



A Study on factors influencing Entrepreneurship Development in India

Sandhya Bhagat

Contractual Lecturer in Commerce in Govt. Degree College Ramnagar, Jammu

Abstract

The Indian entrepreneurial environment was heavily based upon long-held family business and closely knitted blood ties. Beginning of the I.T. revolution in early 1990 to 2000s marked the change in the business orientation of the Indian market. New generation entrepreneurs started to come up. The government of the nation soon realized that startups could not function in a vacuum; they need a nurturing ecosystem to sustain, grow, and to be able to compete on a global scale. For a developing nation like India, entrepreneurship shares a positive relationship with the growth of the economy. The research paper focuses on the new generation entrepreneurs in India and how they are sustaining in the environment and the factors which determine the support of entrepreneurs. The study analyses the factors that influence the development of entrepreneurship in India, problems faced by them in their path and study the supporting factors. The study aims to build up a frame work of entrepreneurship ecosystem in India. Primary data collected from various entrepreneurs from different cities are analyzed to draw conclusions.

Keywords: Socio-economic background, Influencing factors, entrepreneurial motivation, entrepreneurial perception, entrepreneurial hurdles

Introduction: Entrepreneurship in India is still dominated by small enterprises. They account for over 95% of establishments and 80% of employment in the manufacturing sector. They have also become more productive. Much of the manufacturing sector's employment growth has come in the form of small establishments in tradable sectors; they have contracted in the non tradable sector.



The Indian entrepreneurial environment was heavily based upon long-held family business and closely knitted blood ties. However, that scenario has been changing over the last three decades. Beginning of the I.T. revolution in early 1990 to 2000s marked the change in the business orientation of the Indian market. New generation entrepreneurs started to come up. The government of the nation soon realized that startups could not function in a vacuum; they need a nurturing ecosystem to sustain, grow, and to be able to compete on a global scale. For a developing nation like India, entrepreneurship shares a positive relationship with the growth of the economy. Indian infrastructure and capital market are still believed to be at the infancy stage, but the nation is steadily building after the Great Recession. The country has the 5th largest GDP in the world and 2nd highest population as per the report of Press Trust of India (PTI) (Hindustan-Times, 2020). The country has started to attract investors from all over the world due to some successful startups like OYO, Flipkart, Ola, Zomato and Paytm. Indian entrepreneurs are believed to be quite different from the rest of the world; they heavily rely upon a mindset that is, doing more with less. Entrepreneurs worldwide focus on developing their venture while Indian entrepreneur depends on creative thinking and hustling skills to reach the level. India scores highest on parameters like product innovation, process innovation, and competition as per the GEDI report 2019.

The Indian economy is steadily developing, and the GDP is growing year by year, but it is still tough to be a successful entrepreneur in this country. The reason for this majorly lies upon the socio-cultural factors and the risk associated with it. The traditional Indian families, especially the middle class and the lower class, has seen self-owned business to be a bad idea and always preferred job over it (Julka, 2013). India faces a huge gap in the entrepreneurial environment and lacks a cultivating ecosystem. The country also lacks availability of risk financing, technology absorption, and networking. These 3 are the criteria where India scores lowest out of the 14 pillars of entrepreneurship given by GEDI. The 3 Entrepreneurial A's by GEI also have a significant role to play; they are Entrepreneurial Attitude (ATT), Ability (ABT), and Aspiration (ASP). India is ranked 78th in this list which is quite low and tells a lot about the mindset of the people towards entrepreneurship (GEI, 2019 Entrepreneurship in India is still



dominated by small enterprises. They account for over 95% of establishments and 80% of employment in the manufacturing sector. They have also become more productive. Much of the manufacturing sector's employment growth has come in the form of small establishments in tradable sectors; they have contracted in the non tradable sector.

Literature Review: A thorough study of existing research literature is important to identify the important research findings which gives a pathway for further work.

Young, E.C., & Welsch, H.P. (1993) examines the factors affecting entrepreneurship development in Mexico. Addressing the objectives factors were identified were financial independence, zeal to supplement family income, family encouragement and other encouraging support groups, luxury of developing a hobby, extension of credit from suppliers & discriminatory practices. Business regulation factors like recession, inflation, government regulations, high interest rates, federal taxes, state insurance, high wages and financial factors like seasonal fluctuations of cash, lack of working capital, lack of financial information and lack of working capital are other factors which influence entrepreneurship. The negative factors are recruiting problems, business obstacles like obtaining a loan, finding good location, lack of counsel or knowledge and individual obstacles like lack of encouragement, lack of confidence in customers and risk of startup.

Startienė, G., & Remeikienė, R (2008) conducted a study which was oriented towards gender gap in orientation towards entrepreneurship. The results highlighted Various factor groups affecting gender gap in entrepreneurship such as demographic factors like immigration; economic factors like labor market, unemployment; institutional and government factors like capital availability; organizational factors; social and psychological factors; and cultural factors. The study derived a division of various factors among groups, "Push" which increases the gender gap and "Pull" which decreases the gender gap.

Gaddam, S. (2007) conducted a study in which the research work proposes, two factors influencing entrepreneurship, external and internal. The external factors can be broadly classified into economic factors like trade policies, taxation levels, patents, government intervention,



regulations and monetary policies and per capita income. The internal factors can be classified into the need for achievement, locus of control and risk bearing capacity. Other factors are demographic factors like age, experience, education; environmental factors; cultural factors like the recognition that is given to venture creators, the prevailing attitudes towards success and failure and the degree to which people regard the pursuit of opportunities as socially legitimate; social factors like lifestyle, tastes and preference.

Ertuna Z.E. and Eda, G. (2011) have conducted a study and suggested that that the factors affecting the intentions are locus of control; need for achievement; innovativeness; risk taking ability. Other factors which control it are gender and family background of an individual. Wage rate and unemployment rate are the extrinsic factors which are not considered in the study. Religion, family income, self-efficacy and energy level are other factors which influence entrepreneurial intentions.

Kshetri, N. (2011) suggests through his study that there are three institutional pillars which affect entrepreneurship- regulative, normative and cognitive. Regulative component contains factors like government support towards entrepreneurship, strong rules of law and enforcement mechanism. Normative component contains factors like societal perception of entrepreneurs and societal expectation from entrepreneurs. Cognitive component deals with factors like assessment of entrepreneurship as an occupation and relationship between culture and entrepreneurship.

Lewis, Prestin; Lu, Wei; Yin Hao; Li, Yong; Vaccaro, Louis C, (2013) suggest through their study that there are three major forces that govern entrepreneurship environment- culture, economics and policy. Culture is determined by number of hours worked, likeliness to become an entrepreneur and social network (level of trust and strength). Economic environment is determined by chances that the venture will succeed and funding opportunities whereas different policies that affect entrepreneurship are taxation policy, legal approval to start a business and government sponsored programs to start a business.



Objectives:

1. To identify the factors that is responsible for development of entrepreneurship in India.
2. To Study the effect of socio-economic background on perception of people towards entrepreneurship.
3. To Study the effect of place of origin (Birth and upbringing) on motivational factors for becoming entrepreneur.
4. Develop a conceptual framework of entrepreneurial ecosystem.

Research Methodology: Research design is a blue print of the study conducted, which includes steps of data collection, sample selection, process of data and finally interpretation of the data.

Research Design: This is descriptive research which uses quantitative and analytical approach. This work establishes a conceptual framework to find the casual relationship among the factors. Factors such Socio-economic background, business related factors, economic factors, financial factors, technological factors, cultural factors and other factors are identified based on the literature review for which primary data is collected.

Sample Plan: Primary data have been collected using a specially designed questionnaire for the purpose. Questionnaire has been divided into 2 parts. first part includes questions to collect demographic variables and socio-economic background of the respondents. Second part includes questions based on variables affecting entrepreneur as identified through literature reviews. A total of 126 filled questionnaire were received from entrepreneurs and screened, 7 out of which were rejected due to insufficient responses filled. Total of 119 responses were analyzed. Extreme care to be taken that Information collected from Secondary data sources should be authentic and verified sources is to included. For the purpose government portals and trusted sources such as Central Statistical Organization (CSO) data of Indian Economy, RBI reports, Indian Economic survey reports, etc. are quoted for the reference of data. Also Verified and published reports, journals and websites are considered for references of data.



Data Analysis Tools: The principal statistical tools considered for data analysis are Ranking Analysis, Factor Analysis, Hypothesis testing through ANOVA and other tabular and graphical representations for appropriate analysis.

Data Analysis and Interpretation

Socio-economic background of Entrepreneur:

The respondents were analyzed for their socioeconomic background. The responses were ranked according to highest responses given the first rank.

Table 1

Socioeconomic situation of family	Ranks
Entrepreneurs whose parents are professional Qualified degrees like MBA's, Ph.D.'s, or MD	1
Entrepreneurs whose parents have made their own wealth	2
Entrepreneurs whose parents have been born in rich and wealthy family. They hold old prestigious wealth.	3
Entrepreneurs whose parents are from lower middle class family, They hold some education qualification.	
Entrepreneurs whose parents are not employed or below poverty.	5

Data Analysis indicates that highest number of entrepreneurs are from highly qualified families where parents are professionals with post-graduates' degrees. This is followed by individual whose parents have become richer in their life time. The least number of entrepreneurs come from families wherein parents are lower paid white collar workers. However, there is no representation for entrepreneurs whose parents are unemployed and below the poverty line.

Generation of Entrepreneur: The Results show that, 50% of the entrepreneurs didn't had any family owned business and are the first generation entrepreneurs. They are followed by Second Generation entrepreneurs.

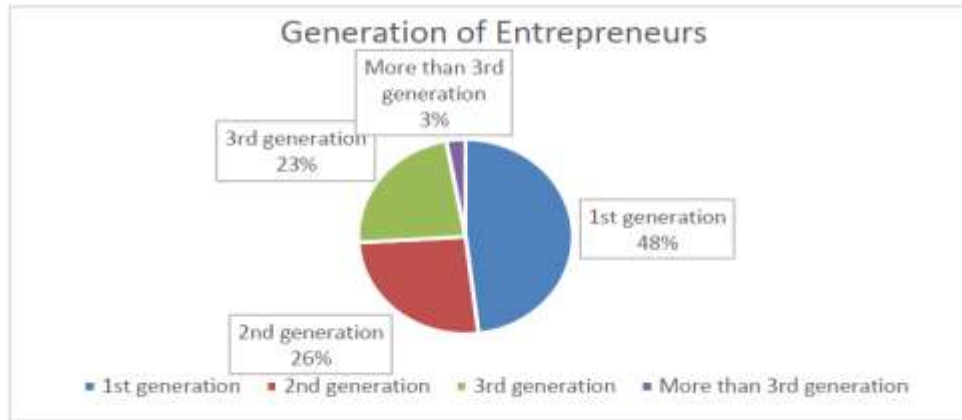


Figure 1

Family Obligations of Entrepreneurs: The results of analysis on the marital status of the entrepreneur while starting their first business, shows that entrepreneurs start business when they have lesser family obligations, i.e. when they are unmarried or single. Results of analysis of the number of children living in the household, the sample suggests that, entrepreneurs' start ventures, when they have a limited family obligation that is, no children.

Hypothesis testing

ANOVA

Hypothesis-1: Motivational factors and city of birth and upbringing

H0: There is no significant difference in the various motivational factors across the city of birth and upbringing

H1: There is significant difference in the various motivational factors across the city of birth and upbringing.

The city of birth has been divided into four groups; (1) metropolitan cities (2) Urban cities (3) Semi-Urban cities and (4) Rural cities.



Table 2

	Motivational Factors	
Hypothesis Ho: $\mu_1 = \mu_2 = \mu_3 = \mu_4$ H1: $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$	P-value	Decision $\alpha = 0.025$
Wanted to create fortune and wealth.	0.559 $P > \alpha$; H0 is accepted	0.559 $P > \alpha$; H0 is accepted
Co-owner motivated to join in the company and become partner	0.348 $P > \alpha$; H0 is accepted	0.348 $P > \alpha$; H0 is accepted
Had a business Idea and wanted to capitalize it	0.584	$P > \alpha$; H0 is accepted
Had a technical knowledge and wanted to make it work.	0.495 $P > \alpha$; H0 is accepted	0.495 $P > \alpha$; H0 is accepted
Inclement towards Entrepreneur culture	0.974 $P > \alpha$; H0 is accepted	0.974 $P > \alpha$; H0 is accepted
Wanted to have something of own	0.854 $P > \alpha$; H0 is accepted	0.854 $P > \alpha$; H0 is accepted
An entrepreneur was a role model	0.910 $P > \alpha$; H0 is accepted	0.910 $P > \alpha$; H0 is accepted
Risk taking ability	0.709 $P > \alpha$; H0 is accepted	0.709 $P > \alpha$; H0 is accepted
A creative mindset towards business	0.695 $P > \alpha$; H0 is accepted	0.695 $P > \alpha$; H0 is accepted
Legacy of family being entrepreneur	0.551 $P > \alpha$; H0 is accepted	0.551 $P > \alpha$; H0 is accepted
Had a family Business and inherited it	0.922 $P > \alpha$; H0 is accepted	0.922 $P > \alpha$; H0 is accepted
Family motivation to become entrepreneur	0.581 $P > \alpha$; H0 is accepted	0.581 $P > \alpha$; H0 is accepted
Didn't had working opportunity at native place	0.970	$P > \alpha$; H0 is accepted
Didn't wanted to work for someone else	0.154	$P > \alpha$; H0 is accepted
Did not wanted to study higher.	0.954	$P > \alpha$; H0 is accepted

Interpretation: Here, μ_1 represents population mean of motivational factors for entrepreneurs born in metropolitan cities; μ_2 represents that of urban city; μ_3 represents that of semi-urban city; μ_4 represents that of rural city.



At a significance level of 0.025, it is observed that there is no significant difference in the various motivational factors across the city of birth and upbringing.

The results show that H0 is accepted and H1 is rejected. We can conclude that there is no difference in motivational factors of entrepreneurs across different cities, their upbringing has no effect on the thinking and perception towards entrepreneurship. This may be due to global connectivity and the knowledge exposure of business arena which develops business minds.

Factors Affecting the Development of Entrepreneurship

FACTOR ANALYSIS

Test for internal Consistency -Cronbach Alpha: Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. It is considered to be a measure of scale reliability. Cronbach's alpha can be written as a function of the number of test items and the average inter-correlation among the items

Reliability Statistics	
Cronbach's Alpha	N of Items
0.872	68

The value for cronbach alpha is .872 which is near to 1. This shows that data is reliable and fit for factor analysis.

Factor Extraction: Following factors are identified according to the principal component matrix.

Factor 1: Economic Factors
Presence of high income level in the country
Per capita income
Availability of jobs in the economy
Low economic activity in the economy
Price level of the product or service you were offering



This group consists of the economic factors which promote development of entrepreneurship. These variables are related to economic interest of the entrepreneurs which is an important aspect to plan for.

Factor 2: Business factors
Contractual obligations - Documentation, paperwork and approvals from the government
Time delays in obtaining government sanctions
Entry barriers
Exit rules to close your business
Determination of the lending rates of financial institutions
Export, customs duties, taxes and levies by the government
Setting up of base prices by the government in exporting & importing products
Control over timelines to repay loans taken
Tax benefits provided by the government
Exemptions provided by the government to entrepreneurs
Government initiatives to promote entrepreneurship
Presence of special economic zones
Government regulation in determining salaries for employees in a start up
Government regulation on sourcing of products
Government regulation in deciding the job security of employees in a start up
Presence of industrial clusters

These variables related to the business ecosystem of the entrepreneur's business venture. These are important aspects which one should consider before choosing the field of business and the type of business

Offerings.

Factor 3: Financial factors
Seasonal fluctuations of cash
Lack of working capital
Lack of financial information
Capital availability



These variables are related to the financial aspect of the entrepreneur and hence these are termed as financial factors.

Factor 4: Cultural factors
Recognition that is given to venture creators
The prevailing attitudes towards success and failure
The degree to which people regard the entrepreneurship as a career
The religion you belong to
The caste you belong to
Your gender

These variables are attributed to the cultural and social aspects of the entrepreneur.

Factor 5: Technological Factors
Access to technology and applications
Readiness of status of technology
Access to technology and competence networks

These factors are grouped under technological factors as these are related to technological needs of the entrepreneur.

Factor 6: Other factors
Your university education
Entrepreneurship education received during school & college
Your prior industry / work experience
Lessons you learned from your previous successes
Lessons you learned from your previous failures
Company's founding team
Advice/assistance provided by company investors
Finding a location
Personal/social networks
Good fortune
Migration from another town or city
Existence of a family business



These factors are other than the grouped factors. These are general factors hence termed as other factors.

Conclusion:

As revealed by this study it is obvious that there exists a plethora of factors which impact the issue of 'wanting to be an entrepreneur who in turn does not permit gross generalization. However, factors like economic, business and financial background besides educational background of parents, parents who have grown rich during their lifetime, role and extent of government involvement besides availability of capital have a pronounced impact in driving entrepreneurship. It should also be noted that 50 % of entrepreneurs were first generation entrepreneurs lending further credence to the factors mentioned herein. On the other hand, caste and religion do not appear to be very significant. Perception of entrepreneurs towards their motivational factors is similar and does not show significant difference depending on their place of birth or origin. This shows that place of birth or the upbringing is no longer a hurdle factor for anyone to grow-up and stand in the business arena as an entrepreneur.

There are various factors that promote the development of entrepreneurship in India which could majority are classified into Economic factors, Business factors, financial factors, Technological Factors, Cultural Factor, but not limited to this are some other factors too. These factors are crucial according to the study for development and we can suggest that policies of government and business should focus on supporting entrepreneurs on these factors and removing the hurdles in them.



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