



Policy Towards Novice, Serial and Portfolio Entrepreneurs

■ *T R Shastri**

* *Senior Faculty, Manipal Universal Learning, Bangalore*

Introduction

It is an interesting proposition to examine whether entrepreneurship has an addictive feature, in the sense, will an entrepreneur having tasted success in his endeavor, repeat his attempt again or even 'again and again'. Will setting up a business becomes a habit to such a person like any other mundane habits in his daily chore. The answer selectively is 'yes'. In other words, there are a class of entrepreneurs who enjoy the creation of enterprises and having once established a successful one, go on to start others. Such entrepreneurs who establish multiple enterprises are called "habitual entrepreneurs" as compared to one time entrepreneurs who may have started only one enterprise in their entire entrepreneurship career. For an one time entrepreneur, his maiden effort is an end by itself. However, for a habitual entrepreneur, each effort is a step in learning. Each subsequent effort is likely to be better than the previous one. Such multiple enterprises owning entrepreneurs may have handed over their ventures to professional managers before starting the new ones or may be managing multiple ventures concurrently.

Entrepreneurs are broadly classified into three categories viz.: Novice entrepreneurs, serial entrepreneurs and portfolio entrepreneurs. As the name suggests, novice entrepreneur is one, who is venturing into entrepreneurship for the first time. Obviously lack of prior business ownership experience is the criterion. If an entrepreneur owns multiple businesses sequentially i.e. establishes next one after closing or disposing of the previous, he is called a serial entrepreneur. Currently he has only one enterprise but the

number of his ownership experiences is more than one. Interestingly, he may have failed in one or more of the previous businesses. An entrepreneur who owns multiple businesses simultaneously is called portfolio entrepreneur. The latter two categories are called habitual entrepreneurs since they have prior business ownership experience though to start with they may have been novice entrepreneurs.

Society and entrepreneurship

An entrepreneurship generally results in wealth creation i.e. economic prosperity to the society in which it is coming up in addition to the growth of wealth of the entrepreneur and other stake holders. Entrepreneurship generally results in reduction in unemployment. It is even described as driver of economic growth. Wealth creation is therefore considered as a positive contribution to the society. While making a social cost benefit analysis (also called economic analysis) of any project, the cash flow entries are taken into account not at the financial invoice prices but at the shadow prices which take into account the cost of impact on society. Adverse effects like environmental damages, utilization of scarce resources of the society such as institutional concessional finance, preferred duty structure etc will make the shadow price higher than the market price and thus increase the ostensible cost of the project. However the benefits rendered to the society like employment or infrastructure created will beneficially add to the profitability estimates of the project and can make a financially non viable project as an economically viable project under the social cost benefit analysis. Many of the mega projects undertaken by Governments or governmental undertakings fall

under this category. Wealth creation and in particular dispersed wealth generation are considered as positive features of a new project under this method of project appraisal.

Having realized that growth of entrepreneurship is in the interest of the society, States tend to support such activity by extending hard or soft incentives i.e. financial or non financial supports. I.e. Such policy support for business growth can be either in the form of direct financial support or incentives or in the form of other proactive policy measures. Financial support will include tax benefits, providing institutional credit facilities at concessional or liberal terms including earmarking quota of public institutional funds for preempting by these entrepreneurs, concessional availability of factors of production like land, raw materials, energy and other inputs, preferred labour regulations etc. Non financial policy initiatives include industrial training facilities, procedural simplifications including 'Trade Facilitation' {one of the four Singapore issues agreed under the WTO negotiations}, sectoral reservations, credit enhancement measures like guarantees extended by credit guaranteeing institutions for export or domestic credits and such other protective measures.

Extending policy support to entrepreneurial growth can be a debatable issue depending on the political system prevailing in the country. While the underlying principle of employment generation, economic growth etc are subscribed by all systems, the intended means to achieve the same are different. Countries world over have different approaches for handling economic policies starting from socialistic approach of economic equality to complete freedom with a hands

off policy by the government. Besides, policies themselves have been frequently changing in most geographies, generally with a bias from the former to the latter policy mentioned above. The diversity in depth and scope of States' involvement in growth of entrepreneurship therefore does not enable a uniform measurement of the States' policies towards entrepreneurship and in particular its discriminative treatment towards the three categories.

It should be noted that not many entrepreneurs are capable of wealth creation. Some may not be interested in the benefit that will accrue to others in the society. The capability, speed and volume of wealth creation agreeably differ depending on the type of entrepreneurs viz.: Novice entrepreneurs, serial entrepreneurs and portfolio entrepreneurs. E.g. it can be easily argued that for faster and higher results, the policy should be favouring the portfolio investors whereas a socialistic approach would vote for policy preferences towards novice entrepreneurs. There is large statistics to prove that novice entrepreneurs have made better contributions towards employment generation at least in numbers. Thus if State were to form a policy to support entrepreneurship, an obvious dilemma would be, should it have bias to anyone of the three categories and if so what are the logical formulations to support that policy.

Present constraints

There is considerable difference in the requirements of and environmental scanning results for the three categories of entrepreneurs. While the novice entrepreneur generally is likely to be a fresher with limited financial, managerial and technical

experience, the other two categories will have abundant expertise. A serial entrepreneur however may not be having financially useful experience if his earlier units had all closed down one after the other. The resources available with the three categories may also be different. The portfolio entrepreneur is likely to have relative advantage in human resources and perhaps also may have financial flexibility and acceptability in the market. Even trade credit may be available to him much easily and on better terms. The serial entrepreneur's position depends on his past experience and his ability to recall it. If his earlier units had failed, he may be hesitant to associate those names. His earlier contacts may be counter productive and may not help in securing even normal trade credit. However a positive achievement could be a great advantage like in case of several software entrepreneurs, who have successfully launched, sold and started some other enterprises. Venture capitalists will be queuing to support.

The confidence level will be the highest with the portfolio entrepreneur. It could be equally high or at the lowest with the serial entrepreneur depending on his past experience. The novice entrepreneur is likely to be either highly conservative with no risk appetite or an adventurous stunt man with no risk barrier. The lenders' appraisal of the 'riskiness' also will thus accordingly vary with the category of the entrepreneur. This will effect both the cost and ready availability of financial resources and hence the viability of the enterprise.

Both the serial and portfolio entrepreneurs have the great advantage of knowing the market dynamics. Thus they have the

advantage over novice entrepreneur in sourcing, marketing, shipping and other logistics. The first mover advantage will be of great help. While serial entrepreneur is likely to move in the same product range for his new ventures, the portfolio entrepreneur will be having a bouquet of industries of wider variety with or without any common thread. But both of them are likely to have the product and market knowledge for the new venture being taken up, which will be a major handicap for the novice entrepreneur.

Policy support

Since the environmental background is varied, the policy support requirements for the three categories of entrepreneurs will also be different. The novice entrepreneur will look for adequate financial support from lending institutions and guidance or hand-holding from the State in his start-up. He may require supportive policy for competing against other two categories of advantaged entrepreneurs. E.g. reservation of certain categories of industries exclusively for small sized entrepreneurs and concessional rates of interest on institutional lending up to defined ceilings are some such supportive steps. Government being one of the largest entities, in any country, its purchase is always large in volume and could alter the market dynamics. If there is a preferential policy for buying a part of its requirements or purchasing at preferential rates, that could be a great advantage for a novice entrepreneur. Another of the four deadlocked 'Singapore Issues' pushed by Japan and the European Union under WTO negotiations talks about the 'greater transparency in government purchasing, which might help foreign companies win public sector business'. But logic behind this

preferential treatment is applicable *mutatis mutandis* to purchases from novice entrepreneurs also. An assured market can be the greatest confidence building measure for a beginner.

The serial entrepreneur may look for financial support like a novice though may not be so desperate. However he may not look for any support for his marketing efforts or to face others' competition. This is because of his prior market knowledge. However, where his earlier ventures had failed, there may be stigma attached to him. E.g. in accessing capital markets, in availing institutional finance etc. He may have been included in any prohibited lists maintained by the State regulators controlling this. Failure of an enterprise should not be confused with entrepreneurial failure. If his past business failures are on genuine accounts, an exit route is what he will be looking for. While a blanket permission may not be advisable, a policy discrimination on a case by case is desirable in such cases.

The portfolio entrepreneurs are likely to be with managerial competence in view of their owning more than one enterprise. They may have been progressing towards industry leader status in select areas of activities. Their demands would be with greater muscle power and even with industry cartels backing. Support they demand may include policy changes in rules relating to taxation, cross border trade, employee relationships, monetary and fiscal policies. While their demands may look exaggerated, they can not be ignored. It should be noted that portfolio entrepreneurs generate the maximum wealth with highest efficiency of resources utilization among the three categories. This category has the ability to venture into 'risky' and

'greenfield' areas. Enterprises with higher initial capitalization have higher chances of success. Portfolio entrepreneurs generally fall under this category and therefore wastage of financial resources is low with such entrepreneurs. For a developing country where capital is scarce and precious, this is an important decision enabling criterion. If political climate permits, countries may wish to have only such portfolio entrepreneurs. However such narrow partisan approach is not advisable.

Policy perspectives in India

If enterprise can be loosely taken as an industrial activity for the purpose of this analysis, there are interesting observations to be made on the policy initiatives prevailing in India over the period of time. The official industrial policy resolutions pronounced by the Government of India from time to time (from April 1948 to July 1991) clearly indicate the changing philosophy. State owned heavy industries and protected small industries in private sector were considered as the only feasible combination in early days. Any exception was only through industrial licensing resulting in what is popularly known as the 'licence and permit Raj'. In tune with global trends, the Country's approach also changed and the industrial licensing and pampered domestic industrial sector gave way to free industrial growth with doors open even to foreign capital in most sectors subject to sectoral and statutory caps. These policy changes as affecting the entrepreneurship can be summarized as under:

Policy summary

The novice entrepreneur continues to be treated with having a primary role in industrial growth with availability of concessional finance, exclusive

earmarking of institutional funds, reservation of industrial activities to avoid competition from larger habitual entrepreneurs, preferential tax treatment etc. There are even guidelines aiming to protect the novice entrepreneurs who are the sub suppliers to larger portfolio entrepreneurs. A further policy impetus was given by identifying smaller of the novice entrepreneurs by carving out a category called tiny industries and providing still better market conditions. There are additional supportive policy measures benefiting women novice entrepreneurs and novice entrepreneurs belonging to certain neglected strata of society. However after the reforms process commenced, there has been a slowdown in increase of state owned initiatives in supporting them. The growth of knowledge based enterprises like in software services has also reduced the importance of State support as such entrepreneurs are able to grow without much policy support.

It should be clearly realized that there are no official statistics of entrepreneurs belonging to the three categories. In particular, the data relating to serial entrepreneurs obviously will not be available, as none would like to admit about his failed earlier ventures. However there are specific policy measures governing rehabilitation of industrial units since it is well realized that starting a new enterprise is much more difficult than rehabilitating an ailing unit and closure always leads to economic distress on several families in the society. Financial institutions and banks in particular have been repeatedly advised by the central banking authority to consider settlements, compromises and rehabilitations rather than closures

as means of recovery. Enactments like Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act 2002 are specifically aimed at such curative measures. Thus serial entrepreneurs are provided with reasonable backrests by treating failure of a unit and failure of an entrepreneur as distinct. However to ensure public welfare, stringent measures are in force to prevent intentional failed entrepreneurs from accessing public funds for their subsequent activities. Portfolio entrepreneurs generally would have reached a stage where protection is not needed. In fact some of the larger enterprises formed the 'Bombay Club' to face the onslaught of international competition when cross border reforms were introduced.

Government policies are framed in consultation with all interested parties including portfolio entrepreneurs. E.g. during formation of each annual budget, the finance minister personally meets the larger (i.e. portfolio) entrepreneurs and implements their suggestions to the extent feasible. Such entrepreneurs have their own associations like Chambers of commerce which submit memoranda to the Government annually prior to the budget and in between as and when there are issues. Policy formation is done taking into account these inputs also. Reserve Bank generally publishes the draft guidelines on new issues seeking comments before implementing them. Thus policy formulation in India is generally based on a consultative approach.

Extracts of Industrial Policy Resolutions in India pertaining to Small scale industries

1. Industrial policy resolution dated 6th April, 1948

- This first policy laid the foundation of the policy for industrial growth.
- Highlighted the very important role Cottage and small-scale industries in the national economy.
- In view of the likely non availability of getting capital goods for large scale industry, recourse to small-size industrial co-operative throughout the country.
- The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

2. Industrial policy resolution dated 30th April 1956

- Speeding up of industrialization as a means of achieving a socialist pattern of society
- Policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies will continue.
- The State will concentrate on measures designed to improve the competitive strength of the small scale producer.
- Many of the activities relating to small scale production will be greatly helped by the organisation of industrial cooperatives.
- To meet development of the village and small scale industries, proper managerial and technical cadres are being established.

3. Industrial policy statement dated 23rd December, 1977

- Laid emphasis on decentralisation and on the role of small scale, tiny and cottage industries
- Within the small scale sector, special attention will be given to units in the tiny sector
- Schemes will be drawn up for making available margin money assistance especially to tiny units in the small scale sector as well as to cottage and household industries.
- Government will consider introducing special legislation for protecting the interest of cottage and household

industries with a view to ensuring that these activities which provide self-employment in large numbers get due recognition in our industrial Development.

- To extend this important organisational pattern to all the districts in the course of the next four years. Suitable financial and organisational support will be provided to the State Governments to achieve this objective.
- Banks will also be expected to earmark a specified proportion of their total advances for promotion of small, village and cottage industries.
- To see that no worthwhile scheme of small or village industry is given up for want of credit.
- Measures such as purchase preference and reservation for exclusive purchase by Government Departments and Public Sector Undertakings will also be used to support the marketing of these products.
- The role of large scale industry will be related to the programme for meeting the basic minimum needs of the population through wider dispersal of small scale and village industries and strengthening of the agricultural sector.

4. Industrial policy statement of July, 1980

- Focused attention on the need for promoting competition in the domestic market, technological upgradation and modernization and to achieve export base and encourage foreign investment in high technology areas.
- To reverse the trends of creating artificial divisions between small and large-scale industry under the misconception that these interests are essentially conflicting.
- To promote the concept of economic federalism with the setting up of a few nucleus plants in each district identified as industrially backward, to generate as many ancillary and small and cottage units as possible.
- Small is beautiful only if it is growing.
- The enhancement of the limit in terms of investment in plants and machinery to help genuine small scale units and to facilitate long over due modernisation

of many of the existing small scale units.

- To strengthen the existing arrangements to facilitate the availability of credit to the growing units in the small scale sector.
- Unless it is apparent that the purpose is being served, Government will review the system of incentives.

5. Industrial policy 1990

- The investment ceiling in plant & machinery for small scale industries increased.
 - A new scheme of Central Investment Subsidy exclusively for the small scale sector in rural and backward areas capable of generating higher level of employment at lower capital cost would be implemented.
 - A number of technology centers, tool rooms, Process and Product Development Centers, testing centers, etc. will be set up under the umbrella of an apex Technology Development Centre in Small Industries Development Organisation.
 - A new apex bank known as SIDBI established to ensure adequate and timely flow of credit to the small scale industries.
 - A targeted approach will be adopted to ensure implementation and to facilitate monitoring this objective.
 - Bureaucracy controls will be reduced so that unnecessary interference is eliminated. Further, procedure will be simplified and paper work cut down.
6. Statement of industrial policy dated July 24, 1991
- Government will review the existing portfolio of public investments with greater realism in respect of industries based on low technology, small scale and non-strategic areas etc.
 - Industries reserved for the small scale sector will continue to be so reserved.