

FACTORS AFFECTING NEW VENTURE CREATION: A STUDY IN THE INDIAN SCENARIO

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Abstract

The paper aims to verify, a) whether entrepreneurship in India is confined to the traditional business communities only; b) to identify factors which serve as major obstacles in the way of entrepreneurs in a third world country such as India; c) and to establish whether entrepreneurs hailing from business and non-business communities (castes) face similar problems. The data have been obtained from a total of eighty entrepreneurs from the northern regions of India. They suggest that although the business castes still dominate the entrepreneurship scene, yet there is an emerging trend of more and more non-business community participation in this sphere. Also, in comparison with the economic environmental factors, the psychological and socio-cultural factors have a relatively lesser role to play in determining the degree of success in the setting up of a new enterprise. Of the various dimensions of the industrial economic environment, state regulation and lack of training and guidance facilities pose the major problems to the debutante entrepreneurs, while the general economic conditions of the society and the inadequacy of infrastructural facilities are not so significant.

Key Words: *Entrepreneurship, Business community, State regulation*

JEL Classification: L26

1. INTRODUCTION

There have been two major disputes in entrepreneurship studies concerning the relationship between the economic and social communities in a society and the problems faced by entrepreneurs while starting their enterprises. The first debate about the relationship of economic and social elements of entrepreneurship involves two contrary approaches. One school of thought holds that there is a one-to-one relationship between the business and social communities of a society and that entrepreneurs usually come from certain religious groups, castes and families. The other view believes that entrepreneurship is a purely politico-economic phenomenon and its analysis should not be done in terms of social community of the entrepreneurs.

The second issue relates to the problems that are faced by entrepreneurs, especially at the start-up stage. In the third world countries, still striving to develop conditions favorable for a fast and smooth entrepreneurial growth, every entrepreneur has to face various types of problems. Whether entrepreneurs belonging to traditional business communities and non-business communities are troubled by problems of the same type and proportion is the question.

Keeping the above background in mind, the purpose of this study was two-fold. First, to test the assumption that majority of entrepreneurs in the Indian society tend to come from traditional business communities, and second, to ascertain the type of factors which cause problems for new

entrants in the field of entrepreneurship hailing both from traditional business and non-business communities.

A number of factors can influence entrepreneurship. Chiefly, three types of factors are taken into account while studying the determinants of entrepreneurial success. The first, are the *individual psychological* factors that explain the phenomenon of economic development in terms of motivation, which itself is seen as a consequence of personality formation process. In other words, the implication is that the presence or lack of certain personality traits (innovativeness, risk taking etc.) among the entrepreneurs, can serve as promoter or hindrance, respectively, while starting an enterprise.

The second types of factors are those related to the *cultural* ethical value system which is seen as the major determinant of entrepreneurship. This approach, thus, highlights certain sociological factors as the major determinants of success while setting up an enterprise. The most well known factors generally used to explain entrepreneurship are the *politico-economic* ones that relate the success or non-success of entrepreneurship in a society to business environmental factors like availability of finance, raw materials, technology and a favorable governmental response. Put differently, the belief is that it is the industrial and political climate of a country that acts as the decisive factor of the success of entrepreneurship development in a society. And for entrepreneurs who are just starting out it would imply that the major obstacles which the entrepreneurs face are simply due to inadequate infra-structural facilities, insufficient guidance, gloomy state of the economy, ineffective government support and non-cooperative attitudes of the administration. With the belief that it is the social and economic environment, which is of greater significance than the mental processes when trying to comprehend the subject of new ventures, this study focused on the former aspects only.

2. METHOD OF STUDY

This study is based on the perceptions of eighty entrepreneurs hailing from the northern regions of India. The list of respondents was drawn through random sampling from the records of the Delhi Financial Corporation. All of them had entered this field fairly recently, the age of their units ranging between one to five years. The information was gathered through questionnaires and interviews. The entrepreneurs were asked to rank various factors in terms of their relative importance in affecting their success at the stage of setting up of their units.

3. CASTE AND ENTREPRENEURSHIP

We are well aware that social and cultural institutions affect all aspects of our lives. The same holds true for entrepreneurship activities. In India, the institution of caste has been considered to have an all-pervasive impact on every individual's life, including the economic functions. The Indian Hindu society was divided into four main social strata – *varnas* or castes – namely, Brahmin, Kshatriya, Vaishya and Shudra, each with its own specific occupation. Traditionally, industry and trade were viewed as the occupations of only one caste, i.e., Vaishya. It has long been the belief that this system of occupational specialization inhibited innovativeness in India, since it prevented a large number of people from indulging in business activities as these functions were confined to one group only.

In the present times, however, with the process of modernization, it is expected that entrepreneurs would be drawn from groups with diverse traditional occupational backgrounds. When we looked at the caste profile of our respondents we found it to be true that the entrepreneurs come from all types of families and all spheres of life. Among our sample 56.25 per cent of the entrepreneurs belonged to the Vaishya caste, 37.5 per cent to the Kshatryia caste while the rest came from the other groups. This shows that in the Indian context, although the caste community continues to matter since there is still a dominance of the traditional business communities in entrepreneurship, nevertheless, we also observe a trend towards change in this situation as a sizeable number of entrepreneurs in our sample belong to non-business castes as well.

This brings us to our major question, viz., whether there is any difference among the two groups, namely, those with business and non-business caste backgrounds, in terms of the difficulties they face at the start-up stage.

4. EXTERNAL ENVIRONMENT

The external economic environment of the enterprise itself has many dimensions – infrastructure, guidance, sponsorship, general economic conditions, political commitment, legislative policy formation etc. Each may not have an equal impact on entrepreneurial activities. Our purpose was to identify the relative importance of the various dimensions. For this we divided them into four categories, namely, infra-structural facilities (availability of industrial site, securing of licenses, availability of technology, electricity and water connection, availability of raw materials and transport and communication facilities); training and guidance (access to entrepreneurial training programs and availability of consultancy facilities); economic climate (availability of finance, condition of the economy and competition); and state regulation (import/export policies, availability of foreign exchange, governmental economic restrictions and bureaucratic delay and non-cooperation) and then asked the entrepreneurs which of these created the maximum difficulties for them in the start-up stage. As Table I shows, state regulation was ranked the most problematic (201.5), lack of training and guidance facilities was placed second (190.0), general economic conditions was ranked third (181.66) and lack of infra-structural facilities comes last (163.0).

Table I: Mean Scores of the Dimensions of Economic External Environment

Dimensions	BCRs*	NBCRs**	Total
Infra-structural Facilities	86.50	76.50	163.0
Economic Climate	97.00	84.66	181.66
Training and Guidance Facilities	87.50	102.50	190.00
State Regulation	110.75	90.75	201.50

*Business community respondents

**Non-business community respondents

There are, however, interesting differences when the two groups, i.e., entrepreneurs from business and non-business communities are compared. Although entrepreneurs from both groups found state regulation to be an important factor, those coming from business communities found it to be

the most difficult to handle (110.75) while for the non-business community respondents it came second (90.15). This is understandable because dealing with government departments is one of the most troublesome aspects of the business environment that the entrepreneurs face. It poses relatively less problem to the non-business community entrepreneurs because most of these respondents in our study come from families of civil servants and professionals who tend to have some contacts in the bureaucracy which makes it easier for them to get their work done. The entrepreneurs from the non-business community have given maximum importance to the lack of training and guidance facilities (102.5), which the business community group ranks as the third most important (87.5). This again can be easily explained as the latter are provided these facilities within the family and communities while the former have to look for them outside their communities.

Economic climate has been rated as second most important factor by the business community group (97.0) while this poses fewer problems to the non-business communities who have ranked it third (84.66). This result is surprising because they should have an easy access to capital, as well as, the ability to deal with competition because of the support of their families. Yet, the exact opposite occurs. The reason probably lies in the fact that availability of finance is one of the most important factors in determining entrepreneurial activities and these days most of the finance is not provided by the family or community but by banks and other financial institutions which again are vulnerable to pressure from the bureaucratic circles where the non-business communities have their influence.

The only factor on which both groups agree by placing it in the fourth position (86.5 and 76.5) is the infra-structural facilities. The surprise finding of our study is the fact that lack of infra-structural facilities has not been cited by the entrepreneurs as a major problem (Table I). Even securing finance and industrial site do not seem to pose any major problems. This dimension being relatively unimportant to the entrepreneurs may be due to the fact that the Indian entrepreneurs have come to expect the infra-structural inadequacies as a normal situation and have learnt to cope with it on their own, e.g., securing information about the availability of raw materials, technology etc. from their own friends or business associates, securing licenses by greasing the palm of the concerned officials, setting up electric generators for 'home-made' electricity and so on.

Having seen how the four dimensions of entrepreneurial external economic environment have been ranked by the entrepreneurs in terms of their relevance for the start-ups, our next step was to establish which factors, within each of these dimensions are more significant.

5. ENTREPRENEURIAL START-UPS: DIMENSIONS OF DIFFICULTIES

As discussed earlier four dimensions of difficulties faced by persons setting up their new ventures relate to infrastructural facilities, general economic environment in the country, training and guidance facilities and state regulation. Let us take these up in detail.

Table II: Mean Scores of the Factors Affecting Entrepreneurship

Factors	BCRs*	NBCRs**	Total
<u>Infra-structural Facilities</u>			
a) Availability of industrial site	1.68	2.48	2.03
b) Securing of licenses	2.00	2.88	2.38
c) Availability of technology	1.68	1.68	1.68
d) Electricity and water connection	2.77	2.68	2.73
e) Availability of raw materials	1.84	1.68	1.77
f) Transport and communication facilities	1.53	1.68	1.60
<u>Economic Climate</u>			
a) Availability of finance	2.68	2.15	2.38
b) Condition of the economy	1.84	1.88	1.86
c) Competition	2.46	2.68	2.56
<u>Training and Guidance Facilities</u>			
a) Access to entrepreneurial training programs	1.86	3.02	3.37
b) Availability of consultancy facilities	2.02	2.82	2.47
<u>State Regulation</u>			
a) Import/export policies	2.68	2.88	2.77
b) Availability of foreign exchange	1.53	1.48	1.51
c) Governmental economic restrictions	2.77	2.91	2.83
d) Bureaucratic delay and non-cooperation	2.84	3.08	2.95

*Business community respondents

**NBCRs – Non-business community respondents

5.1. Infrastructural Facilities

The infra-structural facilities form an important part of the external economic environment of business enterprises, although they have been ranked as least important among the four dimensions identified by us. Major infra-structural facilities that any new enterprise would require are the availability of industrial site, latest technology, raw material(s), electricity and water connections and transport and communication facilities. Also required are the various licenses for setting up a unit as no industrial enterprise can be established without these. Among the above factors, getting electricity and water connections posed maximum problems for the business community entrepreneurs (2.77) while the other group ranked it second (2.68). For them securing of licenses was the major problem (2.88) which has been ranked second by the business community entrepreneurs (2.00). This could be explained by the earlier argument that the non-business community group has contacts among bureaucrats who expedite their work faster in comparison with the business community group although the non-business community group too has ranked it as the second most important factor for them. The same reasons could be given for the different rankings on availability of industrial site, raw materials, technology etc.

Interestingly, what does emerge is that there is not much difference in the amount of problems that the various infra-structural facilities faced by the entrepreneurs of the two groups although the ranking given may differ slightly.

5.2. Economic Climate

The growth of entrepreneurship in a society also depends upon the level of entrepreneurial opportunities available in it, i.e., the number of openings available in the economy for entrepreneurship. A sluggish economy would naturally discourage any further investments. Competition, too, may pose some amount of problem to new entrants in the industrial manufacturing, as they have to combat, at least initially, already establishment brand names, some of which have been popular for many decades. Since the public in the developing societies is by and large conventional and not adventurous like its counterparts in some other countries, people tend to go for well-known names and thus, a new product may face some difficulty in finding buyers. Another problem is that of the availability of capital for starting a new venture, since in the present times the family or the community does not make finance available to the entrepreneurs, they have to depend upon financial institutions.

Respondents who had business community background considered the problems of getting loans greater (2.68) than those who have no business background (2.15). The reason, as already mentioned, is the differences in the amount of contacts with the officials in the financial institutions. The non-business community group faced the problem of competition (2.68) since, unlike the business community group, which ranked this problem second, (2.46), they are not as knowledgeable about the market. The condition of the economy has not been considered very problematic by both groups (1.84 and 1.88) probably because the investment climate has shown buoyancy in the decade or so.

5.3. Training and Guidance Facilities

Lack of training programs and guiding facilities was ranked as the second most important dimension of economic environment, which created difficulties for the entrepreneurs in the initial stage of entry into manufacturing. There are several business laws in force in India, for instance, laws relating to development of an enterprise, expansion of an enterprise or laws regarding the more usual issues of foreign exchange, taxation etc. An adequate knowledge of these basic laws by the entrepreneur would greatly help him. If one is acquainted with these, one can avoid innocent breaches and the resultant penalties. Moreover, amendments of various Acts occur from time to time. It is imperative that the entrepreneur must keep in touch with these developments. For this one would require the help of some experts, especially those in the government offices who deal with these subjects.

The same applies to the entrepreneurship development programs as well. The budding entrepreneur must have some information regarding the availability of such programs. However, these facilities are almost non-existent. Our respondents complained that they never get to hear about any such programs, which they felt would go a long way in providing them with some primary and crucial information about starting an enterprise. Although there are a few departments specially set up for this purpose, yet they contribute next to nothing to the entrepreneurial start-ups. The civil servants tend to help and guide only those personally known to them while the

others are turned back without any hope. In fact, one entrepreneur went on to narrate an incident when he was almost convinced by the bureaucrats not to start an enterprise.

Between the two problems, namely, entrepreneurship training and entrepreneurship guidance, the training aspect has been rated higher by the non-business community entrepreneurs (3.02) than the latter (2.82), while the exact opposite is true for the business community group (2.02 and 1.86). They do not perceive much need for any training programs as their families can provide them with this facility. However, they do find the consultancy facilities inadequate while the entrepreneurs from non-business communities find this problem of less significance due to their social networks, for they easily manage to get guidance from the various government departments, since the civil servants tend to help only those known to them.

5.4. State Regulation

State regulation was the dimension ranked as crucial for entrepreneurship by our respondents. Private enterprises function within the conditions largely created by the state and so the latter has a vital role to play in the development of entrepreneurship. There is a close relationship between an enterprise and the environment around it. The entrepreneurs can succeed only if they operate within the framework of a free economy. Unfortunately, in India, the entrepreneurs have to function in an environment of a mixed economy where they are subject to so many governmental controls and regulations. These controls take different forms – licensing, excise, permits for import of raw materials and export of finished products, availability of foreign exchange etc. The necessity of securing government permission before any task can be initiated creates nothing but obstacles in the way of entrepreneurs. This is coupled with a total lack of any kind of incentives relating to technology, finance, guidance etc.

The sole objective of the government should be the attainment of industrial growth at a fast pace and for that the state must generate a favorable industrial climate. In order to create a positive environment for private industrial investment, a policy of the support and incentive systems directed towards industrial growth should exist. Special concessions and privileges should be offered for attracting new entrepreneurs. The state, on the contrary, has created so many controls and constraints that the entrepreneurs in general feel chained from all sides. Instead of reducing the call on entrepreneurial abilities and facilitating entrepreneurial functions, the governmental economic controls act as deterrents in the very first stage of starting a unit.

Dealing with the government departments involves a lot of difficulties. This problem has two dimensions. First, a lot of delay is caused by bureaucratic procedures. The government has designed certain technical complexities, which give the bureaucrats immense power. The civil servants, instead of acting as partners in industrial development, tend to misuse their powers. They are accused of exhibiting an attitude of indifference and apathy.

Therefore, as a rule it takes a very long time and involves a great deal of effort and expenditure to get things done. Thus, the entrepreneurial spirit, which is already bruised due to problems of unavailability of finance, technology, raw materials etc., gets further dampened by the rigid formality of intricate official routine and the callous attitude of the bureaucrats. Second, the various departments are themselves not coordinated. For instance, we came across a number of cases where the city development authority allotted industrial sites to the entrepreneurs in an

industrial estate while the electricity and water departments had not even laid the electric cables and water pipes in that area. Nevertheless, the entrepreneurs were supposed by the government to start the construction of their factories within a fixed period of time. The result was complete chaos.

Another factor that creates difficulties for the entrepreneurs is the securing of permits for import of raw materials and export of finished goods. Similarly, availability of foreign exchange, too, may pose some problems. The data on the various factors related to state regulation show that whether it is a business or a non-business community, state regulation does not spare anyone. In fact, their problems are quite similar. Of the four factors, bureaucratic delay and non-cooperation of civil servants has been ranked as the most problematic (2.84 and 3.08). Next comes the presence of governmental economic regulations (2.77 and 2.91). The third position has been given to the problems created by the various policies relating to imports and exports (2.68 and 2.88), and in the last place comes the problem of non-availability of foreign exchange which seems to be a minor irritant only (1.53 and 1.48). What stands out here is that irrespective of one's caste or community background, the entrepreneur is troubled maximum by the regulatory nature of the state.

6. CONCLUSION

This study was undertaken with the objective of identifying factors that unfavorably impact entrepreneurial start-ups, thwart the emergence of widespread entrepreneurship and ultimately hamper economic development in less developed societies. Our data confirmed (a) that the role of psychological and sociological factors is less crucial for start-ups than that of the economic factors; (b) although entrepreneurs still come mainly from the traditional business communities, the non-business communities are also slowly throwing up new entrepreneurs; (c) of the various dimensions of the external environment, the state regulation and lack of guidance and training facilities turned out to be the most crucial in determining the success or non-success of entrepreneurial startups and (d) in terms of the difficulties encountered in entrepreneurial start-ups, the entrepreneurs, whether they hail from business or non-business communities, do not differ significantly. It is time for the policy makers to realize that a supportive business environment is a fundamental prerequisite of entrepreneurial growth which would get a boost if only the state took steps in that direction.