



# Entrepreneurship

3<sup>rd</sup> Edition

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# Preface

Since the release of the 2<sup>nd</sup> edition of *Entrepreneurship*, a lot has happened of relevance to entrepreneurship education and particularly in India.

With the announcement of Startup India initiatives in 2016, entrepreneurship has become one of the cornerstones of the economic development policies of the government. The prominence given to entrepreneurship has resulted in it becoming a bon-a-fide career choice for students. Educational institutions and academicians have been proactive in shouldering the responsibility of entrepreneurship education. The National Innovation and Startup Policy 2019 for students and faculty of Higher Education Institutions (HEIs) will enable the HEIs to actively engage students and faculty in entrepreneurship related activities. Academicians are no longer debating whether entrepreneurship can be taught, but instead the focus has moved to finding the best fit in terms of tools and pedagogy.

The 4<sup>th</sup> industrial revolution has ushered in a new wave of entrepreneurship across the world. New technologies and macroeconomic changes have laid the groundwork for new businesses to challenge the old by embedding technology and innovating with business models. The Indian entrepreneurial ecosystem has matured to the extent that Indian entrepreneurs are able to make their impact across the globe.

## New to the Third Edition

- Eight new chapters
- New case studies and exhibits that highlight recent business dynamics
- Revised and updated content throughout the text

## About the Book

In this edition, a chapter on the *contemporary approaches to entrepreneurship* was added to discuss effectuation and lean startup in detail. It follows the introductory chapter where the traditional viewpoints like trait theory and the Schumpeterian point of view are discussed. The chapters on *family business* and *doing business in India* have been updated to reflect the current situation. There has been an addition of a chapter on the *support available to startups and SMEs*, both from government policies and from the ecosystem.

The new chapter on *design thinking* introduces concepts and processes around what has become a very significant way of thinking for startups and corporations alike. The new chapter on *ideation* further lists tools and techniques for generating and selecting ideas. The chapter on *intellectual property* has been bolstered with the latest processes and systems around IP.

The chapters on *customer discovery* and *new product development* represent the new thought process around launching new products which focuses on customer discovery and product market fit. The chapter on *business models* has been updated to account for the new business models in vogue.

The chapter on *buying a business* continues to be relevant as that is still a way many are getting started off in business. The chapter on *entrepreneurial finance* has been revamped in view of the dynamic scene of startup funding in India currently. One of the most significant changes has been to

replace the chapter on *business plans* with the chapter on *pitch deck*. This is because the pitch deck has truly replaced the business plan as the document to introduce a business.

The chapters on *human resource management*, *networking*, and *operations* have been updated as necessary. In particular, the chapter on human resource management has elements relevant to managing knowledge workers in the new economy and building an organization that can thrive.

With the advent of digital media and analytics, marketing as a function has been completely transformed. In this edition, marketing has been divided into chapters on *distribution channels*, *integrated marketing communication*, and *pricing*. The chapter on channels deals with both online and offline channels. Integrated marketing communication is not just about media but also about content. The chapter on pricing explores the topic deeply from the point of view of a startup.

The chapters on *growth* and *exit strategies* have been retained but with updated content. Growth continues to be one of the most important issues for startups. The number of startup exits is on the rise, both for positive and negative reasons.

The chapters on The Social Entrepreneur and Social Responsibility too have updated content. The chapters are aimed at all entrepreneurs and not just the growing band of social entrepreneurs. The objective is for the chapters to serve as reminders and guides to entrepreneurs about their social and societal responsibilities.

The book aims to combine theoretical elements with a practical outlook. It is meant to be used not just as a textbook for a course, but also lends itself well to being an actual guide to students wishing to start their own ventures. Entrepreneurship is a vast topic and given the paucity of time in most course structures, this book has tried to curate the specific topics and chapters that would be of most relevance. It aims to equip the student with the aptitude and the vocabulary necessary to navigate the world of startups successfully.

## Acknowledgements

Several of my friends and colleagues have used my book and given me feedback. I would like to thank Prof. Akshey Kumar, Apeejay School of Management, New Delhi; Dr Vandana Mathur, Amity Business School, Noida; and Prof. Mahendra Srivastava, NSB School of Business, New Delhi. I have also received inputs from several entrepreneurs who have read the book. Finally, there has been support from the editorial team at OUP. All the feedback and suggestions have been very useful and I have tried to include as much of it as possible.

I would like to add that every effort has been made to contact the copyright holders of the assets used in this title. We, the publishers and I, would be pleased to rectify any omissions in the subsequent editions of this title should they be drawn to our attention.

**Rajeev Roy**

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# PART 1: Foundations

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- **Chapter 1:** Understanding Entrepreneurship
- **Chapter 2:** Contemporary Approaches to Entrepreneurship
- **Chapter 3:** Family Business
- **Chapter 4:** Doing Business in India
- **Chapter 5:** Support to SMEs and Entrepreneurs

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# Understanding Entrepreneurship

## LEARNING OBJECTIVES

- To understand the evolution of the term *entrepreneur*
- To study and analyse the reasons for the current growth in entrepreneurship
- To list various factors that inspire a person to start a business
- To explore characteristics and skills of successful entrepreneurs
- To classify different types of entrepreneurs
- To look at the reasons for entrepreneurial failure

## INTRODUCTION

The entrepreneurial spirit has been described as the most significant development in recent economic history. Heightened levels of entrepreneurial activity are being witnessed across the globe. Entrepreneurial ventures having impact on the world economy are being set up in distant places such as Latvia and Chile.

In India too, there has been a significant change in the mindset of the society. Earlier, entrepreneurship used to be prevalent amongst some socio-ethnic groups and the majority of educated India used to prefer working for a salary. This mindset has undergone a change and many educated youth are turning their attention to emerging business opportunities. Many more are opting for an entrepreneurial venture midway through their career. It is estimated that about 1,600 IITians become entrepreneurs each year. This trend is also seen in other engineering and technical colleges, general stream colleges, and business schools.

Employees of many state-owned enterprises and privately held companies are choosing to give up their jobs and start their own ventures. Also feeding this phenomenon is the use of VRS (voluntary retirement scheme) by many companies to help in downsizing. Many NRI entrepreneurs and other overseas-based professionals are now looking towards India as a destination for setting up their new businesses. Many of such NRIs have had a huge role to play in setting up of new IT and ITES firms. In fact, OfficeTiger, one of the first BPOs in India, was set up by Randy Altschuler and Joe Siegelman, two Americans who knew very little about India.

There are also a number of empirical and conceptual studies on the consequences of entrepreneurship. It is now widely accepted by society in general that the benefits of entrepreneurial activity are not restricted to entrepreneurs alone. Rather, entrepreneurs have impact on the well-being of the economy

as a whole. Entrepreneurial firms are reshaping the business ecosystem, creating an environment where they play a major role in introducing innovations, commercializing new technologies, creating new jobs, opening new markets, and creating value by combining resources in exciting new ways. Entrepreneurs are revelling in their roles as world leaders, role models, and heroes.

### DEFINITION

Although there have been a number of generally acceptable definitions, most of which vary a lot in focus and scope, there is no official definition of entrepreneurship. On the other hand, increased academic interest in entrepreneurship is bringing a sharper focus on the subject.

The word 'entrepreneur' is derived from the French word *entreprendre*, which means 'to undertake'. The Webster Dictionary explains that the term entrepreneur is applicable to 'one who organizes, manages, and assumes the risks of a business or enterprise'. The general perception of the entrepreneur as a starter of businesses is reflected by the definition in the BBC English Dictionary, which refers to an entrepreneur as 'a person who sets up a business'.

The Irish economist Richard Cantillon (1680–1734) defined an entrepreneur as 'someone who takes the risk of running an enterprise by paying a certain price for securing and using resources to make a product and reselling the product for an uncertain price'. Perhaps one of the most important definitions of an entrepreneur was given by the Austrian economist Joseph Schumpeter (1883–1950) in his work *The Theory of Economic Development*. The Schumpeterian view of an entrepreneur is that of 'an innovator playing the role of a dynamic businessman adding material growth to economic development'.

Generally speaking, the entrepreneur is defined as a person with capacity and willingness to develop, organize, and manage a business venture along with any of its risks in order to make a profit.

### ROLE OF AN ENTREPRENEUR

Hebert & Link (1989) and Wennekers & Thurik (1999) have come up with elaborate lists of various roles that entrepreneurs play. Their lists can be combined to make the following list. An individual who:

- Assumes uncertainty associated risk
- Supplies financial capital
- Starts off a new venture
- Owns an enterprise
- Allocates resources among alternative uses
- Employs factors of production
- Is a decision maker
- Has leadership qualities
- Manages
- Is an organizer and coordinator of economic resources
- Is an innovative person
- Is a contractor
- Is an arbitrageur

## REASONS FOR GROWTH OF ENTREPRENEURSHIP

With growing academic interest in entrepreneurship, a lot of recent research has concentrated on the reasons for the apparent spurt in entrepreneurship. A rise in entrepreneurship is being observed throughout the world, particularly in Asia, with India, China and other fast growth economies leading the way. Admittedly, a lot of this entrepreneurship from the developing and underdeveloped countries is at a subsistence level and the result of lack of employment opportunities. Nonetheless, some of the major macro-level reasons for the current growth in entrepreneurial activity are discussed below.

### Industry Structure

Performance, in terms of economic growth, is shaped by the degree to which the prevalent industry structure efficiently utilizes scarce resources. Technological changes in the first three quarters of the previous century had favoured the performance of large centralized units. Now, recent technological changes have led to an industry structure that is generally shifting towards a bigger role for small firms. The employment share of large companies has been steadily decreasing. Henrekson and Johansson (2010) show that net employment growth is generated by a small number of young high-growth firms. Growing competitiveness of small firms lowers entry barriers for new entrants. Concentration on core competencies leads to corporate spin-offs and divestments. Many larger companies would find it much more desirable to promote ancillaries and vendors than to get into the activity directly.

### New Technologies

This factor is related to the changes in industry structure. Fundamental changes in nature of technological development have led to diseconomies of scale. Instability in the markets led to the decrease of mass production and the move towards flexible specialization. Small technology-based firms are now able to challenge larger companies still dependant on economies of scale. Small firms have an advantage over large firms in highly innovative industries. There are a lot of examples of the comparative advantage of smaller firms in being innovative and we can see entrepreneurial firms at the forefront of new industries or technologies such as DJI in drones and 3D systems in 3D printing.

### Deregulation and Privatization

Small firms are dominant in the increase of entrepreneurial activity in sectors that have been recently deregulated. Liberal economic policies in China have led to phenomenal growth fuelled by entrepreneurs. The collapse of communism in Eastern Europe has led to thriving entrepreneurship in the new free-market economies. Even in the rest of the world, conservative economic policy has given way to a brave new approach that has led to broad level deregulation across industries. Now companies have to deal with less licences and fewer governmental controls. Many state-owned enterprises have also been privatized leading to a greater role for the private sector in general and entrepreneurs in particular.

### Formation of New Business Communities

Efficiencies across markets, primarily resulting from use of new technologies, have led to declining cost of transactions. Jovanovich states that recent advances in information technology have made inter-firm coordination relatively cheaper compared to intra-firm coordination. Business exchanges such as alibaba.com help smaller firms to be competitive. This promotes setting up of new firms in the new-age business communities.

### **Increasing Demand for Variety**

Increased well-being and wealth in a society has led to increase in the demand for variety. The increasing demand for new products is of advantage to smaller firms.

Changes in consumer tastes are a major reason for growth of entrepreneurship. People are inclined towards products that are specifically designed to meet their special needs. Mass produced homogenous goods do not enjoy as wide an appeal anymore. Large firms have not been comfortable entering into niche markets as the small size of the markets may not justify their presence there.

### **Services Sector**

Increase in per capita income usually leads to a greater share of the services sector in the national economy. The average size of firms in many sections of the services sector is relatively small. This in turn promotes entrepreneurial activity across a number of services sector industries. Currently, services account for over 60 per cent of the GDP of developed economies. Interestingly, even for some developing countries such as India, services account for over half of the total GDP. Growing importance of services in the overall economy has paved the way for entrepreneurial activity. New industries such as software and business process outsourcing have emerged and these have a large number of entrepreneurial firms.

### **Government Incentives and Subsidies**

Well-designed government incentives and subsidies can play an important role in promoting entrepreneurship. In India, incentives are being given by both the state and the central governments. Many of the incentives are often sector specific, being given by the concerned ministry. Similarly, entrepreneurship is being encouraged in many countries with a variety of incentives such as tax breaks, preferred sourcing or grants. The 'Startup India' initiative has brought a huge range of incentives for new ventures in India.

### **Increasing Flow of Information**

Information is the lifeblood of business. Information is being increasingly democratized. The internet has become the chief source of varied information. Search engines such as Google and Yahoo enable you to access information from trade bodies, academic or research institutions, news networks, corporate sites, etc. There is free information and information available for a reasonable fee. Nowadays, telecom connectivity is very affordable as well. The low cost of data services has enabled people to connect with each other across the world at nominal costs through applications such as Skype and WhatsApp.

### **Easier Access to Resources**

Today, it is easier for an entrepreneur to access debt and equity finance than ever before. Not just capital, most other factors of production are now easily available to entrepreneurs. With greater flow of information, it is easier to contact and to deal with resource providers such as raw material suppliers and dealers of capital goods. Also, many business services are now tailored to suit the needs of small business owners. Prominent examples of such services are the delivery services of international courier companies such as DHL and UPS and procurement management services of Ariba (since acquired by SAP in 2012).

### **Entrepreneurial Education**

Many universities and institutes are nowadays offering entrepreneurship education. A number of institutes have set up successful entrepreneurship centres, which provide help to budding entrepreneurs by conducting formal training and structured mentoring programmes.

## Return on Innovation

Strengthening of Intellectual Property Rights (IPR) has acted as a major boost to entrepreneurs willing to take risk on an innovation. Now they feel the confidence in the sanctity of their IPR, without feeling the need to be backed by a large corporation.

### Exhibit 1.1: Reel-Life Startups



Bollywood has also ventured into movies based on entrepreneurship. While some movies like *Band Baja Baraat* have a story set with a background of entrepreneurship, movies like *Sui Dhaga*, *Rocket Singh*, and *Upstarts* have the entrepreneurial spirit as their central theme.



'TVF Pitchers' is a web series created by The Viral Fever. It was an irreverent look at four friends who quit their jobs and start a venture. It developed quite a cult following of its own.

### Entrepreneur as a Hero

People like Dhirubhai Ambani and Narayan Murthy have become heroes to the middle class. The common man reveres them as super-achievers. There is something glorious in the tale of their struggle to create new and enduring businesses that inspires a lot of people.

Nowadays self-employment is not looked down upon and is thought of as the best way to achieve a variety of personal goals. Students across campuses are looking upon those alumni who have become successful entrepreneurs, as their role models.

According to the Global Entrepreneurship Monitor (GEM) Report 2018–19, in India, over 60 per cent of the adults surveyed thought of entrepreneurship as a good career choice and perceived that successful entrepreneurs achieve a high status in society.

### Rising Dissatisfaction at Job

Employers are finding it hard to retain talented employees. People now have confidence in their abilities, which in turn prompts them to find alternate employment. For example, the retail sector in India witnesses employee turnover rate of around 18.5 per cent per annum followed closely by insurance (18.3 per cent), and financial services at 18.2 per cent. (Based on the date from Statista 2018)

### Acceptance of Ex-Entrepreneurs in the Job Market

Companies are willing to re-employ people who have been entrepreneurs. Their experience in creating and starting a new enterprise is highly valued by many employers. As a result, a potential entrepreneur perceives a lower risk as there is always the security of a well-paid job in case the venture does not fare well.

## ENTREPRENEURSHIP AND THE ECONOMY

Porter (1990) has summed up the importance of entrepreneurship by stating that invention and entrepreneurship are at the heart of national advantage. Several other studies (Acs et al. 2012; Baumol and Strom, 2007; Giordani, 2015) also bring out vital aspects about the connection between entrepreneurship and economic development. According to them, although entrepreneurship is initiated at the individual level, its importance gets multiplied at the firm, institution and the macro level, where the sum of the individual activities manifests itself in the form of more innovations, new ideas and initiatives, new markets, new industries, etc. This creative disruption leads to a change in the market and industry structure in the form of selection of competitive, viable firms and weeding out of obsolete firms. Entrepreneurial activities, therefore, promote economic activity at the aggregate level leading to economic development.

Entrepreneurial firms are not just money-making ventures for their promoters. The positive impact of entrepreneurial firms is seen throughout the economy and society. A vast majority of these high-impact firms are fast-growing companies. David Birch, an American economist, has differentiated these firms by calling them *gazelles*. He defines a gazelle as a business establishment with at least 20 per cent growth every year for four years. Here are some of the major contributions of entrepreneurial firms.

### Job Creation

When many large firms are talking about downsizing and lay-offs, new ventures are continually hungry for quality manpower. It is estimated that gazelles contribute to about 50 to 100 per cent of net new job creation in an economy.



### Economic Growth

The spectacular growth of new businesses, especially gazelles, contributes significantly towards maintaining a high growth rate for the whole economy. Entrepreneurship creates an environment where innovations build on each other, leading to continually increasing productivity and economic growth.

### New Technology

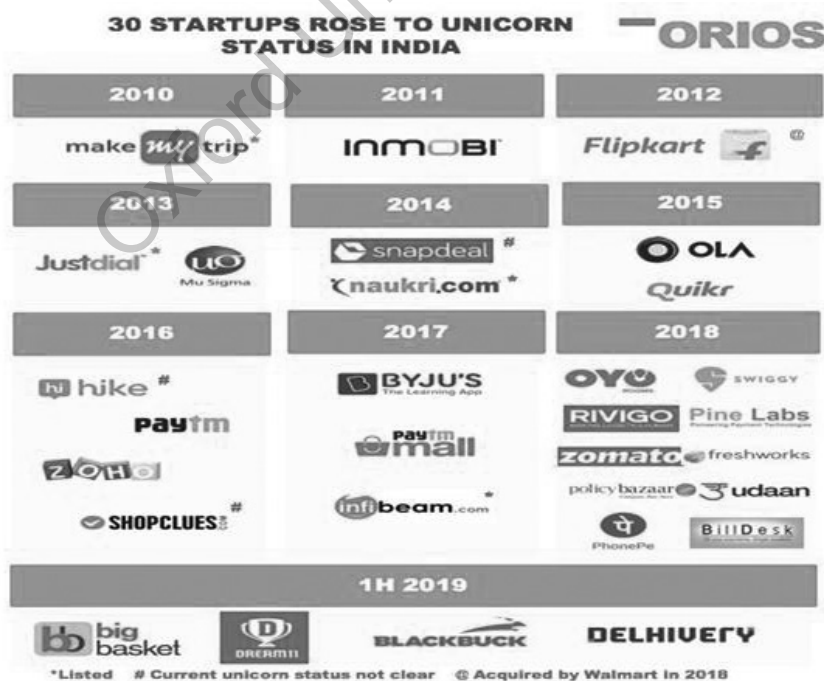
Entrepreneurial firms are usually faster to come to the market with radical new technologies. These are also likely to try out new business models. Ultimately, this will lead to a better standard of living for the whole society. The internet for example was an opportunity for all firms, old and new, but the ones that gained the most were new entrants such as Google, Facebook, Alibaba, Amazon and such.

### Serving Small Markets

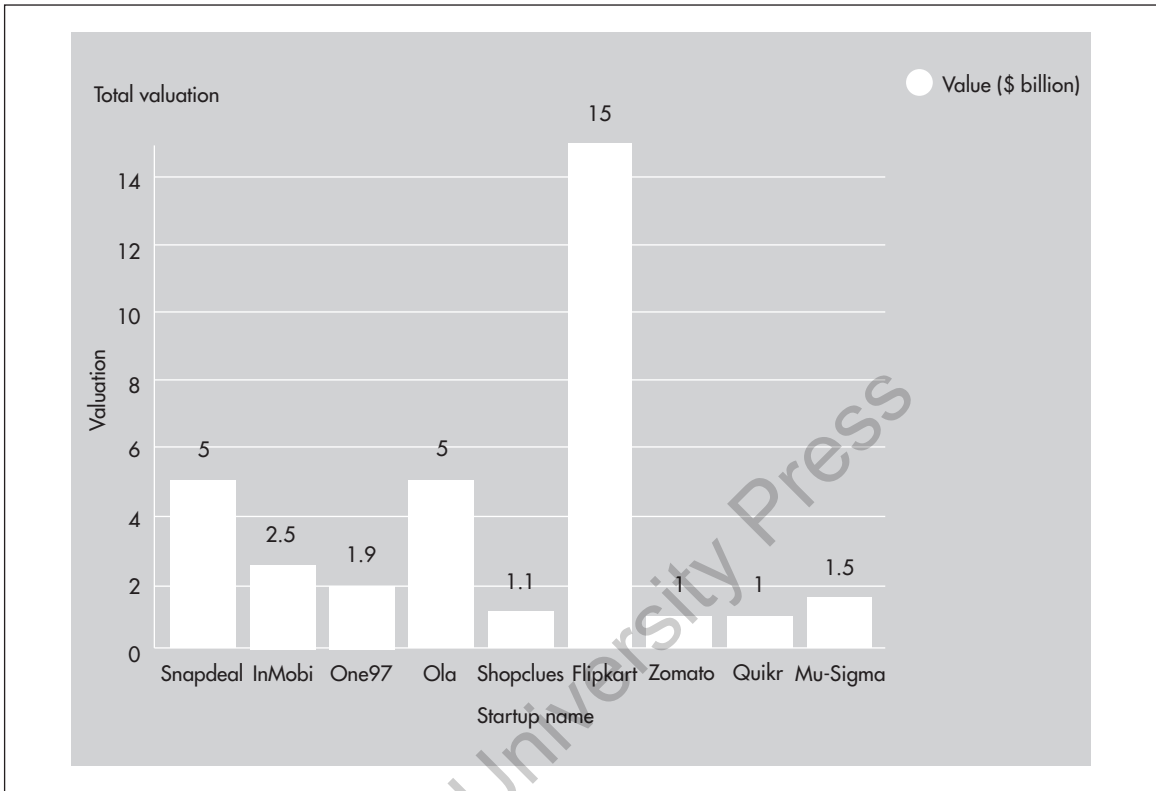
Large firms, with their crippling overheads, do not find it profitable to serve small populations. This is where small entrepreneurial firms serve an invaluable role by providing specialized products to niche customers.

**Exhibit 1.2: Indian Unicorns**

Unicorns are venture-backed startups valued at \$1 billion or more. By 2020, over 30 Indian startups will have reached the Unicorn status. Some of the earlier startups part of this list have dropped out as either they were acquired or had a drop in their valuation.



Source: Orios Venture Partners



## WHY START A BUSINESS

Owning a business is a great dream for most people. It remains a dream for many but some people turn this dream into action and take the plunge. Owning a business is a boon, provided you get into it the right way and know what to expect and what to do, otherwise it can be a nightmare. *Entrepreneurial motivation* is a term that is used to describe the quest for new venture creation as well as the willingness to sustain the venture.

One quickly learns that it is easy to start a business, but running a business is an entirely different ball game. Running your own business is probably tougher than anything you have done before. So, you owe it to yourself to honestly explore the reason you decided to start your own business. Take your time about it and figure it out before you commit your time, money, and resources to a new venture.

Let us look at the usual or more common reasons people have for starting their own business.

### Control

You do not like to have a boss. You want to be your own boss and make your own decisions. This is great as long as you realize that even in your own business, many of your decisions will be dictated by government regulations, customers, and even your employees. But having your own business gives you far greater opportunity to exercise your own free will.

## The Idea

You have this one great idea or a product that will revolutionize the world. No one is currently offering it and you think you should not waste any time in going ahead.

## Flexibility

You want a schedule that allows you to work when you want to and to spend time with your kids/family/friends when you want to. Running your own business does give you the flexibility if you want it but now probably you will be spending much more time on the job. Remember, now the buck stops with you.

## Money

It is the oldest and the most common reason. Most people start a business because they feel that it is the only logical way to become wealthy. Most of the wealthy people have got their money through business, either by starting one or by inheriting one.

Not everybody who starts a business ends up being wealthy. The success rate may be around 10 per cent and many of the successful ones would achieve success very late in life. So, it is not them but their children who will enjoy the fruits of their labour.

### Exhibit 1.3: Forbes: World's Richest

The interesting thing is that the list of the world's richest people is dominated by entrepreneurs.

Name	Company	Net Worth (in \$ billions)
Jeff Bezos	Amazon	131
Bill Gates	Microsoft	96.5
Warren Buffett	Berkshire Hathaway	82.5
Bernard Arnault and Family	LVMH	76
Carlos Slim Helu and Family	Telecom	64
Amancio Ortega	Zara	62.7
Larry Ellison	Oracle	62.5
Mark Zuckerberg	Facebook	62.3
Michael Bloomberg	Bloomberg	55.5
Larry Page	Alphabet	50.8
Charles Koch	Koch Industries	50.5

Source: Based on the data from [www.forbes.com](http://www.forbes.com)

Many would-be entrepreneurs make a grave mistake. They just want to be in business. They are not sure what that means, but they have some vague dreams of success and think that they will recognize it when they see it. They may hate their job, are bored, or have just been laid off—maybe they want

to move away from something negative (such as escaping a job or a bad situation) towards something positive (such as building a business with a clear vision for the future).

This may not be the right path to entrepreneurship. Many people start their businesses with what they think are clear reasons (more money, prestige, a sense of accomplishment, more flexible work time, being their own boss, and so on). It is a good first step, but you need more. Begin by defining your primary goal, then work from there. From the very beginning, you should plan and think about what you hope to get out of your business, in the short-term and in the long-term.

What do you hope to achieve by being an entrepreneur—personally, financially, and professionally? How much money do you want to make? How much free time do you want for yourself and your family? How many or how few employees do you want to have? When you are ready to retire, will you want to pass the business on to your children, shut it down altogether, or sell it? It may seem unnecessary to answer these questions before you start, but that is exactly the right time to do it. You can increase your odds of success by thinking clearly, from the very beginning, about your primary goal and what you are willing to give up to achieve it. There are always trade-offs, and the sooner you have them clearly in mind, the better off you will be. For example, it is going to be hard to give equal weightage to the goals of maximizing income, working part time, and having no debt. Each of these are valid goals, but you will have to choose less of some to have more of others.

Set clear goals. If money is the main motivation factor, understand how much money you want to make and how much money you need to make. (These two are usually not the same.) Aim high, set financial targets beyond what you are making now, but be realistic. Once you have set goals and have a realistic expectation of what you have to do and what you have to give up in order to achieve those goals, it will be easier to work towards those goals. Also, it will be easier to stay motivated as you have your sights set on desirable and achievable goals.

Let us now run through a list of advantages and disadvantages of running your own business.

### Advantages

- You are the boss.
- All profits are yours.
- There will be great variety in roles and tasks.
- Increases self-confidence.
- Work can be very satisfying.
- Success will give you immense satisfaction.

### Disadvantages

- You are alone.
- All decisions are yours.
- All losses are yours.
- Work may not be satisfying.
- You will need to put in long hours.
- Lack of success will affect self-esteem.
- Exiting the business is difficult.
- Pressures will affect social and family life.

## ENTREPRENEURIAL CHARACTERISTICS AND SKILLS

As early as the 1950s, researchers began looking for personality factors that determine the potential of a person to be an entrepreneur. This entrepreneurial trait school of thought has led to interest in identifying traits common to successful entrepreneurs.

A great deal of research on the personality characteristics and sociocultural backgrounds of successful entrepreneurs was conducted in the 1980s and 1990s. The detailed analysis of more than

50 studies done by Timmons (1994) found a consensus around the following six general characteristics of entrepreneurs:

- Commitment and determination
- Leadership
- Opportunity obsession
- Tolerance of risk, ambiguity, and uncertainty
- Creativity, self-reliance, and ability to adapt
- Motivation to excel

A related stream of research examines how individual demographic and cultural backgrounds affect the chances that a person will become an entrepreneur and be successful at the task. For example, the review done by Bianchi (1993) indicates the following characteristics of an entrepreneur:

- Being an offspring of self-employed parents
- Being fired from more than one job
- Being an immigrant or a child of immigrants
- Previous employment in a firm with more than 100 people
- Being the eldest child in the family
- Being a college graduate

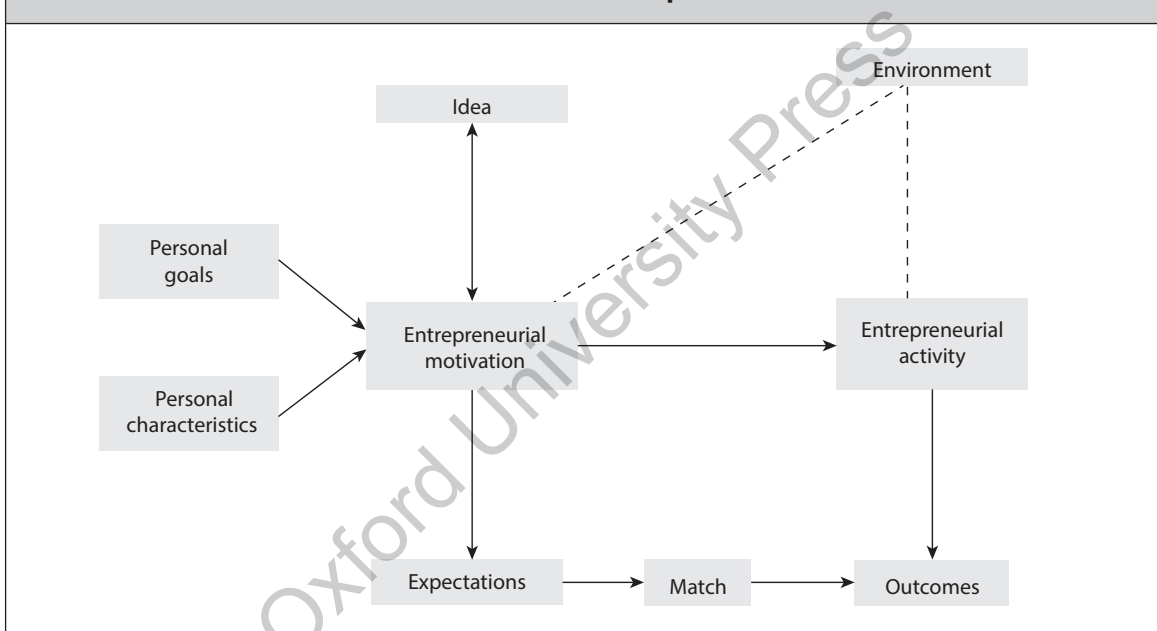
At the same time, the business press has devoted much attention to the backgrounds, personalities, and even idiosyncrasies of successful entrepreneurs, turning business builders such as Bill Gates and Dhirubhai Ambani into icons that are probably more recognizable than successful people in other walks of life. This media coverage has given credence to the myth that successful entrepreneurs are a breed apart. Such press reports, and also a lot of academic literature, have reinforced the belief that the success of a new venture depends largely on the deeds of a brilliant and inspiring superstar possessing some predefined personality characteristics. Although it seems logical to look at personality and socio-cultural variables to determine the likelihood of entrepreneurial success, studies based on these premises have been able to explain only a small percentage of entrepreneurial successes and failures. These so-called entrepreneurial characteristics can be looked at to determine a set of skills useful for an entrepreneur to possess. It is unlikely that all these skills will be present in sufficient measure in all potential entrepreneurs. It is prudent for the entrepreneur to take stock of what might be lacking and acquire those skills through training. Sometimes, the entrepreneur may even try to access those skills by attracting partners or employees who possess those attributes. The entrepreneurial skills are given below:

- Creativity and opportunity evaluation
- Real-time strategy and decision making
- Comfort with change and chaos
- Teamwork
- Evangelicalism, selling, negotiation, and motivation through influence and persuasion
- Oral and written communication
- Basics of startup finance, accounting, and law

In addition to these skills, there are certain attitudinal adjustments an entrepreneur has to make in order to successfully negotiate the various problems likely to emerge during the early days of the venture. These attitudinal adjustments, which an entrepreneur needs to be prepared for, are given below:

- Comfortable with lifestyle changes
- Willingness to break/bend/stretch laws
- Patience to start from the scratch
- Prepared to make enemies
- Comfortable with confrontations
- Dealing with failure
- Willingness to learn

**Exhibit 1.4: A Model for Entrepreneurial Motivation**



## TYPES OF ENTREPRENEURS

Classifying entrepreneurs into various categories is a tricky issue. The taxonomy of entrepreneurs can be carried out in various ways. Entrepreneurs can be classified on the basis of their socio-cultural backgrounds, scale or potential of operations, or timing of venture creation in relation to their professional lifespan. What must be kept in mind is the reason behind the classification. Differentiating between entrepreneurs can be done to differentially incentivize certain groups, to study differences in various groups, or to study factors and consequences of entrepreneurship in different populations.

### Classification Based on the Timing of Venture Creation

Based on the timing of venture creation, entrepreneurs are classified as early starters, experienced, and mature.

### Early Starters

An early starter starts the venture with little or no full-time work experience. Often, early starters are from business families and have participated in the family business. An early starter is generally convinced of the great potential of his/her business idea and feels that the opportunity may cease to exist if he/she waits too long. An example of this would be Ritesh Agrawal, who started Oravel Stays when he was 17. By the age of 19, he had been accepted by VentureNursery and by the Thiel Fellowship and the same year Oravel was relaunched as Oyo Rooms.

### Experienced

This type of entrepreneur has spent a few years working in the family business or in some other large company. Usually, the venture is related to the type of work the entrepreneur was previously engaged in. The entrepreneur brings a lot of experience, skills, and personal credibility into the venture. Narayan Murthy got together with other like-minded professionals to start Infosys when he was 35 years old.

### Mature

A lot of very senior professionals, some at the level of CEO, are quitting their jobs to start their own ventures. This is probably because they have very high confidence in their abilities and have a desire to do things in a way that may not be totally acceptable to their erstwhile employers. Some shining examples include Ashok Soota and Subroto Bagchi, who quit Wipro to start Mindtree, and BVR Subbu, the former President of Hyundai India, who was part of a venture that bought the plant of Daewoo in India. Interestingly, Subbu left the venture in 2010.

## Classification Based on Socio-Cultural Variables

Different types of entrepreneurs based on socio-cultural variables are discussed below.

### First-Generation Entrepreneurs

This category consists of those entrepreneurs whose parents or family had not been into business and were into salaried service. The booming economy of India has led to a multitude of business opportunities, and with deregulation, it has become easier to set up businesses. Also, with a change in the mindset of the middle class, it is now more acceptable to become an entrepreneur. India has a lot of examples of first-generation entrepreneurs from Dhirubhai Ambani to Narayan Murthy to Ritesh Agarwal.

### Entrepreneurs from Business Families

Traditionally, there have been a few socio-ethnic groups who have dominated the business scene in India. Prominently, the Marwadi, Gujarati, Parsee, Sindhi, and Chettiyar communities are perceived as business people. The Tatas, Birlas, Wadias, Murugappas, and Singhanias are all from such business communities. It is argued that entrepreneurship becomes easier for someone from a business family or from a business community as there is a very solid support structure to help in times of need. But entrepreneurial success needs far more than just that.

### Minority Entrepreneurs

There are many small ethnic groups that have traditionally not ventured into business. It has become important for them to venture out and create lasting enterprises. They will serve as examples for the rest of their community. We must not forget that the dominant Parsee community started off as a

few shiploads of immigrants on the coast of Gujarat. Distinctly low levels of entrepreneurial activity are witnessed among the tribals of Central India, the hill people of the North-east and among some socio-economically backward classes.

### **Women Entrepreneurs**

Women as entrepreneurs have been a recent phenomenon in India. The social norms in India had made it difficult for women to have a professional life. Now this has changed. Progressive laws and other incentives have also boosted the presence of women in entrepreneurial activity in diverse fields. Kiran Majumdar Shaw founded Biocon, which is now the leading biotech firm in India, and she is an inspiration to many other Indian women wanting to start their own businesses.

### **Classification Based on Entrepreneurial Activity**

Based on entrepreneurial activity, entrepreneurs are classified as novice, serial entrepreneur, and portfolio entrepreneur.

#### **Novice**

A novice is someone who has started his/her first entrepreneurial venture. Not to be confused with an early starter, a novice can also be a 50 year old with over 25 years of experience in the industry. Vishambar Saran was the Director, Raw Material for Tata Steel, when he quit after working in the steel industry for over 35 years. He leveraged his vast experience to start his own venture, Visa Steel. Starting from scratch 10 years back, the turnover of the company currently stands at over ₹1,416 crores.

#### **Serial Entrepreneur**

A serial entrepreneur is someone who is devoted to one venture at a time but ultimately starts many. It is the process of starting that excites the starter. Once the business is established, the serial entrepreneur may lose interest and think of selling and moving on. Rakesh Mathur, an alumnus of IIT Bombay, has started a series of successful ventures such as Webaroo, Armedia, Purple Yogi, and Junglee. He sells off his ventures before moving on to the next one, his most high-profile sale being that of Junglee, which he sold to Amazon.

#### **Portfolio Entrepreneur**

A portfolio entrepreneur starts and runs a number of businesses. It may be a strategy of spreading risk or it may be that the entrepreneur is simultaneously excited by a variety of opportunities. Also, the entrepreneur may see some synergies between the ventures. Once a poor immigrant, Li Ka-Shing got his start selling plastic flowers in Hong Kong in the 1950s. He owns the conglomerates Cheung Kong and Hutchison Whampoa. Through them, Li is the world's largest operator of container terminals, a major supplier of electricity, a cellphone provider, a retailer, and a real estate developer. He also has a \$10 billion stake in Canadian oil company Husky Energy.

## **ENTREPRENEURIAL FAILURE**

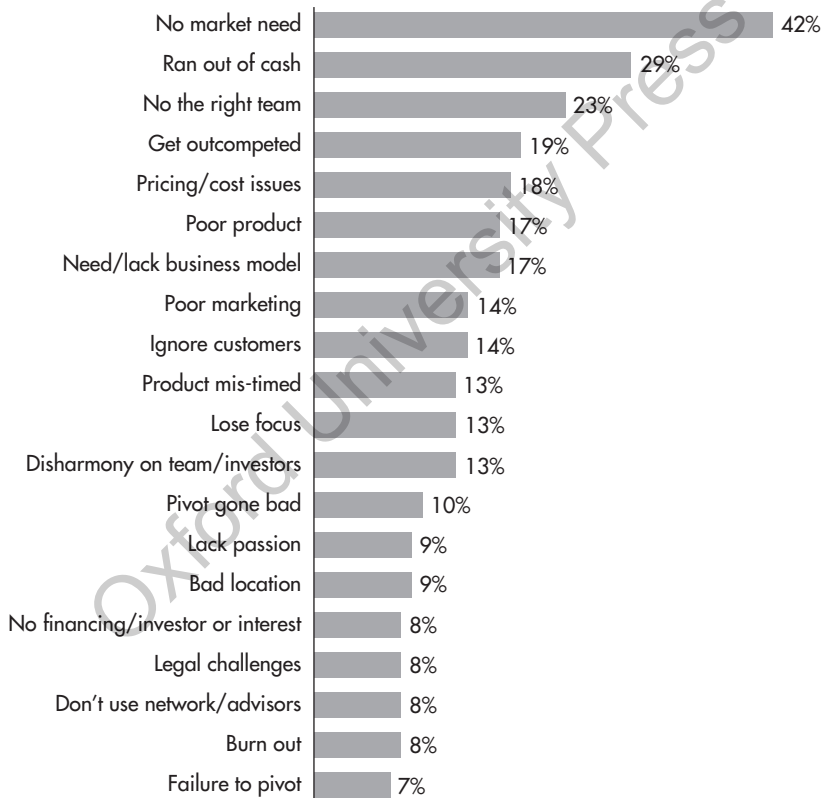
According to a report by the IBM Institute for Business Value and Oxford Economics, close to 90 per cent of startups fail within the first 5 years. Contrary to popular belief, even well-funded



startups fail quite frequently such as the grocery delivery startup PepperTap, Parcelled, an online courier booking platform, *Doodhwalla*, a subscription based milk delivery, and DoorMint, an on-demand laundry service.

According to CB Insights, a startup and tech intelligence platform, the biggest cause of entrepreneurial failure is 'lack of market need' followed by 'running out of cash', and 'not the right team' in that order.

### Exhibit 1.5: Why Startups Fail



#### Top 20 Reasons Startups Fail (Based on an Analysis of 101 Startup Post-mortems)

Source: Based on the data from CB Insights

## SUMMARY

The positive impact of entrepreneurial firms is seen throughout the economy and the society. Entrepreneurial firms create jobs, contribute to economic growth, come up with new technologies, and serve small markets.

Just keep it in mind that not everybody who starts a business ends up being wealthy. Motivation to start a new business is not just centred on the desire to make more money. There can be many other motivating factors too. There are a number of advantages as well as disadvantages of having your own business. One needs to balance these out before making a decision.

A lot of research examines how individual demographic and cultural backgrounds affect the chances that a person will become an entrepreneur and be successful at the task. These so-called entrepreneurial characteristics can be looked at to determine a set of skills useful for the

entrepreneur to possess. It is unlikely that all these skills will be present in sufficient measure in all potential entrepreneurs.

Classifying entrepreneurs into various categories is a tricky issue. The taxonomy of entrepreneurs can be carried out in various ways. Entrepreneurs can be classified on the basis of their socio-cultural backgrounds, scale or potential of operations, or timing of venture creation in relation to their professional lifespan.

A serial entrepreneur is someone who is devoted to one venture at a time but ultimately starts many. A portfolio entrepreneur starts and runs a number of businesses simultaneously. Because of limited resources, high levels of uncertainty and inexperienced management and employees and many other such reasons, new ventures suffer from a very high rate of failure, much higher than that of larger, well-established firms.

## KEY TERMS AND CONCEPTS

**Entrepreneur** One who organizes, manages, and assumes the risks of a business or an enterprise.

**Entrepreneurship** The process of creating or seizing an opportunity and pursuing it.

**Self-employment** Earning one's living directly from one's own profession or business rather than as an employee.

**Entrepreneurial trait school of thought** The contention that successful entrepreneurs exhibit similar characteristics.

**Gazelle** A new venture growing at over 20 per cent every year for 4 years.

**Serial entrepreneur** Entrepreneur who is devoted to one venture at a time but ultimately starts many.

**Portfolio entrepreneur** Entrepreneur who starts and operates a number of businesses at the same time.

### Concept Review Questions

1. How does an entrepreneur contribute to the economy and the society?
2. What has been the main macro-economics for the growth in entrepreneurship?
3. What are usually the personal considerations that drive a person to be an entrepreneur across the world?
4. What are the major benefits of owning a business?
5. What could be the negative aspects of running your own business?
6. List the characteristics of a successful entrepreneur.
7. List the skills required to become an entrepreneur.
8. What are the various ways of classifying entrepreneurs?
9. Distinguish between a portfolio entrepreneur and a serial entrepreneur.
10. Outline the causes of entrepreneurial failure.

### Critical Thinking Questions

1. Define an entrepreneur. Are all business owners entrepreneurs?
2. Does an entrepreneur have to be a business owner?
3. In addition to the factors mentioned in the chapter, are there some other factors that have led to the spurt in entrepreneurship?
4. This chapter discusses reasons for the growth of entrepreneurship. Which of the reasons are most applicable for your region?
5. Are entrepreneurs born or are they made?
6. Come up with some new way of classifying entrepreneurs.

### Project Work

1. Think honestly about your entrepreneurial intentions. Make a list of problems that you are likely to face by becoming an entrepreneur. Make a list of what you wish to gain by becoming an entrepreneur. How do you like the balance?
2. Several skills and traits have been mentioned as being desirable in an entrepreneur in this chapter. How would you rate yourself on those skills and characteristics?
3. Interview a local entrepreneur to find out his/her major motivation to start a business. Which of the skills and characteristics discussed in this chapter do you find in the entrepreneur?
4. Search through recent newspapers and magazines/websites to find an inspiring story of an entrepreneur. Prepare a short report on the entrepreneur.

### Useful Websites/Links

1. [www.yourstory.com](http://www.yourstory.com)
2. [www.inc42.com](http://www.inc42.com)
3. [www.entrepreneur.com](http://www.entrepreneur.com)
4. [www.wired.com](http://www.wired.com)
5. [www.techcrunch.com](http://www.techcrunch.com)
6. [www.fastcompany.com](http://www.fastcompany.com)

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## CASE: MOBIGARAGE

Vaibhav Kapoor had over seven years of experience in the consulting industry before he started MobiGarage. He worked for a healthcare consulting company and then moved to Accenture. While at Accenture, he was posted in the US. He was an avid coin collector and saw great opportunities to pursue his hobby there. Buying rare and old coins does cost a lot of money and to fund his habit, he decided to start a side hustle. He started by selling tempered glass online. The margins were good; he was buying in wholesale for ₹7 and selling for about ₹150. Also, this allowed him to dip his toe into the world of e-commerce and understand the nuances of the business.

Soon he moved from tempered glass to mobile screens, a higher value item. Though the margin percentages were lower, he ended up making more money per transaction. Soon his customers started asking for mobile repair services and this eventually led to the establishing of MobiGarage; what started as a side business was now a full-time venture. Vaibhav quit his job and convinced his brother, Pulkit, who was working for Reliance at that time, to quit his job too and join him full time.

India is the world's second largest smartphone market with 158 million shipments in 2019, according to the latest research from Counterpoint's Market Monitor report. Growth in the future seems robust as India is relatively underpenetrated compared to other markets. The number of smartphone users in India was estimated to increase to about 442 million in 2022.

Mobile repair services have been similarly growing at a rapid rate. There is probably at least one mobile repair shop in every kilometer in urban and semi-urban India. Mostly these stores are in the unorganized sector. They lack professionalism and fail to inspire trust in the mind of the customer. This has led to the mindset among many that it is probably better to buy a new phone than repair an old one.

MobiGarage is a supply chain company which caters to both B2B and B2C verticals. In B2B, the company caters to all big companies such as Flipkart and Yaantra (formerly Gadgetwood), which are into refurbishing. MobiGarage's core strength is its supply chain and now it has over 200 suppliers over China, Hong Kong, and India. It is moving mobile repair shops on to its online platform and is holding its inventory and the shops in turn are servicing customers. Vaibhav started MobiGarage with ₹5000 in 2017. Early on he took some informal loans and advances but then was able to pay them back in 4 months' time.

As a startup, MobiGarage realizes the importance of having a great team in place. In 2020, it is 25 strong and this number is likely to go up quite soon. This is not a tech heavy company. It hired some freelancers to look after tech and digital marketing but then decided to have a full-time resource to make sure that the work gets done properly. It is creating its own tech platform to on-board all on the same platform and finalize an order online itself. It does not spend much on marketing, approximately 3 to 4 per cent of its budget goes into marketing. It depends on its channel and on satisfied customers to spread the word.

Flipkart and Yaantra are not just MobiGarage's customers but also strong competitors. Already it can see that other competitors such as Phixman, iRepair, and Gadgetzippy are trying out its business in different parts of India. The founder knows that going forward, mobile repairs is a good business opportunity but by no means, an easy one.

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### Questions for Discussion

1. What prompted Vaibhav to quit his high paying job and start a mobile repair business?
  2. What will be the challenges for the business going forward?
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