique to India in which the promotion, finance, and administration of one or more legally separate and presumably independent companies was controlled by a single firm (called the managing agency firm) (Brimmer, 1955). Managing agents, the businessmen operating through the managing agency firm, were the real entrepreneurs in India. They had been the ones primarily responsible for the introduction of new products, new methods of production, and new sources of raw materials; they had discovered and exploited new markets and had usually undertaken whatever reorganization Indian industry had experienced during those days (Buchanan, 1934).

During the 1880s, local firms with established reputation were defrauded by their British partners, an action which led to more withdrawals from the business sector. Sinha (1992) attributes the failure of the Indian entrepreneurship in the first half of the nineteenth century to the failure of banking and the cotton speculation that "caused a veritable earthquake in which business houses collapsed like a house of cards." The lack of indigenous entrepreneurship (in India) during those days stems in part from the discrimination and duplicity of the British in the nineteenth century (Nafziger, 1971, p. 30). The participation of Indian entrepreneurs in industry was discouraged by the colonial rule that favoured Europeans over Indians through the creation of institutional mechanisms for the protection and promotion of British interests and monopolies in India at the expense of Indian economic development (Bagchi, 1992). Nevertheless, in the nineteenth century, India began to industrialize during the British rule, and Indian entrepreneurs were instrumental in the spread of manufacturing (Medhora, 1965).

The Marwari entrepreneurs (of the likes of Birlas, originally hailing from Rajasthan) in Bengal seem to have won the confidence of the British, who allowed them to prosper in a diversified Indian economy (Dana, 2000). Timberg (1992) highlighted the enterprising and risk-taking nature of Marwari firms, despite their rigid social roots. In his view, of the various types of Marwari firms, the "speculative firms were particularly successful as entrepreneurs." Similarly, the Parsi community (of the likes of Tatas) in Western India managed to survive and grow during the British rule. Desai (1992) attributes the Parsi success to their strong community feeling as well as to their historic engagement in the manufacturing of cotton, silk, textiles, shipbuilding, export-import trade, and revenue collection since the time of the Mughal empire. The capital and experience gained through such activities enabled them to play a pioneering role in the development of the Indian cotton industry. As a result, industrial production in India doubled between 1912 and 1945 (Balakrishna, 1961).

After India's independence from the British in 1947, a ray of hope for entrepreneurship in India received a big blow when the Indian constitution created in 1950 indicated that the government-owned enterprises (and not the entrepreneurs in the private sector) would play the decisive role in extending the national economy. The government did set up a Small Scale Industry Organization in 1954 to support and protect the existing small enterprises; however it had little impact to give a significant boost to entrepreneurship (Dana, 2000).

The birth of training efforts for the promotion of entrepreneurship in the country was purely an indigenous initiative. The Technician Scheme launched in the year 1969 by two state-level agencies of Gujarat visualized 100% finance without collaterals. A large number of people took advantage of this scheme. The real gain of the scheme was the realization that there is vast entrepreneurial potential available in the country that could be tapped and developed through appropriate training intervention (EDI, 2008).

The situation remained more or less the same till the time India embarked upon its liberalization programme during the mid-1980s. The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was established in 1983 by the Ministry of Industry, Government of India, as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in entrepreneurship development particularly in the area of small industry and small business. In the same year, the Entrepreneurship Development Institute of India (EDI), an autonomous body and not-for-profit institution, was set up. It was sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd, ICICI Ltd, and State Bank of India (SBI).

The process of privatization in India is linked with the full-scale economic reforms launched in 1991. Before the 1991 reforms, 17 areas were reserved for the public sector. The reforms of 1991 reduced the number of areas reserved for the public sector to eight, which were: arms, ammunition, and defense equipment; atomic energy; coal; mineral oils; mining of ferrous, and certain nonferrous metals, gold and diamonds; atomic mineral; and railway transport. In 2002, this list was brought down to three sectors: atomic energy; atomic minerals; and railway transport. This opening up of industry segments energized the private sector and led to the entry of many new firms (Majumdar, 2007).

Much of the post-1991 entrepreneurial activity has taken place in the technology sector. With liberalization in the 1990s, the Indian software and information technology industry prospered, as procedures for operating globally were sharply altered so that firms could exploit their capabilities in the widest possible manner (Das, 2002). One of the reasons for the success of these firms is an educational emphasis on engineering, positioning India to respond to the global shortage of information technology talent with its highly educated workforce (Ramamurti, 2001).

The growth of entrepreneurial activity during the last two decades is exemplified by the Small and Medium Enterprises (SMEs) in India, today it being reckoned as one of the most vibrant sectors of the economy. Over the years, this sector has played a significant role in the development of Indian industry. It contributed 95 percent of industry establishments, 40 percent of domestic exports, and 35 percent of industry sector in the year 2003. In India, the SMEs account for US\$ 60 billion export earnings and it is estimated to be nearly 25 percent of total exports (Raja & Kumar, 2007).

### **MOHAN SINGH OBEROI: FROM HOMELESS TO HOTELIER**

Rai Bahadur Mohan Singh Oberoi (1898–2002) was only six months old when his father died. Success and fortune did not, therefore,

come easily to him. The Oberoi Group, founded in 1934, owns and manages 27 hotels and three cruisers in five countries under the

luxury Oberoi and five-star Trident brands. The Group is also engaged in flight catering, managing airport restaurants, travel and tour services, car rentals, project management and corporate air charters. Reproduced below is the entrepreneurial journey of Mohan Singh Oberoi in his own words:

I was born on 15 August 1898 in a small village, Bhaun, in district Jhelum, which now forms a part of Pakistan. The story of my life has been, in many ways, a dramatic one—full of difficulties and hardships in earlier days and later a spectacular rise to the position I now hold.

But this was not achieved without incessant toil and a daily fight against tremendous odds. Yet it was a challenge to prove myself. When I look back to those days, as I sometimes do in moments of leisure, I am thankful that I was able to accept this challenge and make good. These reflections also make me feel humble for I realize that it was with God's help that I achieved what the world calls "success."

My father, Shri A.S. [Attar Singh] Oberoi was a contractor in Peshawar. He died when I was only six months old. The family consisted of my mother [Bhagwanti, the daughter of a moneylender] and myself. My earlier days were spent in the little village of my birth. I began my education at the village school. Later, I was sent to the nearby town of Rawalpindi and enrolled in the D.A.V. school from where I matriculated.

After this, I went to Lahore to join college and passed my intermediate examination. My studies were cut short as our already meagre finances began to dwindle. This was a moment of anxiety in my life as I realized that my qualifications would not get me a job. However, at the suggestion of a friend, I went to Amritsar, stayed with him, and took a course in shorthand and typing.

There was still no job for me on the horizon and I decided to get back to my village, where it would be easier to live than in a big city. There followed a point of waiting and frustration. My uncle helped me to get a job in the Lahore Shoe Factory. My work was to supervise the manufacture and sale of shoes. For a while things looked brighter but the star of ill-luck was still in the ascendant and soon the factory was closed down for lack of finances and I was compelled to return to my village.

In India the importance attached to marriage is beyond all reason. Here I was: penniless, jobless and almost friendless. But in spite of these very real disadvantages, my marriage was arranged with [Ishran Devi] the daughter of Shri Ushnak Rai, who belonged to my village. I think my bright looks may have influenced my father-in-law. [By this point Oberoi, a Sikh, had cut his hair and shaved off his beard, creating a minor scandal in his family.]

I like to think that in spite of other shortcomings, I was a smart lad and he probably assessed that I would make good. The days immediately following my marriage were spent with my in-laws in Sargodha. On my return to Bhaun, a virulent plague epidemic had broken out. My mother told me that since I could not do anything to help in such a situation, I should go back to Sargodha and not risk my life. Plague in those days was a terrible killer and people naturally dreaded an epidemic, which often wiped out villages. Sadly, I left full of apprehension about my future.

In this mood of depression, I saw an advertisement in the local newspaper for the post of a junior clerk in a government office. With Rs 25 in my pocket, which my mother had given me, I left for Simla to appear for the examination. Unprepared as I was, I was unable to pass. This did not lessen my depression. My time was now spent

walking around Simla and rambling in the countryside. Being the summer seat of the government of India, the town itself was full of high-ranking officers and members of the Viceroy's Council. But the hillsides, beyond officialdom, were beautiful and there were many walks where one could be alone with one's thoughts.

One day, as I was passing the Hotel Cecil, I suddenly had the urge to go in and try my luck. Those were the days when this hotel was one of India's leading hotels, high class and elegant. It was owned by the line of Associated Hotels of India.

As I entered, I found the manager himself in the foyer. I did not know who he was but one becomes bold in the face of difficulties. I had nothing to lose, so I went up and asked if I could have a job at the hotel. The manager was a kindly English gentleman named D.W. Grove. I was given the post of billing clerk at Rs 40 a month. Soon, my salary was raised to Rs 50.

At my request, on the plea of being married, I was also given living quarters. These were situated on the outer periphery of the hotel and were very humble indeed. When my wife joined me in Simla, we started to settle down in our modest home. Here we were faced with the necessity of cleaning the place ourselves. The quarters were in bad shape and far from clean. But we were thankful to have a roof over our heads. We had to whitewash the walls ourselves, causing blisters on my hands and consequent discomfort and embarrassment for me in the hotel work.

Soon after I joined the Cecil, there was a change of management. Mr Clarke succeeded Mr Grove as manager. For the first time, a small piece of luck came my way. My knowledge of stenography helped me take over the post of cashier and stenographer to Mr Clarke, and thus began my grounding on

how hotels run. I worked and maintained an interest in my job. The fact that I knew my efforts were noted encouraged me.

It was while I was working in this capacity that Pandit Motilal Nehru came to stay at the Cecil, which was his usual place of residence when he came to Simla. He was then leader of the newly formed Swaraj Party but known throughout the country for having renounced a princely law practice to participate in the freedom movement with Mahatma Gandhi. Panditji had an important report, which needed to be typed speedily and with care. I sat up all night to complete the report and when I delivered it to him the next morning, he took out a hundred rupee note and handed it to me with a word of thanks. I am an emotional person and had received little kindness in my short life. This gesture of Panditji's brought tears to my eyes and I quickly left the room.

I could not have guessed then that I had met the father of the future prime minister of India, and that I myself would one day be a member of parliament during his leadership. One hundred rupees, which the wealthy throw away, was for me a fortune and made a big difference in my salary. So high was the purchasing power of the rupee that I was able to buy a wristwatch for my wife, clothes for our baby, and a much needed raincoat for myself.

In 1924, Mr Clarke decided to go into the hotel business for himself. His contract with the Associated Hotels of India had just ended. He obtained a catering contract for the Delhi Club and asked me if I could join him. I readily accepted the offer. My salary was now Rs 100.

The Delhi Club contract was only for a year and Mr Clarke soon began looking around for new business. The Carlton Hotel in Simla was in liquidation. Mr Clarke was eager to lease it but guarantors were required. Here I was able to help and thus discharge a

part of the moral debt, which his kindness and consideration in the past had placed upon me. I approached some of my relatives and friends who had means to assist with their cooperation. The Clarkes Hotel in Simla was opened. After five years, Mr Clarke decided to retire and sell out the hotel. He made me an offer saying he would prefer someone who could maintain the tradition and efficiency of the hotel to run it.

Acceptance meant that I would have to mortgage my few assets and my wife's jewellery in order to raise the necessary funds. However, I did not hesitate long. The opportunity seemed almost a godsend, as we Indians are superstitious people. I took over the proprietorship of Clarkes Hotel with the help of a kind uncle who had stood by me in the past. I was now established in the hotel business.

It is a strange coincidence that nearly every turn in my life has been associated with an epidemic of some sort. In 1933, there had been a cholera epidemic of vast proportions in Calcutta (now Kolkata). The Grand Hotel had been closed ever since, as more than a hundred foreign guests had died. People were afraid to visit Calcutta. I happened to see the advertisement placed by the liquidators and immediately decided to take over the hotel if I could get in on low leasehold. The price asked was Rs 10,000 rent a month plus compensation for the goodwill. In return I demanded compensation for the ill-will generated by the hotel. The rent was then dropped to Rs 7,000 a month. I agreed to this figure and had the place cleaned up and refurnished.

With the outbreak of the Second World War in 1939, Calcutta was full of troops. The British Army was frantically trying to find accommodation. I immediately improvised 1,500 beds for the troops at Rs 10 per head for board and lodging. I also appointed Mr Grove, who had been my first employer at the Cecil

Hotel where he had engaged me on Rs 50 a month, on a monthly salary of Rs 1,500.

Taking over a cholera-ridden hotel had been a landmark in my career. The fact that I converted it and helped the Army in a time of stress and difficulty had come to the notice of the government. In 1941, I was awarded the title of Rai Bahadur by the government of India in recognition of the services to the Indian hotel industry. From now on, good luck was assured and gradually I went on increasing the scope of my activities with, I hope, benefit to many and much fulfillment to myself. Everything I did prospered.

In 1943, I bought out the controlling shareholdings of Associated Hotels of India Limited from Spencer & Company borrowing capital against the security of shares of the same company. In this way, I gained control over a big chain of hotels with establishments in Rawalpindi, Peshawar, Lahore, Muree, and Delhi.

I employed as one of my general managers, the son of my former boss in Simla, Mr Falleti. The wheel had turned full circle. I gradually added more hotels to my chain in Darjeeling, Chandigarh, and Kashmir. I began to think of building my own hotels, and the first attempt was a small hotel in Gopalpur-on-Sea, in Orissa.

India was now independent. Horizons had widened. I began to feel the world was my oyster—that I could succeed in anything I attempted. Fortunately, I also realized that it was not good enough to keep launching new ventures if old ones were allowed to suffer. Too often, efficiency and high standards once established are taken for granted.

This is a great mistake and my constant aim has been to preserve the reputation of my hotels at the highest possible level. This pays many kinds of dividends. I was elected president of the Federation of Hotel and Restaurant Associations of India in April 1955,

and in 1960, I was made president of honour of the Federation for life.

My thoughts turned to politics. India was forging ahead. By the grace of God and my own continuous efforts, I had established myself in the profession of my choice. I felt I must enlarge the scope of my activities. My main interest was building India amongst the topmost countries in hotel expertise, also providing employment for improving the quality of life and helping the young. I contested the Rajya Sabha election in 1962 and was successful. In 1967, I stood for election to the Lok Sabha and won with a majority of over 46,000 votes—not a bad record for a newcomer in politics.

I was able to open the Oberoi Intercontinental Hotel in 1965—a joint venture with Intercontinental Hotels Corporation and Pan American. Before this event could take

place, there were years of work and what sometimes seemed innumerable difficulties. The reward for my labour comes through the fact that this hotel has become one of the most prestigious establishments in India.

My hotels continued to expand. Some people refer to them as my empire. A hotel is a small nation in itself and a chain does perhaps merit the name of empire. This empire is not an imperialistic one, but rather based on the idea of rendering service. This has always been my wish and my endeavour.

The latest additions are in Singapore, Saudi Arabia, Sri Lanka, Nepal, the Gulf area, Egypt, and Africa. I must not forget to mention the 550-room Oberoi Sheraton in Bombay, going up to 30 floors—the tallest building in India. This has been no mean achievement for a village boy who left his plague-infested village in search of a job (Oberoi, 1982).

### Discussion questions

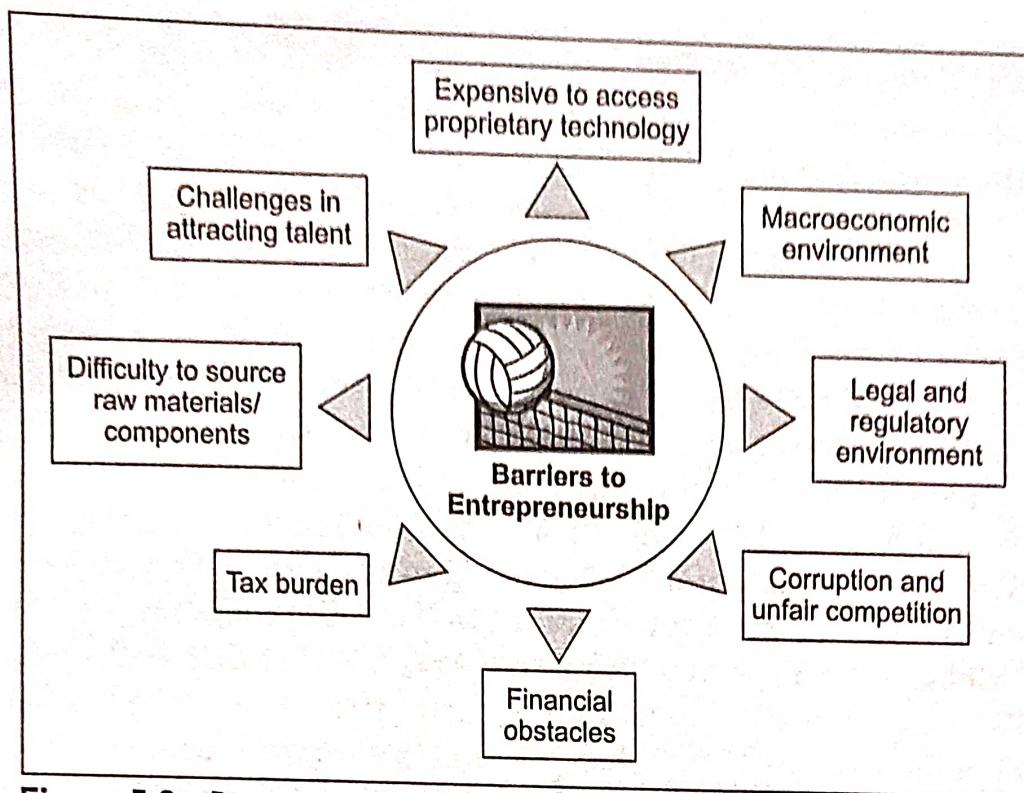
1. It is easier to become an entrepreneur in a field in which a person has gained considerable experience through previous employment. Discuss in the context of M.S. Oberoi.
2. Oberoi employed his erstwhile bosses in his entrepreneurial ventures. Is it good or bad for the venture?

## ■ ■ ENTREPRENEURSHIP—ITS BARRIERS

Krasniqi (2007) identified various barriers to entrepreneurship as shown in Figure 5.8.

### Macroeconomic environment

Macroeconomic environment conducive to entrepreneurship is dependent upon the policies of the government in supporting private participation in business. *Macro* means large and the term *macroeconomic* means the larger view of the economy. It is different from the *micro* (small) view which concerns a firm or a company in the market. For example, in India the process of liberalization started during the mid-1980s whereby the government started the process of



**Figure 5.8** Barriers to Entrepreneurship

encouraging foreign MNCs (multinational corporations) to create joint ventures (JVs) with Indian domestic companies. This process created a macroeconomic environment in which many new small and medium enterprises (SMEs) evolved to become suppliers and vendors for the JVs so created. Prior to that, the macroeconomic environment in India was a big deterrent to entrepreneurship, as there was no freedom for entrepreneurs to set up their ventures without taking the "licenses" (approvals) from the government. That period is often known as the "License Raj." Macroeconomic policy also affects the entrepreneur's decision to invest, especially in projects that require a longer time to produce a return (Smallbone and Welter, 2003).

### Legal and regulatory environment

The legal and regulatory environment for entrepreneurship is formed by registration and licensing procedures, commercial and contractual laws, property rights laws, bankruptcy and collateral law, real estate regulations and labour laws. If the administrative procedures and laws are unclear, time-consuming and cumbersome, they would pose barriers to entrepreneurship. If these procedures and laws are changed/revised frequently, it would create a sense of uncertainty and risk in the minds of entrepreneurs trying to establish a new business venture in the region (Krasniqi, 2007).

### Corruption and unfair competition

A corrupt economy can lead to unfair competition, which in turn can become a major deterrent to entrepreneurial activity. Excessive regulations and approvals from the government required by entrepreneurs may make the government

officials corrupt. They develop this attitude of taking bribes from entrepreneurs in return for speedy approvals. In this way, honest entrepreneurs suffer due to unfair competition from other entrepreneurs who get early approvals due to "under the table" payments to government officials. An unhealthy environment develops, which deters new entrepreneurs from setting up new ventures.

### **Financial obstacles**

Start-up ventures are usually dependent upon capital to be sourced from banks and financial institutions. It has been observed that in many economies (even developed ones), banks are reluctant to give loans to small start-up firms. In the caselet on Kiran Mazumdar Shaw in this chapter, it is evident that often banks have gender bias as well in this regard. Banks often seek high collateral amounts (as guarantee for repayment of loans) or charge high interest rates, which pose a major obstacle to entrepreneurs.

### **Tax burden**

In many regions, the government charges high taxes from even small start-up ventures and has tedious procedures for compliance of tax submission formalities. In order to promote entrepreneurship, the governments would need to have rational tax structures with easy tax submission procedures. Otherwise, high taxes add to the cost of operations for a start-up company, thus weakening its competitive position for survival and growth. High taxes in a region also pose entry barrier for entrepreneurs.

### **Challenges in attracting talent**

This is another big issue faced by small start-up companies. The best of talent in engineering, management and other disciplines wants to work for multinational corporations (MNCs) rather than for small start-ups. This attitude of professionals makes it difficult for entrepreneurs to attract them for their entrepreneurial ventures. Thus, there is a dire need to create an ecosystem for entrepreneurship so that budding professionals start valuing their association with entrepreneurial ventures compared to working for the MNCs.

### **Difficulty to source raw material**

For entering a market with a product, an entrepreneur has to identify if the suppliers of raw materials and components existing in the market have adequate capacity or are willing to expand capacity to meet the requirements of a new player in the industry (Porter, 1998). If not, then it becomes imperative to establish new suppliers in the market, which may be cumbersome for the entrepreneur. Thus, this difficulty to source raw materials and components often deters entrepreneurs to enter the market.

### Expensive to access proprietary technology

Kuratko & Welsch (2004, p. 171) cite the expenses to access proprietary technology as one of the barriers to entrepreneurship. For example, big companies like Texas Instruments invent breakthrough technologies which have the potential of applications in many fields. They give licenses of such state-of-the-art technology to other companies worldwide to develop and market products based upon it. They charge hefty license fee from such companies in return. Entrepreneurs find it hard to arrange for such staggering license fee and thus, face entry barriers in such fields.

### Points to Ponder

- From the fall of Rome AD 476 to the eighteenth century, there was virtually no increase in per capita wealth generation in the West. With the advent of entrepreneurship, however, per capita wealth generation and income in the West grew exponentially by 20 percent in the 1700s, 200 percent in the 1800s, and 740 percent in the 1900s.
- Within the last 15 years, Fortune 500 companies and large corporations have endured major retrenchment and eliminated millions of jobs, whereas discoveries in the entrepreneurial sector have yielded an average of 600,000 new incorporations per year and generated millions of job opportunities.
- Knowledge is embodied in a worker and the new firm is created through the worker's effort to appropriate the value of his knowledge by way of innovative activity.
- In India, the SMEs account for US\$ 60 billion export earnings and it is estimated to be nearly 25 percent of total exports.

### SUMMARY

- The term *entrepreneur* has been derived from old French *entreprendre*, which means *to undertake*.
- There are various types of entrepreneurs, who can be classified on the basis of socio-cultural considerations, motivational basis, previous entrepreneurial experience or past technical experience.
- Intrapreneurship or corporate entrepreneurship is fast catching up throughout the world.
- In the recorded history, the oldest references to entrepreneurship can be traced back to ancient Rome around 50 BC. During that time, entrepreneurship and business activity was not considered prestigious.
- Entrepreneurs play an important role in the economic development of a region.
- Entrepreneurship serves as a mechanism by which knowledge spills over to a new firm in which it is commercialized.