

ENTREPRENEURSHIP IN INDIA: CHALLENGES, POLICY EFFORTS AND POTENTIAL

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ABSTRACT

Despite the growing startup culture, the highly competitive world presents several challenges for budding entrepreneurs, especially for the ones residing in developing nations. This paper seeks to examine the difficulties faced by entrepreneurs in one such country – India. In so doing, this paper analyses the underlying cultural values in India that acts as a barrier to entrepreneurship in the context of Hofstede’s cultural dimensions. Furthermore, this paper reviews the government’s policy efforts to overcome the multiple challenges facing entrepreneurs. In drawing things to a close, this paper explores the entrepreneurial potential of India.

Keywords: India, entrepreneurship, culture, education, government, potential

1. Introduction

Entrepreneurship is defined as the activity of establishing a business and assuming financial risks in the hopes of earning a profit (Lexico Dictionary, n.d). In today’s world, it is one of the most dynamic forces in any economy. It is a national asset that needs to be nurtured and encouraged to the maximum possible extent. Not only does entrepreneurship play a vital role in the establishment of newer markets, but it also increases job opportunities and boosts national income. In 2018, micro, small, and medium-sized enterprises accounted for 70% of the total jobs created around the world (World Bank, 2018). However, the maximum benefits of an entrepreneurial market can only be reaped in a scenario where entrepreneurs overcome the multiple challenges facing them. Some problems are prevalent in all entrepreneurial sectors around the globe, regardless of the country’s stage of growth. Cash flow management, marketing strategy, legal complications are just a few of them. Some challenges are, however, isolated to the entrepreneurs in developing countries such as India. These problems include the orthodox mindset of Indian society, inefficient education system, red-tapism, and bureaucratic corruption, to name a few. To address these challenges, the government has revised several existing policies

and further launched many campaigns to promote entrepreneurship in the country. The challenges to entrepreneurship in India and the efforts made to overcome them have been elaborated in the following sections.

2. Challenges Faced by Aspiring Entrepreneurs

Entrepreneurship is one of the most valuable assets that drive the economy of a country. Entrepreneurship, however, is not free from its own set of challenges, especially in developing nations like India. This section explores the four significant challenges that exist in the way of aspiring entrepreneurs in India.

2.1 Educational Incoherence

An entrepreneurial mindset needs to be nurtured at the grass root levels to enhance the entrepreneurial potential of students. Incorporating critical and creative thinking at the school and college levels is critical to cultivating India's entrepreneurial spirit and mentality. However, India, with its vast student population, and consequently, a poor teacher-to-student ratio, lacks a conducive environment for inculcating creative thinking skills in the classroom. The Indian education system does not recognize that every student has different interests and abilities, and therefore forces the same textbook on all the students. This deters the students from recognizing their talents and restricts their creativity. The fact that India produces the highest number of engineers each year (National Science Board: Science and Engineering Indicators 2018) but still ranks poorly in the Global Innovation Index (ranked 52nd as of 2019) is a testament to the lack of creativity in India.

Furthermore, the Indian education system, with its relentless spoon-feeding, never encourages students to find answers by themselves. It inhibits students' curiosity and dampens their zeal for learning. A higher level of involvement from the government and educational institutions is required to foster entrepreneurial skills and capabilities of youth. To this end, the Government of India (GoI) has taken various steps, such as the establishment of Atal Innovation Labs, but still has a long way to go.

2.2 Cultural Barriers

Owing to the orthodox mentality of Indian society, the majority of the aspiring youngsters in India are opting for jobs, rather than pursuing their business ideas. In the context of the cultural dimensions given by Hofstede (1983), the fundamental cultural issues that act as a barrier to entrepreneurship in India are recognized in the following.

Power Distance (High)

Mindfulness and autonomy are essential characteristics required in any entrepreneur. However, a culture high on power distance does not incorporate independent decision making from a young age and therefore nurtures individuals with an employee mindset rather an entrepreneurial mindset. Moreover, owing to the high power distance among the family members (Kazi, 2012), Indian parents are actively involved in deciding their children's career paths. Youngsters, contrived with numerous parental responsibilities are further expected to fulfill the hopes and aspirations of their parents.

Individualism (Low)

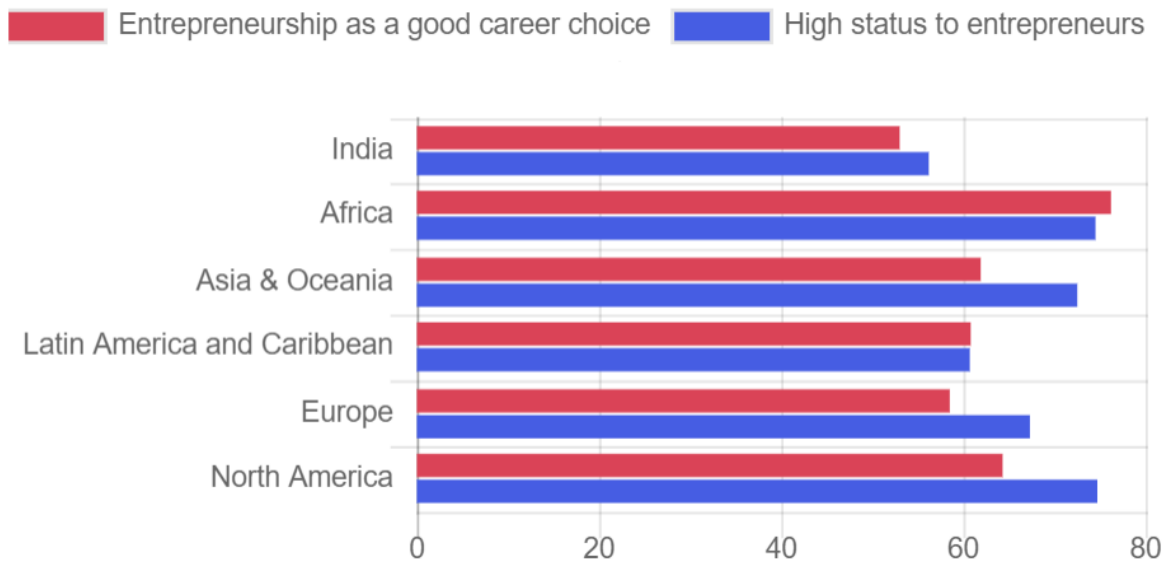
In collectivist societies like India, the opinion of one's family, extended family, workgroup, and other social networks significantly influence the actions of an individual (Hofstede Insights, n.d). Individuals are expected to conform to group norms since they are perceived to be a part of a group. Opting for something out of the ordinary is, therefore, not welcomed. This dissuades youngsters from choosing a unique path for themselves.

Uncertainty Avoidance (Medium-Low)

Indian culture encourages youngsters to opt for safety by setting certain norms that characterize success as education and employment in select disciplines. Youngsters in India, therefore, do not feel motivated and compelled to do something out of the ordinary and comfortably settle into defined roles and routines (Hofstede Insights, n.d). This is evident in the most recent statistics published by the Global Entrepreneurship Monitor (GEM) consortium. In the "Entrepreneurial Intentions" criterion, India scored 20.64 compared to the global average of 23.68 in 2018.

Masculinity (Medium) and Ascription Orientation (Trompenaars and Hampden-Turner, 1993)

Nishkaam Karm (Nayar and Kiran, 2012), one of the main principles driving the Hindus, which make up the majority of the Indian population, essentially states that one should do one's duty without any concern for the outcome. This principle is in severe contrast to the highly masculine countries such as Japan and the USA, where, achievement orientation and consequently, passion for work is high. Moreover, with a higher inclination towards ascription, Indians are more concerned with the institute to which they belong and the education they have received than with what they have achieved. This orientation often deters the youngsters in India from pursuing their own businesses.



Source: GEM Global Report 2017 and GEM India Survey 2017 – 2018

Figure 1: Perception of societal values regarding entrepreneurship: Comparison of India with other regions (% of the population aged 18-64)

Furthermore, the incoherent education system and orthodox mind-set of the society breed another challenge that acts as a strong deterrent to entrepreneurship – fear of failure. Apprehensions of the social consequences of failure often dampen the spirit of young entrepreneurs. Therefore, the environment in which aspiring entrepreneurs exist must be sufficiently enabling and supportive. In India, however, the societal norms and expectations instill a sense of self-doubt to youngsters when they decide to do something out of the ordinary. As per the GEM statistics of 2018, almost 50% of the Indian population between the ages of 18 and 64 believe that the fear of failure will stop them from setting up new businesses, which is significantly higher than the global average (36.23%). India’s significantly lower (0.81) “Entrepreneurial Employee Activity Rate” in comparison to the global average of 3.73 further suggests that the youngsters not only lack an inclination to set up their businesses, they are also less likely to be involved in entrepreneurial activities as employees of other institutions.

2.3 Bureaucracy and Corruption

The state plays a pivotal role in fueling entrepreneurship in the country. Effective policies and non-biased business regulations subsequently have a significant part to play in encouraging the youngsters to opt for entrepreneurship. In developing countries like India, this scenario becomes

challenging since adhering to rules and regulations is crucial owing to the involvement of the state in guiding the businesses. Excessive redundant and bureaucratic regulations hinder action and, as a result, deter entrepreneurship. Moreover, the generalist bureaucracy in India aims to be prudent and follow precedents that hamper innovation, thereby stifling India's growth.

In an atmosphere where regulatory pressure and delays are exogenous, corrupt practices become common. For entrepreneurs, this entails paying extravagant bribes to speed up processes or having their operations blocked by competitor-paid officials. Besides being detrimental to a country's development and institutional quality, corruption is also an impediment to entrepreneurial pursuits.

The following rankings and scores are a testament to the inefficient bureaucracy and the corruption prevalent in India:

1. According to the Doing Business Report-2020 published by the World Bank, of the 190 countries that were listed, India ranks 63rd in the ease of doing business rankings.
2. With a weak transparency score of 40, India ranked 78th out of 180 countries in Transparency International's Corruption Perceptions Index - 2018.
3. India dropped ten positions in the Global Competitiveness Index (GCI) 4.0 – 2019 to achieve a rank of 68 out of the 141 listed economies. GCI 4.0 published annually in the Global Competitiveness Report by the World Economic Forum measures a country's level of productivity and assesses the ability of countries to provide high levels of prosperity to their citizens.

2.4 Access to Financial Capital

Implementation of any new business idea requires investment, especially in the early stages. In India, young entrepreneurs face several challenges while raising funds owing to the lack of personal capital and the funding scenario still in its nascence. While structured sources of finance such as bank loans are a reliable financing choice, lack of a comprehensive business plan, as well as the inability to assess accurate fund requirements, dissuade entrepreneurs from approaching these sources. Consequently, entrepreneurs often resort to informal channels of finance. These channels, however, apart from being unreliable, also have significantly higher interest rates than the formal market. Another way for entrepreneurs to raise money is by pitching their ideas to venture capital firms and angel investors that invest a large amount of money in start-ups that they deem scalable, in exchange for equity. However, by proffering equity, the entrepreneurs

essentially surrender some degree of control over their company to the investor. Besides, the current economic scenario of India has further deterred both the foreign as well as Indian investors from investing in Indian start-ups.

3. Government Efforts to Promote Entrepreneurship

To overcome the challenges faced by entrepreneurs and consequently boost the entrepreneurial zeal in India, the Indian government, apart from revising existing policies, has also initiated various campaigns. In an economy which has the world's highest population of youth (United Nations Population Fund: State of World Population 2014), to realize the true entrepreneurial potential, these modifications are need of the hour. This section discusses the various steps taken by the government to promote start-ups in India.

3.1 Start-up India

“**Start-up India**” has been a remarkable step taken by the GoI to foster start-up culture in India by a) enabling easier registration of start-ups to reduce the level of red-tapism, b) reducing patent registration fees by 80%, c) facilitating easier access to government funds, d) setting up a Fund of Funds (FFS) of INR 10,000 Crore to provide early-stage funding to start-ups, e) exempting capital gains tax for venture capital investments, and f) relaxing stringent rules and criteria to facilitate easier application for government tenders. This initiative has made the otherwise challenging task of raising funds more manageable, as is evident from India's 25th ranking in the ‘Getting Credit’ criteria of the Ease of Doing Business Index (World Bank).

3.2 Corporate Tax Rate reduction

The recent policy of reducing the corporate tax rate from 30% to 22% for existing businesses, and from 25% to 15% for new manufacturing firms will not only allow start-ups to move towards profitability but will also encourage the investors to invest in more emerging ventures.

3.3 Make in India

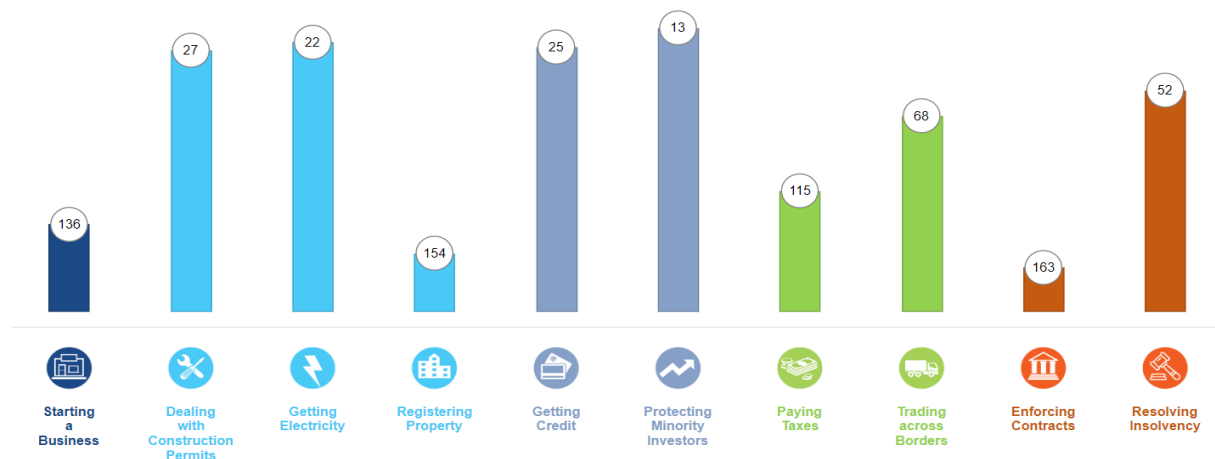
Prime Minister Narendra Modi's “**Make in India**” campaign, launched in 2014, has provided numerous incentives to the entrepreneurs by reducing the complexity of tiresome procedures via its de-licensing and deregulation measures. The digitalization of the procedures under this campaign has made everything hassle-free and transparent. The development of smart cities and industrial corridors has further ensured the transformation of ideas into products. Moreover, the Skills Development Program has made strides in equipping start-ups with the requisite workforce.

3.4 Youth Co: Lab

Youth Co: Lab, a joint initiative of the Atal Innovation Mission (AIM), NITI Aayog and, the United Nations Development Program (UNDP), India, aims to foster innovation and instill an entrepreneurial zest among youngsters. This program allows young entrepreneurs to hone their entrepreneurial skills by seeking help from the government, mentors, and investors.

3.5 Policy Reforms

According to the World Bank's 2019 and 2020 reports on Ease of Doing Business, the GoI has made numerous efforts to simplify the procedures of starting a business. It has 1) integrated multiple application forms into a general incorporation form and, 2) simplified tax registration as well as social-security registration. Besides, the GoI has severely reduced the tax payments by 1) slashing the profit tax rate, 2) reducing the labor taxes and, 3) suspending multiple existing taxes and unifying them into a single Goods and Services Tax (GST). By making tax fillings easier, these reforms have terminated the need for resources to look after compliance requirements and have consequently allowed entrepreneurs to adhere to a self-assessment model. Furthermore, the GoI has made export-import procedures more cost and time-efficient by 1) implementing electronic sealing of containers, 2) facilitating online submission of documents and, 3) enhancing the port infrastructure. Lastly, the process of acquiring a construction permit has been streamlined, making it faster and inexpensive. All of these reforms have not only eased the process of starting a new business but also enhanced the functioning of existing companies.



(Image courtesy: World Bank's Doing Business Profile of India - 2020)

Figure 2: Rankings on Doing Business topics (1-190) - India

4. India's potential

Accounting for 21 of the world's 494 unicorns, India ranks third in the Hurun Global Unicorn list of 2019. This ranking has shed light on the efforts made by the Indian government in building a better entrepreneurial market to foster a culture of start-ups. The success of many start-ups in India like Flipkart, Ola, and Oyo, to name a few, demonstrates India's boundless entrepreneurial potential. India's tremendous potential for entrepreneurship is attributed to its favorable demographic profile (world's largest youth population). Young entrepreneurs in India are capable of making a massive contribution to India's overall GDP growth provided that they have a coherent vision, audacity for risk-taking and, an innovative approach towards the business. Besides, with 462 million internet users, India has the second-largest internet user network in the world, which facilitates easier consumer research and consequently allows entrepreneurs in India to develop effective marketing strategies.

The emergence of successful start-ups and their contribution to the national economy has ignited the spirit of entrepreneurship in the Indian youth. This entrepreneurial spirit has contributed not only to innovation but also to the acceptance of entrepreneurship as the market's driving force. Steps like 1) government entrepreneurship programs, 2) improved labor market reforms, 3) better commercial and legal infrastructure, 4) reformed government policies on taxes and bureaucracy and, 5) relaxed entry regulations (GEM 2018 - India Economic Profile) have enabled India to recognize its entrepreneurial potential and, will further help India to achieve greater heights in entrepreneurship.

5. Conclusion

India, with its large youth population, is poised to become the next significant entrepreneurial market in the world. Not only does it have the talent, but it also has the resources to be one of the most successful economies in the world. However, unless young people are encouraged to opt for an entrepreneurial career, India will not be able to realize its true economic potential. An incompetent education system, and a culture with the ideology of "playing it safe" have been hindering entrepreneurship in India. The prevalent bureaucratic corruption and the relatively difficult access to funds have further added to the difficulties. However, with every passing year, India is developing a better start-up ecosystem, owing to the various efforts put in by the government. A better ranking in the World Bank's Ease of Doing Business index, as well as a better GEM Economic profile, is a testament to India's entrepreneurial growth. In this study, we have not only examined the primary challenges deterring aspiring entrepreneurs in India, but also

the policy efforts of the government to address these challenges, as well as India's entrepreneurial potential.

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