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Sustainability and Poverty Reduction

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# **SME Development in Northeast Thailand: Implications for Sustainability and Poverty Reduction**

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## **Abstract**

This article examines the issues and challenges involved in developing the small and medium-sized enterprise (SME) sector in the region of Northeast Thailand, known as “Isan”; and it highlights the key roles played by public policy and government, particularly in financial support and training. The results of the study reveal a lack of basic business knowledge and skills among SME leaders, particularly in areas such as marketing management, accounting and human resource management; and the article thus identifies a pressing need for targeted investment in technology transfer, capacity building and business skills training. The study thereby explores the reflexive relationships between SME development,

entrepreneurship, sustainability and deprivation, and argues that neither poverty eradication, nor sustainable development can be achieved without a thriving SME sector, adequately supported by government.

*Keywords:* SME, business development, entrepreneurship, Isan, Thailand poverty reduction

## **Introduction**

Smallbone and Welter (2001) observed that government is a crucial factor in the development of the SME sector. As with many developing countries, Thailand's successive governments have attempted to encourage the SME sectors, but have had mixed success, due to a disjuncture between politics and the complex and often challenging realities of SME sectors in various regions of the country (Holtz-Eakin, and Rosen, 2004). This divergence, between rhetoric and reality, between intent and result, has had major implications for the development of SMEs in poor regions, and consequently the economic welfare of people who live there. This lack of "joined up thinking" between government policy and regional business realities has engendered frustration among SMEs in such areas. It is thus important that these disconnects are identified, analysed and resolved.

This paper examines the challenges and frustrations experienced by SMEs in an economically disadvantaged region of Thailand, so as to better understand the relationships (or lack of) between existing government policy and regional SMEs. As Holtz-Eakin, and Rosen (2004) and Wagner and Sternberg (2004) observed, bridging the gap between government policy and SME business realities is vital for the economic and social development of disadvantaged areas, and for the overall sustainability of developing countries' economies overall (see Acs and Storey, 2004).

While it is widely recognized that SMEs contribute to economic dynamism and growth around the world (Acs and Storey, 2004), such businesses are particularly important in Thailand. OSMEP (2008) found that such organizations constitute 99.7% of all Thai enterprises, contributing 37.9 % of total GDP, while employing 67% of the manufacturing workforce. Because of the importance of this diverse sector to the economy, the Thai government has developed wide-ranging policy aimed at supporting such enterprises, which focuses on increasing knowledge and skills among entrepreneurs and SME leaders, and enhancing their abilities to develop their organizations sustainably.

Northeast Thailand, or “Isan” as it is known, is the largest and poorest region of the country (De Vries and Ruaysoongnern, 2010). It is also one of the most populous, with 21,234,000 people out of a national population of 63,891,000 (IPSR 2011), living in an area of about 170,000 sq. km, which compares to 513,120 sq. km. for the whole country. While Bangkok and its surrounding areas dominate the Thai economy, Northeast Thailand is, in spite of its relative poverty, a significant economic region in its own right; with large numbers of SMEs contributing to the economic welfare and vitality of the region.

SME development is vital in this region as the performance of this sector impacts upon the lives of millions of low income people, many of whom are stuck in a cycle of underachievement and deprivation. As Banerjee and Duflo (2011) observe, the harsh realities of poverty mean that decision-making among the most disadvantaged can differ radically from decision-making among more affluent groupings. This means that well-meaning external or “etic” schemes aimed at poverty reduction (such as those of many NGO initiatives) are often, in reality, unworkable or irrelevant, and fail as a result. Karlan and Appel (2011) discussed the paucity of those mainstream poverty reduction methods, which simply do not connect with the lived experiences of being poor.



In light of the work of Banerjee and Duflo (2011) and Karlan and Appel (2011), it is interesting to observe that because of Isan's mass poverty and underdevelopment, the region has been a magnet for NGOS for decades. While such initiatives have had some successes, the amount of money poured into various projects in this part of Thailand has not resulted in the advancements anticipated at the time. The poor are still there in their millions, just as Banerjee and Duffo (2011) and Karlan and Appel (2011) observed. Unlike NGO poverty reduction schemes, the successful development of the SME sector in places like Isan, holds the potential to sustainably improve the circumstances in which poor people live; and may change decision-making processes, and challenge the persistent cultures of poverty. It is thus important that this sector, and its challenges, is better understood.

Purateera et al. (2009) identified key factors which affect the performance of small enterprise management in the Northeast region: entrepreneurs' knowledge and skills; their capabilities; their access to, and ability to use, business technologies; their attitudes; their motivation for engaging in business; their creativity; and importantly, the availability of investment funding. Promsaka Na Sakolnakorn et al.'s (2009) study of SMEs in the Northeast region's textile industry showed that while entrepreneurs were commonly faced with financial problems, they often had difficulties in securing this credit from financial institutions, as they lacked

knowledge about the process of applying for loans. The study also identified a lack of management and marketing skills among those leading SMEs. Promsaka Na Sakolnakorn et al. (2008) thus identified key challenges for SMEs associated with worker commitment and motivation issues embedded in the cultures of the region – for instance, labourers in Northeast Thailand often take extra days off work, especially during big festivals such as the Songkran festival between 13-15 April every year, and important Buddhist festivals. Such customary practice is a challenge for the Isan SME sector.

This study seeks to build upon, and refine, this research work on SMEs in Northeast Thailand, by seeking to answer a simple but important question: Which policies and socio-economic processes enhance sustainable business development in Northeast Thailand?

## Research Methodology

The research was designed to explore SME leaders' experience of running their businesses in Isan, and thus to better understand the relationship between policies affecting SMEs, and the social economics of SME operations in the region. The research involved in-depth interviews with the leaders of thirty SMEs in Northeast Thailand. In these encounters, the business leaders identified the problems and challenges they faced in initiating and developing their enterprises; and discussed how the development of businesses like theirs in the region could be better enhanced and supported. After this phase of the research, a focus group of five experts on SMEs in the Northeast region of Thailand was convened to explore barriers to the successful initiation and development of SMEs in the region, and to examine ways to support and foster such initiatives. The interviews and the focus group thus addressed the same issues. This two-phase research was supplemented by a literature and data review of SMEs in Thailand, which informed the questioning and the discussions.

The methodology broadly followed the grounded theory of Glaser and Straus (1970), and more specifically followed the development of this work by Glaser (1990), who advocated the emergent and cumulative integration of data collection

with analysis, stressing fit, relevance, workability and modifiability in inducing concepts from data, and introducing them into subsequent analysis.

The interviews and the focus group were all recorded and transcribed; and the records were subsequently replayed and re-read, with key words, phrases and themes being identified in an inductive way. This was recommended by Glaser and Strauss (1970), but departed from Glaser's later prescribed methodology, which saw transcription as time-consuming, and as getting in the way of interaction with real time emerging data.

During a process of reflexive analysis of the interviews, focus groups and literature, we were gradually able to identify key themes and characterizations of the reality of initiating and developing SMEs in the region, which were broadly in line with those of the entrepreneurs themselves – or “adequate at the level of meaning” (Weber, 1949: 99). Overall, then, through a grounded theory approach, we aimed to produce realistic and relevant thematic characterizations of the barriers to SME development in Northeast Thailand – characterizations that would be recognized as sensible and appropriate by our interviewees, thus meeting Weber's (1949: 99) requisite for verstehen analysis. Having gone through this process, and through feeding our analyses back to those we interviewed to check for validity, we thus produced the thematic findings.



## **A snapshot of some of the SMEs**

Although the SMEs we visited varied in terms of size and sector, we endeavoured to include an equal balance of companies in four different SME sectors as identified by Thailand's Office of Small and Medium Enterprises Promotion (OSMEP); and we were careful to ensure that the businesses we studied met the definitions for the respective SME categories, as prescribed by OSMEP (2007), as follows:

1) Manufacturing Sector. Small enterprises in the manufacturing sector have up to 50 workers and asset value, excluding land, of not over 50 Million Baht. Medium enterprises in the manufacturing sector should have between 51-200 workers, and asset value, excluding land, of not over 200 Million Baht.

2) Wholesale Sector. Small enterprises in the wholesale sector have up to 25 workers, and asset value, excluding land, of up to 50 Million Baht. Medium enterprises in the wholesale sector have 26-50 workers, and asset value, excluding land, of not over 100 Million Baht.

3) Retail Sector. Small enterprises in the retail sector should have no more than 15 workers, and asset value, excluding land, of not over 30 Million Baht. Medium enterprises in the retail have between 16-30 workers, and asset value, excluding land, of not over 60 Million Baht.

4) Service Sector. Small enterprises in the service sector have up to 50 workers, and asset value, excluding land, of not over 50 Million Baht. Medium enterprises in the service sector have between 51-200 workers, and asset value, excluding land, of not over 200 Million Baht.

In the manufacturing sector, for instance, we visited different types of companies in different parts of the Isan region:

Company 1: A textile community group in Non-Poor village, Baan-Kaew District, Chaiyaphum Province. This business started with 100,000 Baht in investment, and now its property is worth 500,000 Baht. There were currently 14 employees working in the factory, whose function was to sew shirts and sweaters. The workers bought some of the raw materials themselves. From the interviews, it was found that the main problems experienced by the business were as follows: 1) High levels of competition between SMEs in the same business, and a consequent thinning of margins; 2) A lack of marketing knowledge. Indeed, the company's

marketing and market knowledge were very basic; 3) Inadequate financial management, particularly when giving credit to their customers. They gave credit on trust, without documents, which meant a lot of defaults, non-payments and arrears; 4) Lack of support from the government.

Company 2: A community enterprise producing sleeveless shirts with round-necked collars, in Dong Pikul village, Chiang Khan district, Roi-Et province. This was a sub- contracting operation, used by a company in Bangkok. The workers produced shirts in their households by their extended families. Again, there were 14 employees. From the interviews it was found that the main problems of the business were: 1) Having no product of its own. This was perceived to be the weak point of being a sub-contractor. If the company from Bangkok did not hire them, it meant that they had no work to do, and the workers slipped into debt and poverty. 2) A lack of management knowledge, and product development skills, were seen to be crucial. Consequently, the sub-contractor found it difficult to create its own product, and thus enhance its autonomy and sustainability.

Company 3: An awning company at Non-bor village, Phra Yuen district, Khon Kaen province. The main challenges were: 1) High competition in the awning market; 2) The high costs of transportation, especially gas costs which fluctuated, while they could not change the product price; 3) There were similar or even

identical products in the market, some of which had more advantages than the Isan company's product. 4) A lack of management knowledge, particularly in marketing, finance, packaging, etc.

Company 4: A shirt production business in Phu Wiang district, Khon Kaen province, which had 60 employees. Most of the stakeholders were Chinese who invested in, and established, the factory as a sub-contractor to supply Chinese companies. From the interview with the Thai head of labour, it was found that their involvement with sub- contract production meant they had no problems with marketing or ordering. The problems they faced involved: 1) A lack of suitable employees in the surrounding area. Many had moved to work in Bangkok and its surrounding areas; 2) Since there was a lack of youth employees, the factory had to recruit elderly people to work; 3) When the harvest season came, employees commonly stopped work in the factory and returned to agricultural work, so there was an acute shortage of labour in that season.

Company 5. Leather company which produced bags and belts in Kumuang district, Buri Ram province - a small company, set up by members of the community. From the interviews it was found that the main perceived problems were: 1) Marketing and promotion. 2) The lack of government support. 3) A lack of knowledge about packaging, and new technology.



Company 6. A furniture company in Pon district, Khon Kaen province, with 90 employees. Interviews revealed that it encountered the following difficulties: 1) Government policy was seen to be the biggest problem, particularly the policy of leaving the market open to cheap foreign imports. 2) Problems with management. 3) The high investment costs of machinery, meaning that the business could not develop its production processes, or improve the quality of its products. 3) While the government claimed to support SMEs, in fact it is was difficult to secure credit from financial institutions.

Company 7. An artificial flower enterprise in Lerng Nok Tha district, Yasothon province. The main problems identified were: 1) The lack of government support; 2) Management did not has enough knowledge about marketing, and consequently their sales channels were limited. 3) High competition in the market. 4) Lack of access to funding, such that it was difficult to develop their product.

Company 8. A drinking water company in Nakorn Ratchasima province, with 32 employees. From the interviews, the following problems were identified: 1) There were many competitors in the market; 2) High costs associated with transportation, which directly affected selling costs; 3) It was difficult to develop business due to

lack of funding; and it was perceived that government did not support this enough;  
4) The labour turnover rate was very high, especially in the rainy season.

### **The problems and threats faced by SMEs in Thailand**

This section contains a thematic distillation of such discourses with the entrepreneurs and with the local Thai experts, as they discussed the realities faced by their companies, or by SMEs generally. As mentioned previously, these characterizations were fed back to those involved with the research so as to ensure accurate portrayal of issues, and thus “adequacy at the level of meaning” (Weber, 1949: 99).

#### *Problems with Public Policy and Government Support*

The business leaders discussed SMEs’ problems with gaining support from financial institutions, especially from those under government control. Smallbone and Welter (2001) and Hall & Jenkins (1995) highlighted the crucial importance of government in the development of the SME sector. In the case of Northeast Thailand, although central government has a comprehensive policy on encouraging entrepreneurs and SMEs, few actually receive any state support. Thus, while the

government has made provision for financial loans for SMEs, in practice, securing them is not easy because bureaucratic procedures are complex, and involve documentation, which many find difficult or impossible to secure. Furthermore, some businesses, such as Internet cafés and/or game shops, commonly experience problems with government agencies such as the police or copyright agencies. Though the current regulations are well-intended, in reality they do not actually work for SMEs, but favour large enterprises, better able to provide the documentation and copyrights required.

This is not to blame the government for this disjuncture between policy and practice, for it faces severe constraints on the efficacy of its policies. Firstly, it lacks the kind of research that would identify the key areas that need support, input or regulation (which this paper aims to rectify). Secondly, the centralistic and bureaucratic nature of Thai government at all levels means that it does not have the flexibility required to respond to changing circumstances in the SME sectors in particular regions. There is thus a severe “policy lag” – one that results in government sometimes actually being a hindrance to SME activity, rather than a help. Smallbone and Welter (2001) warned of the dangers of this. Because of this centralized, bureaucratic and inflexible nature of Thai government, SMEs suffer from a blanket, “one size fits all” policy environment, with each region of the country responding in their own way to the same central policies.

### *Lack of Access to Financial Support*

Many SMEs in the region are unable to access financial support because they lack fundamental business expertise and knowledge, such as book-keeping skills or the ability to write business plans. When it comes to private sector provision of financial services, many SMEs in the region do not have enough assets to guarantee a bank loan, encouraging them to borrow from loan sharks at interest rates as high as 5 percent per day - a clear infringement of existing Thai financial regulations. Most start-ups lack sufficient financial backing, ensuring that they cannot set up in optimal locations, because they are expensive; while their lack of access to – and skills with – appropriate technologies mean that they cannot compete with larger, more professionally run, enterprises, especially those from overseas. Without sufficient funds, such businesses are unable to buy in new technology, machinery, expertise or training.

### *The Problem of Knowledge Capital*

Gorman, Rosa and Faseruk (2005) highlighted the strategic importance of knowledge capital, observing how its significance is increasingly being recognized by businesses - inspiring forward-thinking companies to invest heavily in training



and educational centres for employees. Many SMEs in Northeast Thailand lack even basic knowledge capital concerning the fundamentals of business administration; and the majority of SME leaders have little education, and thus manage in personalized, idiosyncratic and inconsistent ways. Small enterprises are thus unable to leverage value through effective marketing, organization development or information management strategies. Information technologies such as the Internet - web pages and social media in particular are still underutilized for business communication in Northeast Thailand, because many in these rural areas lack even rudimentary IT skills. Low levels of education and poor information management mean that such SMEs are not benefiting from even basic market information.

### *Problems with Labour*

Kongmanila and Takahashi (2009) argued that the availability of skilled labour is an important prerequisite for entrepreneurship in many sectors. In Northeast Thailand, it is notoriously difficult to source reliable skilled workers, because they commonly take their skills elsewhere – usually to greater Bangkok or the central region of Thailand, which have greater labour demand and higher wages. Others prefer to work for large enterprises in the region, which supply regular work and income, and better working conditions. A further problem for SMEs is that Isan

workers customarily leave their jobs seasonally to plant or pick rice on their farms, meaning that they are unavailable for long periods of time.

### *Lack of Marketing Management*

The entrepreneurs confirmed that SMEs in Northeast Thailand usually have little or no knowledge of marketing management. Business owners thus produce goods and services without understanding consumer demands, and their diverse needs and tastes. This lack of knowledge hinders the development of effective market-oriented strategies and promotional campaigns. Furthermore, such businesses often have little knowledge of product design or development, or of how they can develop the right marketing or promotion strategies. They are certainly not commonly using marketing research. This lack of even basic market-oriented knowledge is perceived to be a major obstacle to the development of SMEs in the region.

## **Developing the SME sector in Northeast Thailand**

### *The development of public policy and government support*

The discussions with the company managers and experts highlighted the need for public policy to support SMEs in building business skills and capacity among potential and actual business leaders; and it was agreed that central and local government need to re-examine existing policy, through addressing the difficulties SMEs experience, particularly when exposed to competition from foreign companies. In the past, central government has positively encouraged and supported foreign investment, clearing the way for superstores such as Tesco-Lotus, Carrefour, Makro etc to dominate retail markets throughout Thailand. While opening up regional markets to foreign competition in this way has brought benefits for many consumers and some local suppliers – small retailers have found the presence of such aggressive, effective and well-funded business ventures to be highly challenging, and often destructive. Although outright protection of SMEs from such incursions was not seen to be realistic or desirable for the Northeast Thai economy, the business leaders agreed that there was scope for government to improve support for local enterprises, and better enable them to compete in local retail, manufacturing and service markets - perhaps through pro-small business tax policies (see Iman and Nagata, 2005).

### *Financial support*

Swenson (2005) stressed the importance of a responsive financial sector for SME activity. As we have seen, while government financial support for SMEs is provided in policy in theory, the numerous conditions for the issuing of loans effectively block many SME business leaders from ready access to finance. Owualah (2002) found the same pattern in Japan: the availability of funds in theory, but barriers to accessing them in practice; and a notable skew in business lending in favour of large companies, at the expense of business start-ups or SMEs. This pattern is closely mirrored by the experience of Northeast Thailand.

Given these circumstances, two things were recommended by the business leaders. The first is a revision of the regulations of financial loans, so as to ease preconditions for awarding financial support – not only in terms of qualifying assets, but also in terms of the required documents and paperwork. As a supplement to this, it was recommended that the government should support information transfer concerning the availability of such loans, and train potential and actual SME leaders in the preparation of documents, submitting applications, developing proposals etc

*The internal organization environment and management of SMEs*

In order to compete in the emerging markets of Northeast Thailand, local SMEs recommended the following:

*The development of accounting and financial systems*

De la Torre et al. (2010) stressed the crucial importance of SMEs' relationships with financial institutions, as they have to be able to access services/ credit when needed. Promsaka Na Sakolnakorn (2010) found that SMEs faced problems in these relationships, because banks simply did not trust their accounting/financial documents. Indeed, it was found that SMEs in Isan do not usually prepare adequate accounting records, while many do not even carry out the basics, such as systematically documenting income and receipts.

The focus group with Thai experts in entrepreneurship thus agreed that in order for SMEs to prosper, they must keep regular records, and learn how to use accounting and financial software to help them to prepare the documentation provided by financial services providers.

### *The development of entrepreneurs' knowledge*

Desouza and Awazu (2006), Earl and Scott (1999) and Zack (1999) stressed the importance of knowledge capital and management in an organization's ability to solve problems and seize opportunities. Senge (1990) discussed these issues in terms of management practice, and explained the importance of mastery, mental models, shared visions, systemic thinking and portfolios. Entrepreneurs in Northeast Thailand have underdeveloped management skills and can draw upon few formal models of management. This is understandable, as their knowledge of management is gleaned from limited personal experience, and their skills are learned from practice in their particular and limited lines of work. In other words, their expertise is dependent on their own particular work history. Discussing these issues, the business leaders agreed that entrepreneurs would benefit from a familiarization with the basics of marketing, accounting and financial administration.

Discussing ways of increasing entrepreneurial competency, Keh, Nguyen and Ng (2007) argued that entrepreneurs and SME business leaders should continuously update their management and technology skills in order to identify and exploit opportunities as they arise. They saw knowledge about business technologies to be key in increasing their competence, as it would enable them to develop themselves

and learn more about their local, national and international business environments. Overall, then, the Northeast Thai SMEs recognized the importance of upgrading their skills, and identified key areas of development, in ways that corresponded closely with current research on the skills needed in such businesses.

### *The development of human resource management (HRM)*

Promsaka Na Sakolnakorn (2009, 2010), stressed the importance of labour dynamics to Northeast Thai SMEs, arguing that entrepreneurs in the region need to be familiar with local work cultures, so as to be able to plan effectively. As we have seen, Northeast Thailand has problems with high rates of labour unreliability and turnover; for instance, many workers attend (and often overstay at) big festivals.

In order to enhance HRM in SMEs, entrepreneurs need to be responsive to local cultures, accommodating the realities of when, and for how long, employees are likely to be absent from their work. Doing so would enable more reliable HR planning. As a consequence of this, while recruiting people locally may make sense in terms of logistics, cost and transport, the business leaders saw the need for outsourcing when local employees went back to work on their farms; and they



recognized the potential of forms of flexi time whereby local employees could come to work after they had finished their daytime labour in the farms.

### *Management of marketing strategy*

Hills, Hultman, and Morgan (2008), and Kotler (1999) argued that marketing is a crucial factor in entrepreneurial activity. Effective marketing is lacking in the Northeast region, as SME business leaders market goods and services according to their own, often limited, experiences of work and markets. They lack basic marketing knowledge and skills, such as how to develop effective marketing strategies or use key promotion techniques, or how to use a marketing mix model etc. Isan entrepreneurs thus need to improve their marketing knowledge and skills so as be able to develop effective strategies and plans appropriate for their own businesses; and to compete with bigger organizations, which have more funds and better marketing knowledge. While it is apparent that SME business leaders in the Northeast often have good knowledge of local markets, they are often unable to use this knowledge to their advantage as they lack fundamental marketing skills and techniques. Bradley, Meyer and Gao (2006) observed that domestic entrepreneurs can export to international markets by leveraging connections with larger companies; and the SME business leaders did indeed discuss the possibility

of collaborating with local big businesses and/or exporters to present their products in other places.

### *Sub-contracting strategy*

Promsaka Na Sakolnakorn et al. (2010) found that many SMEs in Northeast Thailand enjoy better performance, with increased employment, if they sub-contract. Sub- contracting can help entrepreneurs, but it is mainly suitable in the manufacturing sector. For instance, a community enterprise in the Banphai district (Khon Kaen province) gets the work of sewing shirts and pants done from the brand “Thinny Thai” in the Samut Prakarn province. Likewise, some village enterprises in the Nam-Phong district (Khon Kaen province) produce T-shirts under a contract with the Thinny Thai Garment Company Limited in Samut Prakarn under the “Thinnythai” Brand. Labour skills are obviously important for SMEs interested in subcontracting. Kongmanila and Takahashi (2009) observed that the skill, knowledge and number of employees in a company, enhance outsourcing products to sub-contractors in Lao PDR; and those entrepreneurs interviewed from the manufacturing sector saw the enhancement of skills as an important factor of their ability to subcontract.

### *Managing information technology*

Seyoum (2007) discussed how information technology can be used to share information between SMEs, suppliers, and consumers; and to enhance cooperation in new product development, production planning etc. The SME business leaders saw information technology creating value through enabling them to access information about customers and suppliers, and through giving them the ability to present their organization, products and services to a wider audience. E-commerce was discussed in terms of streamlining marketing and sales administration, and adding new channels through which to sell to international markets.

### **Conclusion**

The interviews indicated that while the Thai government has a well-developed policy for supporting SMEs, in reality this policy is unsuccessful, as SME business leaders find it difficult to access funding or training. As a first step towards rectifying this gap between policy and practice, government should re-examine the realities of entrepreneurship at the operational levels, so as to better understand the barriers to growth in the region. Thus, rather than pursuing a “one size fits all”, top-down approach to policy making, the government – and regions – would benefit from fresh ground up system of developing responsive and supportive

policies, aimed at helping SMEs to develop and grow sustainably in the Northeast region.

Hopefully, this article has gone some way towards identifying the main areas where many of the barriers to SME performance occur, and the reasons for the disjuncture between government policy and SME practice. Entrepreneurs should be encouraged and supported in developing their knowledge and skills continuously in key areas, such as marketing, planning, organizational management, and information and communication technologies. With a revised bottom-up approach from government, and the enhancement of business knowledge and skills among entrepreneurs, Isan SMEs will have a better chance of developing into thriving, sustainable businesses, and this will help in breaking through the cycles of poverty identified so well by Banerjee and Duflo (2011) and Karlan and Appel (2011).

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## Sustainability of e-retail in India

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### Abstract

Sustainability of a business entails the objective of sustainable development which includes three main parameters- people, profit and planet. The Brundtland report of 1987 did help in setting the stage on sustainability for companies. However, in India one of the business models which lack several aspects of sustainability is eRetail or the electronic retail. This paper outlines the need of sustainable business and also determines important parameters for sustainability of business. Further, the paper also analyses the sustainability of Indian e-retail business.

The main agenda for most of the Indian e-retailers has been customer acquisition. Spending big bucks on marketing, and brand building is something which is seen round the clock 365 days a year. The aggressiveness of the e-retailers definitely makes sense in the Indian economy given the fact that the penetration of e-retail in overall retailing market in India is still in its infancy (with penetration less than 3 per cent).

The companies in India are following a similar paradigm which was fooled by the global players like eBay Inc. and Amazon Inc. in the United States. Also, private equity players and venture capitalists are supporting the e-retailers by making massive investments which are purely based on base line assumption of promising future returns the business the investors would make. However, on the contrary, if the Indian e-retailers continue to offer huge discounts, they will only attract volumes thereby gaining significant market share but it would lead to unsustainability as profitability with such deep discounts remains a distant dream.

Lastly, the paper also makes a qualitative and quantitative correlation of emergence of e-retail in developed economies like US, UK along with developing economies like Brazil and China to that of Indian market. This correlation helped in understanding the tipping point post which a change in strategy for Indian players and increased focus on profitability will only result in sustainable business model. It is inferred from the analysis that the Indian e-retailers will have to relook their strategy and change their focus on profitability. This can be achieved by two means- one by means of cost optimisation and other by discount reduction. Cost optimisation techniques would involve reduction of cost in overheads like employee cost, fulfilment cost, payment gateway cost, logistic cost and others. This would be possible by inorganic growth route as the players have positive gross margins while negative operating margins which indicates high cost in operations.

The paper outlines that the tipping point will be the ideal penetration of e-Retail in India and beyond this point players have to shift focus solely on profitability and returns. If not done, the companies won't sustain in the market and continuous triple digit growth and whooping valuations will result in a bubble which will eventually burst.

***Keywords: Business sustainability, e-retail, e-Commerce, tipping point***

## **Introduction**

E-Commerce involves transaction of physical goods and intangible (digital) products and services (which is delivered digitally). E-Commerce sales are conducted over computer network, using multiple formats and devices like personal computers, laptops, tablets and mobile phones. It can be categorised into four categories depending on the buyers and sellers:

1. B2B: It involves transactions between businesses, such as between businesses such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer.
2. B2C: It involves sales by “pure-play” e-Commerce enterprises or by traditional brick and mortar retailers through their online sales channel to consumers. Direct selling to consumers via ICT network helps small and

medium businesses reach greater mass (both domestically and internationally).

3. C2C: It is the modern day trade where classified advertising section in a local newspaper or online portal is used to sell products (both new and used) by individuals to individuals.
4. B2G: This is similar to B2B except the fact that buyer in this case is a government entity.

Further eCommerce can be categorised into four segments depending on the type of product/service transacted and business model followed.

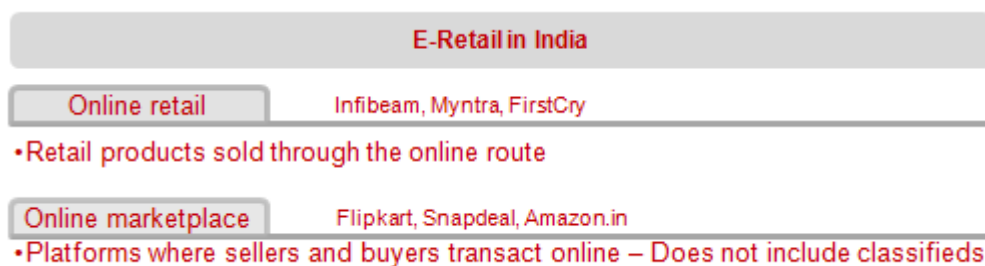
1. Online ticketing- This segment includes websites offering tickets for travel by air, bus and rail travel, stay in hotels, cruises, travel packages, movies and events.
2. Online retail- Includes portals selling retail products online, wherein the company markets products to customers using the internet and also undertakes responsibility for the delivery of those products, either through his own network or through a third party. In this model, companies usually hold inventory of goods.
3. Online marketplaces- Includes all web-based platforms where sellers display products for other customers/ buyers to purchase online. Online marketplace

does not take any inventory risk and merely provides a platform for the buyer and seller to transact.

4. Online deals- Includes websites that offer deals to customers on various products and services. To avail the deal, the customer typically makes a payment on the deal website before it is redeemed at the vendor's physical location.

### What is e-retail?

The term e-Retail embraces all the ways of transacting (goods) via electronic medium. It comprises of two business models (online retail and online marketplace). Graphically e-retail can be represented as:



Source: Author's note

## **Sustainable business**

Sustainable business is defined as a business which has minimal negative impact on environment (local, global, society, community or economy) and also meets the principle of triple bottom line.

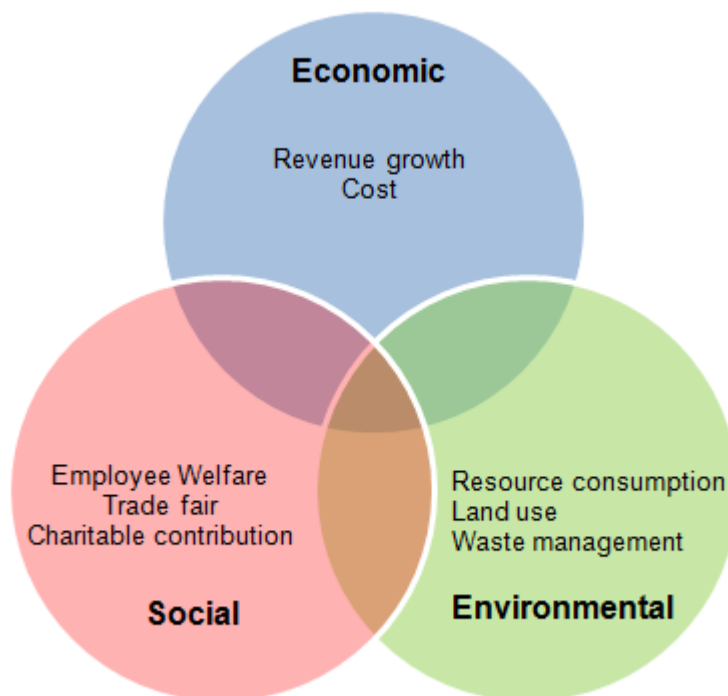
### **Why is sustainable development model important?**

Integrating sustainability into strategic decision making and initiatives is important because these issues play out over a long term. This also helps companies address the concerns of their stakeholders (customers, regulators, government etc.) *For example: companies like General Electric adopted practices for climate change in 2004 before Hurricane Katrina hit and also resolved the sale in clean technology by doubling its investment in research. This helped company create value.* Further, the companies also look to reduce cost of operation and improve return on capital while ensuring they create value. This is done as a measure of cost optimisation by the companies where companies drive down cost by systematically managing their value chains. Companies re-visit their strategy to align long term growth prospects which is aimed to determine any lead which could lead to new growth opportunity. *For example: Pharmaceutical company adopted a flexible pricing model for its patented drugs in order to make it affordable for people in countries like Africa. The company is profitable and aims to garner significant market share in terms of sales volume in the new market.* Sustainable development model also helps



companies look into the risk strategy. *For example: Nestle faced supply constraints and thereby launched a plan in 2009 to promote producing 12 million cocoa plants over a period of 10 years. To enable this, the company reached out to the farmers to teach efficient and sustainable method.* Thus we see sustainable business model adopts sustainable development model which comprises of following components:

### **Sustainable development components**



Source: Author notes

## Literature

After the publication of Bruntland report (WECD, 1987) the concept of sustainable development has gained tremendous importance for industry participants. The Brundtland report defines the sustainable development as “*development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs (WCED, 1987)*”. A business becomes sustainable if it meets the principle of triple bottom line including social (people), environmental (or ecological/planet) and financial (economical/profit) aspects (*as shown in the figure above*).

A major challenge for the industry is to demonstrate its contribution to the welfare of current generation without jeopardizing the need of future generations for a better quality of life. Further, Mathew Tueth (PhD) reiterated the ideas which was previously put forward by authors like Paul Hawken (*The Ecology of Commerce and Natural Capitalism*), Bill McDonough and Michael Braungart (*Cradle to Cradle*), and Janine Benyus (*Biomimicry*) and proposed that a mature and authentic sustainable business will contain six essential characteristics. Based on his theory the following six are the parameters that determine the sustainability of a business:

Triple bottom-line	<ul style="list-style-type: none"> <li>• People, planet and profit</li> </ul>
Nature-based knowledge and technology	<ul style="list-style-type: none"> <li>• Conscious emulation of natural-world genius</li> </ul>
Products/service of consumption	<ul style="list-style-type: none"> <li>• Manufacture products that are a necessity</li> </ul>
Employing sustainable energy technology	<ul style="list-style-type: none"> <li>• Solar, wind, geothermal and ocean energy</li> <li>• Meet energy requirements without negative impact on earth</li> </ul>
Local organisations and economies	<ul style="list-style-type: none"> <li>• Regional corporations and shareholders working together</li> </ul>
Continuous process improvement	<ul style="list-style-type: none"> <li>• Provisions for upgrade</li> <li>• Include monitoring, analysing, redesigning and implementing</li> </ul>

Source: McDonough and Braungart in their book *Cradle to Cradle*

In terms of eCommerce business, for enterprises, e-Commerce offers both opportunities and risks. New ICT applications and services are helping to reduce various costs for suppliers. Leveraging different online and mobile channels enable sellers capture a wider set of potential customers (both consumers and businesses) in domestic as well as foreign market. Also suppliers reduce cost by reducing investment in physical infrastructure (such as buildings) in expensive locations and focusing on different strategy like third part logistics to reduce the delivery cost

(OECD, 2013). At the same time, in emerging economies enterprises are still unaware of the possibilities presented by e-commerce (Stockdale and Standing, 2006; Zaied et al., 2007; Thulani et al., 2010). Small and medium enterprises often lack capabilities to benefit from eCommerce (Lawrence and Tar, 2010; Hourali et al., 2008; Ransey et al., 2003).

If we talk about e-Retail market in India, the aggressiveness of the players in India undoubtedly makes senses as it replicates a similar paradigm followed by global players like eBay Inc. and Amazon Inc. during late 90's in the United States. The massive investments flowing into the business are based on the promises of the future returns the business is expected to make but given the fact huge discounts offered by the players to attract volumes and gain market share, the question of business sustainability remains unanswered. It is important to know that how long this business model can sustain itself.

In the Indian market, the e-retailers have been growing manifold (to the tune of 200-300 per cent y-o-y) in top line but the irony is none of the e-retailers are yet profitable in India. The profit-loss ledger continues to sail deep inside the red sea. *For example: companies like Snapdeal.com owned by Jasper Infotech reported a loss of Rs 264.6 Crore on revenues of Rs 168 crore where as rival Flipkart India Pvt Ltd reported a loss of Rs 281.7 crore on sales of Rs 1,180 crore for the year*

ended March 2013. Players catering to niche segments or focused single segments are not different either. *Fashion e-retailer Jabong (owned by Xerion) reported revenue of Rs 438 crore in the year ending March 2014 with losses of Rs 293.4 Crore.*

The following table shows the revenue and loss of top eCommerce firms in India:

**Companies in red despite tremendous topline growth**

		Flipkart		Amazon		Snapdeal		Myntra	
	Units	2012-13	2013-14	2011-12	2012-13	2012-13	2013-14	2011-12	2012-13
Net Sales	Rs Crore	1,180	2,846	36	112	34	168	67	212
Operating Profit	Rs Crore	-276	-382	5	-20	-120	-265	-49	-128
Net Profit	Rs Crore	-282	-400	3	-25	-93	-213	-51	-134
OPM	Per cent	-23%	-13%	13%	-18%	-356%	-157%	-73%	-60%
NPM	Per cent	-24%	-14%	7%	-22%	-276%	-127%	-76%	-63%

Source: Company reports obtained from Registrar of companies

The main agenda for most of the e-commerce players has been customer acquisition. Spending big bucks on marketing, and brand building is something which is seen throughout the year. The activity take on full pace during the festive season like stock clearance, new year sale, Diwali sale, while some of the players launch their own massive discount period like big billion day launched by Flipkart, Singles Day launched by Snapdeal and the like.

## Typical cost structure of Indian e-Retailers

Overheads	Share
Gross Margins	30-35%
Discount	10-15%
Logistics	10-15%
Warehouse	0-5%
Packaging	0-5%
Customer care	0-5%
Return related operations	0-5%
Payment gateway	0-5%
Employee cost	10-15%
<b>Operating margins</b>	<b>(15)-(20)%</b>

Note: The structure might change depending on the business model, scale of operations, product portfolio and service offerings

Source: Industry interaction

Thus we see that despite the fact that the companies make positive margins at the gross level, their margins at the operating level goes down the gutter while the revenue increases significantly. This very well indicates that the volume only game is not a good practice for any business. It is undoubtedly true that high volume means the business have a decent chunk of market share but the law of business existence is violated here.

Positive gross margins and negative operating margins indicate that the companies incur huge operational expenses in the form of logistic cost, fulfilment cost, payment gateway cost and many more. Thus, the e-retailers on India need to re-look their strategy to optimise cost by means of mergers and acquisitions (inorganic growth) and also reduction in cost of customer acquisition (by reducing discounts offered). As the profitability concerns come up, the re-retailers will have to formulate strategy apart from offering discounts as the competition will only surge given the fact that the manufacturing brands have started entering the e-retailing space.

### **Are e-players likely to change track anytime soon?**

With the vast majority of the Indian market still untapped, it seems hardly to be the case. The Indian e-Retail market came into existence with the advent of Flipkart in 2007 and has grown leaps and bounds ever since. Factors such as poor quality of the underlying ICT infrastructure, high adjustment costs, uncertainty surrounding e-commerce and limited perceived strategic value for the firm have been found to dampen the interest among firms to engage in e-commerce (*Ben Aoun Peltier and Vicente, 2012; Hollenstein and Woerter, 2007; Grandon and Pearson, 2004*). The US e-commerce space, much older and more mature than ours still continues to grow, though at an obviously declining rate. Under-penetration in the Indian market offers vast opportunity for the players to invest and grow. E-retailers in



India have started invested huge money on TV advertisements as it is the best medium to reach mass market and to build credibility. Credibility is what the e-commerce space is looking to build in the eyes of the first-time Indian online shopper and to do this they will no doubt need to continue investing in marketing and building robust mobile and online platforms.

A number of proved and potential benefits are presented by B2B and B2C e-Commerce such as enhanced participation in international value chains, greater market access and reach, and improved internal and market efficiency, as well as low transaction costs. It may spur job creation in the information and communications technology (ICT) sector and in enterprises that become more competitive thanks to online procurement and sales.

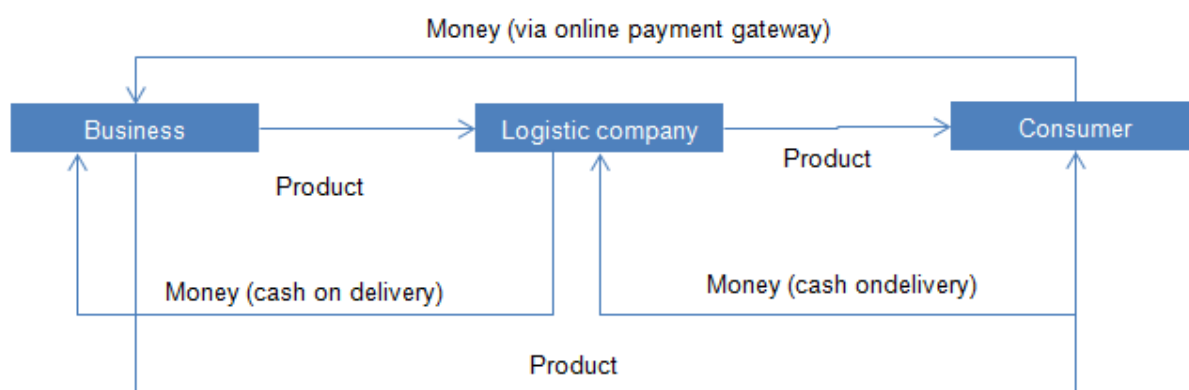
However, uptake of eCommerce was for a long time confined mainly to large enterprises in developed countries (UNCTAD, 2010). Kshetri (2007) categorise barriers to e-Commerce into three categories namely economic, socio-political and cognitive.

1. **Economic barriers:** This includes inadequate ICT infrastructure, unreliable and costly power supply, limited use of credit cards (plastic money), lack of purchasing power and underdeveloped financial systems.

2. **Socio-political barriers:** It includes weak legal and regulatory frameworks (which influence whether people and enterprises trust online transactions), cultural preferences (like face-to-face interaction while purchase of goods).
3. **Cognitive barriers:** It includes low level of ICT literacy, awareness and knowledge related to e-Commerce among both consumers and enterprises.

The following chart depicts the important parameters which help in running a e-Retail business.

### Operational chart of e-Retailers



Source: Author's note

1. **Internet access:** Internet access (as seen in the chart above) is needed to conduct online shopping for both buyers and sellers. Data published by

indicates that almost 40 per cent of the entire global population can theoretically make online purchase using different devices from different locations.

2. **Payment system:** Payment systems are rapidly evolving thereby expanding the possibilities of consumers and corporate buyers to pay for products bought online. Payment system can be account based, electronic currency system or others. Account-based payments systems include credit cards, debit cards, e-wallets, mobile payment or online banking. Electronic based include PayPal, Bitcoin or other similar system. Credit cards still accounts for lion's share of retail e-commerce settlements (WorldPay, 2014) in developed countries while in countries like India due to poor penetration of financial system and people's reluctance in using plastic money, cash-on-delivery accounts for a significant share. Cash on delivery can be seen as a low risk option for consumers to enter e-commerce. However, it is a higher risk option for producers.
3. **Delivery system-** Scope of ecommerce is highly influenced by the quality of product delivery. Many consumers turn to e-commerce because of convenience of receiving physical products at their homes. Weaknesses in delivery infrastructure hamper e-commerce, especially for goods.

Based on the importance in eCommerce, we have assigned the following weightage to different parameters which enable ecommerce.

### Parameters considered for e-retail and weightage assigned

Parameters	Weightage
Internet	25%
Logistics	25%
Literacy	15%
Penetration of Computers	15%
Penetration of mobilephones	10%
Penetration of plastic money	10%

Source: Author's note

Using the above parameters we develop index for 6 countries both developed and developing economies. Countries included are USA, UK, Brazil, China, and India. This index (or score) is based on the indicators related to the exogenous factors such as literacy, logistics, ICT infrastructure. The index allows countries to compare their e-commerce readiness with that of others and also indicates their relative strength and weaknesses with regard to different elements of the e-commerce process.

Based on the above parameters we find that India is a score of 1.5 significantly below than that of United Kingdom (4.5) and United States (4.4). Further, developing economies like Brazil and China has a score of 3.0 and 2.4

respectively. This very well indicates that there is still tremendous opportunity remaining in the Indian e-retail market. Based on the market size estimate of e-retail and population we have estimated per capita spend in e-retail for these countries and further analysed the correlation between composite score and per capita expenditure on e-retail.

### Correlation between composite score and per capita expenditure on e-retail

	Unit	US	UK	China	Brazil	India
Composite Score	Score	4.4	4.5	2.4	3.0	1.5
Per capita spend	USD	854	225	243	75	10

Correlation between composite score and per capita spend is 0.664.

Source: Author's note

It can be seen that approximately  $2/3^{\text{rd}}$  of the variation can be explained by the composite score which is indeed a composition of parameters like penetration of internet, logistics, literacy, penetration of computers, penetration of mobile phones, and penetration of plastic money.

Further, the correlation of composite score vis-à-vis different parameters indicates that the composite score is highly dependent on the penetration of internet, logistics and penetration of computers. These three components form the backbone of any e-retail business (*See chart below*).



	Composite Score	
	Correlation	P value
Penetration of internet	0.999	0.001
Literacy	*	*
Logistics	0.778	0.222
Penetration of Computers	0.996	0.004
Penetration of mobile phones	0.194	0.806
Penetration of plastic money	0.929	0.071

Source: Author's computation

This indicates that these components need to improve which will eventually help in improving the overall composite score thereby creating a room for the growth in per capital expenditure in e-retail.

### **Tipping point for India and developed economies**

Tipping point is a point where a shift in ecosystem occurs. Tipping point for the e-retail market in India is that level of penetration beyond which the e-retailers have to shift the focus on profitability. In order to compute tipping point, we have use three different scenarios:

#### **1) Developed economy**

- a. Median values for per capita spend and composite score are taken for the two developed economies (US and UK)

## 2) Developing economy

- a. Median values for per capita spend and composite score are taken for the two developed economies (Brazil and China)

## 3) Overall economy

- a. Median values for per capita spend and composite score are taken for the two developed economies (US, UK, Brazil and China)
- b.

	Unit	US	UK	China	Brazil	India
Composite Score	Score	4.4	4.5	2.4	3.0	1.5
Penetration of e-retail in retail	Per cent	5%	12%	11%	6%	2%
Per capita spend	USD	854	225	243	75	10

Source: Author's computation

	Unit	Developed	Developing	Overall
Composite Score	Score	4.4	2.7	3.65
Penetration of e-retail in retail	Per cent	8%	8%	8%
Per capita spend	USD	539	159	234

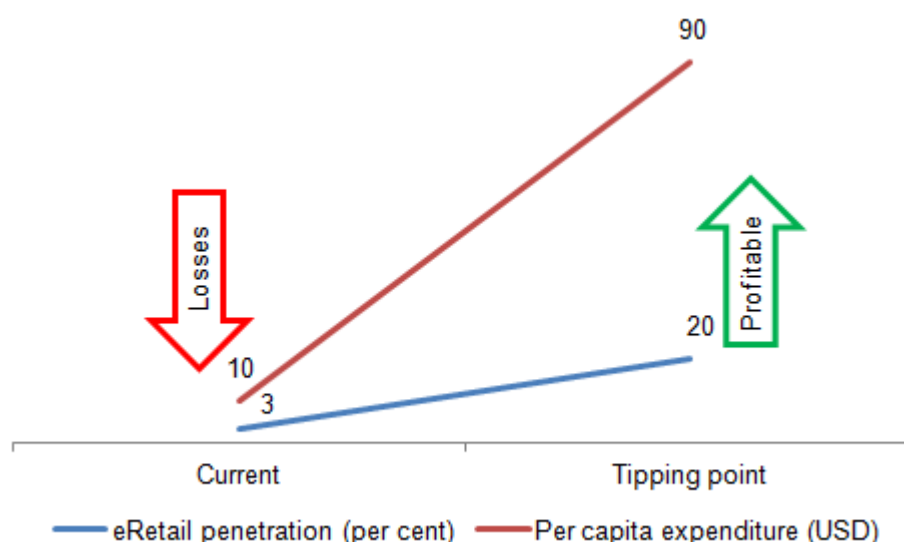
Source: Author's computation

Adjusting the per capita spend with the three scenarios with respect to the composite score we get the projected per capita spend to be:



	Unit	Developed	Developing	Overall
Per capita spend	USD	184	89	96

Thus we estimate that a per capita expenditure of USD ~90, the Indian market will be penetrated enough for the players to shift the focus to profitability. A per capita expenditure of USD 90 translates to roughly 20 per cent of penetration of e-retail in overall retail industry. Thus we believe that a penetration of 20 per cent in India market will be ideal for the companies to gain market share and build brand, a point which we can call as tipping point.



Source: Author's note

Beyond this tipping point the companies in the e-retail space has to shift focus solely on profitability and returns. If not done, the companies won't sustain in the

market and continuous triple digit growth and whooping valuations will result in a bubble which will eventually burst. The following table shows the funding details, valuation and Valuation/Sales ratio for some of the top e-Retail companies of India.

### **Funding, valuation, revenue of e-retailers in India**

Company	Revenue USD Billion	Valuation USD Billion	Valuation/Revenue	Funding raised USD Billion
Flipkart	1.2	11	9.2	2.7
Snapdeal	0.6	5	8.3	1.0
Jabong	0.2	2	8.0	0.2

Source: Author's note

The table clearly indicates that the companies in e-retail space have an average valuation of around 8 times its sales. A further rise in valuation with negative profit will result in creation of bubble (a similar situation was seen in Dot Com crisis) which will eventually burst thereby resulting in destruction of wealth.

### **Conclusion**

It is seen that in terms of potential, the Indian market has a long way to go for e-retailers. Given the low penetration of enablers like penetration of internet, literacy, logistics, penetration of computers, penetration of mobile phones, and

penetration of plastic money the penetration of e-retail has remained less. In terms of sustainability the e-retail market is sustainable given the tremendous opportunity offered. For people, the industry offers competitive salary while number of jobs created is tremendous. For planet, no environment pressure is created by the industry as the invoice generated is sent through email. Also companies in India are engaging in several ground level initiatives (in terms of CSR activities). However, profitability remains a concern as the companies in the space are making operating losses. But the concern can be overcome post tipping point where the focus should shift to profitability rather than market acquisition. Thus, e-retail is sustainable if only right strategy is implemented at the right time else it will lead to bubble.

## **Five senses spa and salon: The best, but at what cost?**

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### **ABSTRACT**

Paola Hinton founded Five Senses Spa and Salon. The venture began a couple of years ago and remains a full service, high quality spa and salon that attracts and caters to a very discerning clientele. The business has thrived since opening, but not without much work on the part of its owner. Expectations of employees have been set, and expectations of customers have been met. Yet, Paola's venture still provides her with many challenging problems to manage. Keys to Paola's future success include balancing the quality of the services performed within the business and the costs associated with them, as well as appeasing Five Senses' many stakeholders.

## **A New Venture is Founded**

A couple of years ago, Paola Hinton faced the task of finding an entertaining diversion in a very unfamiliar city. The company that employed her husband had recently relocated the Hinton family. Shortly after the move, a group of friends from their old neighborhood came to visit the Hinton's new residence. Paola needed to plan an activity to entertain the group for a day. While the men in the group decided to spend the day at a paintball facility, Paola decided the day would provide an ideal opportunity for her friends and her to enjoy something a little more relaxing. A day at a spa seemed like the perfect activity where she and her friends could enjoy each other's company, as well as receive some much needed pampering.

*Recognition of the Opportunity.* To Paola's surprise, a spa that could accommodate six people all at once did not exist near her home. However, Paola was able to make reservations for each member of the group at a local spa with fewer accommodations than she desired. As Paola suspected, the spa visit that day, where the six of them received services in a serial fashion, was not the relaxing, pampering social experience she was hoping for as the highlight of her friends' day. Instead, each woman spent a significant amount of time waiting in a separate holding area while one or two women received a single service at a time. Paola told her friends that afternoon that if she ever were to open her own business, it

would definitely have to be a high-end spa and salon with the capabilities to accommodate large groups of friends and family.

*Opportunity Evaluation.* Not even a week after her friends left, Paola decided to pursue her idea. She completed a business plan for a high-end spa and salon near her home. While working on the plan, she soon realized that the suppliers and associates she chose would be vital to the success of the business. Consequently, she contacted the Aveda Companies early on in the opportunity evaluation process. Aveda manufactures and markets professional plant-based hair and skin care products. Aveda operates as a world-wide supplier of products to thousands of salons and spas. Paola considered Aveda's experience in the industry, exceptional brand name, and quality products as valuable assets that could facilitate the success of her spa and salon.

While completing the business plan, Paola contacted Aveda to gauge the likelihood of establishing a partnership. Aveda quickly responded, and the company's response was very encouraging. To Paola's surprise, her city's market was one that Aveda had long identified and targeted to penetrate for some time. The pieces associated with this start-up were coming together.

After receiving financing approval from a local bank, Paola and her husband took some time to discuss the options available to them. Although any new endeavor

comes with risk, they felt the business concept would be well-received and the business plan was promising. They decided to move forward after only a week of deliberating.

### **Start-up of the Spa and Salon**

Five Senses Spa and Salon was founded and began operations in 4 months after the decision to open. Five Senses offers customers with distinctive preferences a number of services designed to appeal to the human senses in ways no other spa and salon is able to do within three hundred kilometers of the Five Senses location. While many hair salons offer a limited selection of spa services supplemental to the standard cut and style, Five Senses is a spa first and foremost, offering customers a full range of spa services within a carefully designed and appointed spa environment. The quality of services offered by Paola and her team of associates is one dimension of the business that uniquely differentiates Five Senses Spa and Salon.

In addition to spa services, Five Senses also carries a large selection of Aveda products. Aveda products are offered exclusively in salons and spas that meet a rigorous set of standards and goals set by Aveda. This unique partnership means that Five Senses uses Aveda products exclusively for all services in addition to carrying many items for retail sale to customers. The Aveda brand is also intertwined within the services offered. For example, Five Senses employees are trained to perform Aveda Signature Spa Services, and Aveda hair stylist trainers



often hold training sessions for stylists working at Five Senses. Additionally, as an exclusive dealer of Aveda products, Five Senses is often visited by customers initially wanting only to purchase health and beauty products, but who ultimately end up as full-service clients.

*Aesthetic Environment.* For many people, going to a spa is not a decision based on a desire to receive a particular service. Instead, it is based on the desire to feel completely relaxed and pampered in a unique and calming environment. Therefore, customers base their evaluation of a spa not only on the service they receive in the massage room or salon chair, but on the entire visit from the moment they walk through the door. The physical environment plays a significant role in a customer's perception of the service he or she receives.

On the hair service side of the building, natural light fills the room with salon chairs lining the north and south walls. The custom designed styling station cabinets resemble contemporary bedroom-type furniture. Products, supplies, and tools are neatly housed in the stations so that the area does not appear cluttered. The walls in the hair service side of the building are decorated with artistic, aesthetically pleasing prints instead of posters with advertisements as seen in many salons. Toward the back, a comfortable padded bench, a table with magazines, and two massage chairs, await clients who do not prefer to spend color processing time in a salon chair. Beyond this waiting area, is a specially designed shampoo room lined by rich, red curtains. The music in the shampoo room is soothing and

instrumental. The lighting in the room is restfully dimmed, and small star-like lights shine from the black ceiling. The scents in the air provide aromatherapy to customers. Five Senses creates an experience around the hair washing process and enhances the usually mundane task to remind customers that they are in a spa.

On the spa side of Five Senses, the environment is even more luxurious. A private waiting room, equipped with elegant, comfortable furniture and a chocolate fountain, allows the spa experience to extend beyond the service rooms. There are separate changing rooms for women and men with lockers that are custom designed to look more like a cabinet in a nice home. The four spa rooms are designed to be spacious and inviting, with artistic and decorative touches. Five Senses is also equipped with both a full-size Vichy shower room and an adjoining room for couples' services, further differentiating the services available at Five Senses from anywhere else in the local metropolitan area.

The manicure area can service four people simultaneously. Five Senses only performs natural nail services to keep in line with its natural approach to beauty, opting not to offer nail services performed with acrylics and non-natural chemicals. The pedicure area is located next to the manicure area. The pedicure throne is a custom built couch that allows four individuals to receive pedicures at the same time. The throne is accented by four unique glass bowls and sleek faucets. This area was intended to facilitate social interactions among friends and couples receiving pedicures alongside each other.

Paola designed the interior features of Five Senses with customer comfort in mind. With limited space, work areas that are not directly tied to sales and client services were noticeably limited. The appointment and greeting area at the front of the spa and salon occupies a three by seven foot area. The employees' break room measures one hundred forty square feet in area. Likewise, the owner is just as demanding of herself as she is of her employees. Paola works from a four by ten foot office. The office has no windows and also acts as a catch-all for "what do we do with this?" items.

*Employee Responsibilities and Training.* Employees at Five Senses are licensed professionals, trained and certified on a variety of skills. Once hired, employees are trained on protocol specific to Five Senses. While new hires already have the skills needed to provide each service, it is important they learn what products to use, the order of each procedure, and the phases included in each service. Employees are given the necessary training and information and then are given the opportunity to provide complementary services first, so that no paying customer need be subjected to the learning process. While this training usually takes only about a half day to a day for each service category, it is an important step each employee needs to take to ensure customers always receive high quality, reliable services.

Five Senses also provides employees with product- and service-specific training facilitated by an Aveda representative periodically throughout the year. These

classes range from four to eight hours in length and are intended to train employees on new services, techniques, and product lines. The opportunity to participate in exclusive Aveda training sessions is highly valued by Five Senses employees. Not only does the training keep employees informed on new, innovative techniques and products, but the time spent in each session counts toward the continuing education hours required to maintain their professional license. Five Senses incurs the cost of these required hours. Quality, paid training is a unique benefit of working as a professional team member at Five Senses.

In addition to formal training sessions, the relationship between Aveda and Five Senses also affords Five Senses a dedicated Aveda representative to help with any matters related to the Aveda product line. This representative visits Five Senses on a weekly basis to discuss Aveda products and services, as well as to offer advice. These sessions have been highly beneficial for Paola and her staff. The ongoing interactions with a knowledgeable, experienced individual have provided valuable insights on business decisions and have served as an excellent resource for employees who had questions between formal training sessions.

Constant customer interactions are a necessary facet of the work at Five Senses. First and foremost, employees are required to provide the desired service with high service quality and to educate the guest with product knowledge. While a customer may only expect a haircut, he or she will likely be introduced to a new product and/or service, as well as provided a tour of the facilities. Employees are

crucial to the process of disseminating product and service knowledge to customers who look to the professionals for guidance, help and suggestions.

*Helping behavior at Five Senses.* While acting as service and product professionals during or even in-between appointments, employees are also expected to contribute to the organization by simply “helping out.” Everyone employed at Five Senses is expected to do his or her share of communal work in order to keep the spa and salon running as smoothly as possible. These duties include: stocking cabinets with necessary products and supplies; sorting and folding laundry to maintain a steady supply of towels, sheets and spa robes; and performing other general maintenance tasks.

With regard to communal work responsibilities, task completion is generally left to individuals’ discretion. Paola does not set quotas for task completion on a person-by-person basis. Likewise, a formal system for rewarding those who complete more than their portions of the work is currently not in use. Yet, employees of Five Senses seem to understand, embrace the need for, and complete tasks for which no one is directly responsible.

*Incentives at Five Senses.* Five Senses employees who have experience working in the health and beauty industry say the extra maintenance duties tend to come with the Five Senses territory. However, these tasks are often begrudgingly performed by industry professionals elsewhere. This lack of enthusiasm is likely because

stylists and health professionals work for sales commission in most spas and salons, so time spent working for the betterment of the establishment is at significant opportunity costs to them.

Attitudes at Five Senses do not seem to align with the industry norms concerning “extra work.” Employees often perform helping behaviors in the spa and salon areas. While waiting for their guests’ hair to accept color during the color process time, employees are often found sweeping the floor or stocking shelves. Many times, employees break away from operational tasks to answer questions from customers, and, in general, employees have a very high regard for other coworkers and the presentation of the work area. Both Paola and her employees attribute this behavior to one critical difference between Five Senses and other establishments: the compensation methods employed at Five Senses. At other businesses where tasks such as these are performed only when someone is asked to do so and not paid to do so, the task and quality of the operation may become questionable. Five Senses employees do not work on commission. Instead, they are paid hourly wages regardless if the majority of their time at work is spent servicing guests or performing communal tasks. This incentive structure is meant to generate and foster a team atmosphere and to allow everyone at work to focus on customer service on multiple levels.

Although hourly wages provide employees with a reason for staying continually busy with tasks that benefit Five Senses as a whole, employees often still need

some incentive to provide exceptional service. Without traditional commission-based pay, Paola has had to put other contingencies in place to reward employees for satisfying and retaining guests. To start, each employee at Five Senses is entitled to keep any tips given to them by guests. Naturally, one benefit of providing quality service is the possibility of receiving large tips. In addition, a satisfied guest is more likely to continually request the same employee for services. As an employee grows in popularity with guests, his or her rate of clients booked will increase. Consequently, Paola created a booking incentive program where employees can earn up to an extra \$120 per week if they are fully booked for the week.

A longevity bonus can also be earned. This bonus increases with years of service. These bonuses can reach amounts as high as \$400 for a full-time employee on his or her tenth anniversary.

Lastly, in keeping with the notion that the “team player” is valued at Five Senses, a team incentive is awarded if the staff works together to meet Five Senses’ specific service and product goals during a quarter. This bonus ranges from \$50 for part-time employees to \$200 for full-time employees. The incentive serves to highlight the importance of the business and the team succeeding together, not just success on an individual basis.



## Emerging Challenges

Paola's venture has progressed into the end of its infancy stage of development. She is facing some very challenging situations. First, Paola needs to weigh whether the amount of time, effort and money that she is putting into her venture is producing perceptions of her spa and salon being the premier spa and salon for the best quality of service in the area. Second, she must analyze the effectiveness of the practices and policies she mandated at start-up. Third, after reflecting on her three year partnership with Aveda, Paola must decide how to better manage the relationship in order to realize even more value and increased benefits associated with Aveda's established brand and reputation.

*Best-cost strategy focus.* Paola has embraced a business strategy that is dependent on perceptions of Five Senses' building, décor, equipment, products, and service as the best in the salon and spa industry. Coupled with striving for continuous improvement and excellence in every aspect of the business, Paola has costs that she constantly seeks to minimize. As in any line of business in the service industry, increasing quality while simultaneously significantly reducing costs is no task for the faint of heart.

Presently, Paola has three sources of significant costs associated with owning the business. The first is the rent associated with the building the business occupies. The location is ideal for a spa and salon. It is surrounded by an upscale, outdoor retail mall that includes over one hundred stores, as well as three smaller retail

malls that accommodate 50 retail stores and restaurants. Paola is hesitant to leave such an optimal location, but realizes the building comes with a significant cost. The second major cost category relates to the Aveda products that are used in day-to-day operations and sold in the retail area of Five Senses location. Aveda has been a very beneficial partner, aiding the efforts of Paola and her employees to be successful in many ways. However, the recent success of Aveda Companies has impacted Five Senses' revenue. The success of Aveda.com, as well as the partnerships with Aveda Companies and four hair salons located within 50 kilometers of Five Senses, has meant that individuals who desire this exclusive line of health and beauty products now have significantly more sources where they can purchase products than when Five Senses started operations. The sales volume of Aveda products and the volume discounts that Paola once enjoyed have consequently both declined. The third source of significant cost is the cost of labor. Paola has recently seen increases in both costs associated with wages as well as bonuses due to the successful performance and loyalty of workforce. Although Five Senses realizes some turnover and employees do not always reach the milestones and goals Paola sets for them, costs associated with keeping high performing stylists and health professionals content and hard-working continually increase month after month. Paola is genuinely concerned because just like the spa and salon's location and product line, she views her employees to be a very important source of competitive advantage.

*Practices and policies.* A unique pay structure requires unique policies and practices at Five Senses. Presently, the communal work is completed with very little supervision. However, Paola wonders if paying professional stylists, whose hourly wages afford them the opportunities to make about \$25,000US annually, to fold towels, sweep floors, and stock shelves is a business savvy practice. Likewise, given the lack of an accountability system, she wonders who is doing the majority of the communal work and who may be shirking this duty. Lowering the costs of completion of these non-value adding tasks may be a way Paola can lower her operating costs without affecting the quality of service rendered to Five Senses customers.

*Aveda partnership.* An obvious difference in organizational size between Aveda Companies and Five Senses exists. While both organizations currently enjoy financial success, the partnership Paola maintains with her supplier is becoming slightly more complicated than when Paola first started operations. With Aveda thriving, organizational leaders are looking at even more avenues for growth and revenue potential. As their growth strategies become implemented throughout the hair and healthcare products industry, the likelihood that more sources for their products will appear is high. Two salient concerns trouble Paola at this point in time. The first concern relates to market saturation, perceptions of quality and exclusiveness, and price. Paola worries that eventually the product line may be available in an abundance of retail stores, as well as sold through countless on-line stores. A large scale marketing effort may significantly impact the allure of the

product line and the price charged for Aveda products. The second concern relates to Aveda increasing the scale of its marketing efforts. For example, currently when Paola spends money to advertise, she always mentions Aveda products as the exclusive product line offered at Five Senses. If more sources of Aveda products emerge, the value she realizes by highlighting the Aveda product line may be diluted as other retail shops and on-line stores indirectly benefit from her advertising initiatives.

### Questions

1. What were the situational factors that aligned to create Five Senses Spa and Salon?
2. What expectations does Paola have of the persons she employs as health and beauty professionals in the spa? Do you agree or disagree with these expectations? Why?
3. What do you think is the most significant challenge facing Five Senses Spa and Salon as it enters its adolescent stage of development? Why? What suggestions would you make to avoid or overcome this challenge?

## FIVE SENSES CASE TEACHING NOTE

### **Description**

This case describes the challenges of founding and operating a venture in the spa and salon industry. The case chronicles the story of Paola Hinton, owner of Five Senses Spa and Salon. The case outlines and details her decision to open the spa, the decisions she made related to the features and policies of the spa and salon before start-up, and the current challenges she faces. This case is appropriate for introductory-level courses related to entrepreneurship, small business management, and principles of management. The case is designed to be taught in a portion of one class period and is expected to require 30 minutes of outside preparation by students. The lessons learned from the case are thought to enhance the case participants' knowledge of the entrepreneurship process outlined in many of today's entrepreneurship textbooks and to highlight the need for continual management of the organization through its infancy and adolescent stages of development.

### **Synopsis**

This case describes the story of Five Senses Spa and Salon from its conception its current position as an established business operating in the health services industry. For owner Paola Hinton, early challenges included the decision to start a new business, creation of a business plan, and the decision to form a unique partnership with her supplier, Aveda Companies. As the business began to near start-up, Paola

faced difficulty related to developing proper business practices and policies, as well as attracting and appealing quality employees that high-end clientele demand. The case ends at the present time, with the spa and salon functioning and operating, but not as Paola envisioned.

### **Purpose**

This case is intended for junior- and senior-level undergraduate students taking courses in entrepreneurship, small business management, or principles of management. The primary focus of this case is on the strategic choices made by the owner of this newly founded business. The case should be introduced once students have read material on opportunity recognition, opportunity evaluation, strategic management and business policy, human resource management, and general management principles. The case is an example of one entrepreneur's abilities to recognize an opportunity, analyze the risks and threats associated within the market, align valuable resources, and implement strategies associated with this new venture. The trials, triumphs, and experiences of Paola are thought to be generalizable to many others seeking to found and manage new ventures. In addition, Five Senses Spa and Salon's relationship with its supplier, Aveda Companies, is a relationship that is illustrated to depict what can happen when new ventures and members of their supply chain forge partnerships during the nascent stage of the new firm. The benefits and restrictions of this relationship should be used to promote discussion on the options entrepreneurs may encounter in their

efforts to build reputable and profitable ventures while working to manage the relationships they begin and foster with many key stakeholders.

### **Research Methodology and Data Collection**

The authors in this case interviewed the owner of the business, as well as several employees at various organizational levels, in order to achieve an understanding of the business from different viewpoints. The authors also spent several hours in the spa and salon making observations of the environment and employee interactions with each other and customers. Employing an inductive approach, the themes of the case were realized and agreed upon after approximately fifty hours of observation, transcription, discussion, and reflection.

### **Learning Objectives**

The purpose of this case is to introduce students to some decisions individuals who choose to start new ventures are faced with during the nascent, infancy, and adolescence stages of development. In addition, the case facilitates discussions on some of the challenges or opportunities that these decisions might lead to once choices related to them are made. Specific learning objectives include:



- 1) Students will gain an improved understanding of the challenges associated with opening a new business as a sole proprietor.
- 2) Students will more fully understand that operating a business requires careful weighting of multiple options in order to make sound business decisions; and that each decision made will usually have both benefits and consequences.
- 3) Students will be encouraged to reflect on the unique nature of one type of business-to-business relationship, namely the relationship Five Senses Spa and Salon has with its supplier, Aveda Companies.
- 4) Students will gain an improved understanding of employee motivation and will be stimulated to make judgments as to the ways different organizational policies and practices could positively or negatively influence both motivation and interpersonal relationships in the workplace.

### **Teaching Strategies**

For a course in entrepreneurship, discussion of this case will need to be divided into two parts. In the first part, students should be asked to identify as many decisions as they can within the case. Students should be encouraged to identify both decisions that were explicitly mentioned in the case write-up as well as those implied. The primary purpose of this portion of the discussion is to identify topics to serve as bases for the second portion of the discussion. However, encouraging students to develop as many decisions as possible will also help to highlight the point that there are many layers of decision-making; and that even seemingly trivial or obvious details must be consciously chosen. Each decision should be

written on the blackboard in a list, which should be organized in a roughly chronological order so as to avoid confusion and to also facilitate later discussion of which decisions directly affected others.

Once the list is made, the second part of the discussion will focus on the individual choices made by the entrepreneur. Individual decisions can be grouped into broader topics of discussion in order to avoid getting the discussion off track. Students should be asked about the positive and negative consequences of each decision that has been made by the entrepreneur, as well as possible alternatives and the impact these alternative decisions may have made. As the discussion progresses and more alternatives are presented, students should be encouraged to make judgments about choices they feel should have been made and to explain why. Depending on the size of the class and the time allotted, the class could also be divided into groups to discuss one main topic each before presenting their findings to the class.

Similarly, a discussion on the interpersonal and motivational topics within the case should be facilitated. However, rather than beginning with one list of potential decisions and choices, discussion participants should be queried for their thoughts on the positive and negative aspects of being an employee at Five Senses Spa and Salon. Once this particular list is made, students should be asked if any aspects of employment at the spa and salon might benefit from change and then asked to present alternatives. Students should be encouraged to provide justifications for

suggested changes (or for leaving an issue the way it is) from both an employee and a management perspective. Once again, breaking the class into small groups for discussion may be helpful at this point to allow for increased participation.

### **Answer Rubric**

1) What were the situational factors that aligned to create Five Senses Spa and Salon?

*Answer.* A below average student would mention only one or two factors, with little or no individual insight. For example, a possible answer would mention that Paola liked to go to spas but could not find one near her to accommodate her group.

An average student would go into more detail and list more factors (e.g., the availability of a partnership with Aveda Companies), but the answer would be in the form of a simple list.

An above average student would discuss all existing factors as well as the interaction of these factors. For example, details would be given about the supportive relationship formed with Aveda from the very beginning of the venture. An explanation of why each factor was significant in forming the decision to start a high-end spa and salon would also be expressed. The student would also describe

some reasons why the business might *not* have been formed in order to explain how these reasons were overcome by the existing situation.

2) What expectations does Paola have of the persons she employs as health and beauty professionals in the spa? Do you agree or disagree with these expectations? Why?

*Answer.* A below average student would only mention the education requirements (licensing, ongoing training) for an employee to be hired, and there would be little discussion of why the student agreed or disagreed with these requirements.

An average student would give more detail about the expectations of an employee once he or she is hired. This would include the expected team mentality, and the way each employee is expected to help with additional tasks voluntarily. Agreement or disagreement would be discussed, but only from one perspective. For example, an average student might disagree with the expectation that industry professionals are completing mundane tasks, but would only say that employees are likely unhappy and looking for work in another establishments.

An above average student would describe expectations in detail and discuss whether employees were appropriately motivated to meet these expectations. Justification for agreement or disagreement would include both employee and management perspectives. For example, an above average student might disagree

with the lack of commission paid to employees not only because employees might be unhappy and look for work elsewhere, but also because employees would be less motivated to make product sales or book appointments unless there was a direct benefit to them. An excellent student would also offer specific suggestions for improvement if there was disagreement with any expectations, along with appropriate justifications from both the employee and management perspectives.

3) What do you think is the most significant challenge facing Five Senses Spa and Salon as it enters its adolescent stage of development? Why? What suggestions would you make to avoid or overcome this challenge?

This question is open-ended, and intended to promote creativity and reflection. Therefore, no answer should be considered incorrect as long as sufficient justification for the chosen issue and suggestion is given.

*Answer.* A below average student would state a challenge with little or no justification. The suggestion given would have little detail or justification.

An average student would justify the chosen issue appropriately. The suggestion given would have a fair amount of detail and would include justification to tie it back to the original issue.

An above average student would elaborate further on the choice of the most important issue. The suggestion would be highly detailed and multi-faceted. Each

facet of the suggestion would be directly tied to the original issue. The student would give a solid explanation of the intended effect of the chosen suggestion. A student of above average aptitude and exhibiting a well thought out decision-making process would mention other issues and solutions, as well as explain why they were not chosen.

# **Role of Diversity in Triggering Social Innovations: Analysis of Divergent Backgrounds of Social Entrepreneurs in India in Stimulating Social Innovations in the Field of Education**

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## **Abstract:**

**Introduction:** Diversity plays a very important role in building creative thinking and stimulating innovative ideas. This paper tries to study the role of ‘Diversity’ in the personal attributes of the social entrepreneurs in building social entrepreneurial abilities and acting as stimulants to bring out social innovations.

**Methods:** The paper uses the secondary data of nearly 50 social entrepreneurs in India who are sponsored by Ashoka Foundation who are working in the field of education and learning initiatives available on its website. Some part of the qualitative data of these selected social entrepreneurs was coded and converted into quantitative data for statistical analysis.

**Analysis:** The paper carried quantitative analysis by using SPSS. The Cross table with Chi-square test was used to find out the statistical significance.

**Results:** The study found that demographic factors such as stimulating family environment, relevant education, work experience act as stimulants to take plunge in social entrepreneurship.. Along with the personal attributes, some external stimulants such as influence of any person as mentor or particular incidence, etc also acts as a trigger in stimulating social entrepreneurship.

**Conclusions:** The paper concludes that diversity in personal attributes of the social entrepreneurs not only contributes significantly in taking plunge in social entrepreneurship but also in identifying new social innovations.

### **Introduction:**

Social entrepreneur is someone who recognizes social problems and uses innovative approach to tackle this by using entrepreneurial abilities and principles to organize, create and manage ventures. Research on social entrepreneurship and social innovations has been gaining a lot of significance in recent years. One of the reasons is existing economic and socio-political institutions and policies are found to be ineffective in tackling the major challenges of poverty, inequality or



environmental degradation. Diversity plays a very crucial role in any entrepreneurial journey in encouraging creative thinking and in converting that into innovations. Its significance is more in the realm of social entrepreneurship as any social venture requires to bring out the innovations which are very closely related to the socio-economic context of its beneficiaries. This paper seeks to find out the relevance of diversity in two respects. Firstly it seeks to find out what is the extent of diversity in terms of demographic features/ personal attributes of social entrepreneurs and the strategies they have implemented for bringing social innovations. Secondly it also tries to find out the causal relationship between the various parameters of diversity in personal attributes of social entrepreneurs which act as triggers or stimulators and the social innovations brought out by them. It uses the collated data and information on social entrepreneurs and their innovations from the secondary data in the field of education.

### **The Review of Literature:**

The literature review consists of various aspects such as defining and understanding social entrepreneurship and social innovations, role of diversity in encouraging innovations, need for social innovations in the field of education in India, and how socio-economic context and diversity in personal attributes of an entrepreneur acts as a trigger for bringing social innovation.

### **Social Entrepreneurship and Social Innovation:**

Ashoka Foundation which is one of the prominent institutes providing fellowship to budding successful social entrepreneurs defines social entrepreneurship as individuals with innovative solutions to society's most pressing social problems. Social entrepreneur is someone who recognizes social problems and uses the entrepreneurial abilities and principles to organize, create and manage ventures to bring out social change. Social entrepreneurship is defined as "Innovative and effective activities that focus strategically on resolving social market failures and creating opportunities to add social value systematically by using a range of organized formats to maximize social impact and bring out change" (Nicholls:2006). Another promoting organization, The Skoll Foundation defines social entrepreneurs as society's change agents and the pioneers of innovations that benefit humanity.

Social innovations are those innovations which focus on creation, development and adoption of ideas and practices that focus on resolving existing social, economic, cultural or environmental challenges. Murray et al (2010) define social innovation as "New ideas (product, services and models) that simultaneously meet social needs (more effectively than alternatives) and create new relationships or collaborations." Though sometimes both the terms (social entrepreneurship and social innovation) are taken in a same breath, they are not same. While social entrepreneurship focuses more on personal attributes, motives and activities undertaken by the entrepreneur; social innovations talk more about the actual

outcome from the process. In fact, social innovations can also be brought out successfully by ‘normal’ entrepreneurs (Groot & Dankbaar: 2014).

### **Role of Diversity in Encouraging Entrepreneurship:**

Diversity can be seen in terms of socio-economic and demographic context such as gender, cultural, and economic stratification of the society. Diversity plays a very crucial role in building entrepreneurial eco-system. Number of studies focus on its impact in building entrepreneurial attributes as well as in identifying innovative ideas for the entrepreneurs. Ilhan–Nas et al (2011) provide a framework to show the influence of environmental factors such as socio-economic context, culture, labour market, financial market, and geographic context on entrepreneurial eco-system. Diversity in these factors affects self-employment which is one of the important motives for entrepreneurship. They state that demographic features like gender or religion can act as pull or push factors which may impact entrepreneurial outcomes. Existing research also brings out a strong relationship between cultural diversity and entrepreneurship. Nikolova & Simroth (2013), Eraydin et al (2010), Carswell & Rolland (2007) and Labrianidis & Hatziprokopiou (2010) empirically show that cultural diversity in terms of religion, ethnicity, immigration, etc encourage individuals towards entrepreneurship through push and pull factors. Gender has a special significance in entrepreneurship. Many studies point out (Pines et al: 2010, GEM: 2008) the status of women entrepreneurs vis a vis men entrepreneurs. They show that not only the proportion of female entrepreneurs is

significantly less than that of male entrepreneurs. Their performance in terms of average scale of operations, turnover, and number of employees is also very low.

### **Role of Diversity in Stimulating Innovations:**

Diversity also plays a significant role in encouraging new business ideas and stimulating innovations. Walter (2010) states that there are four dimensions within which business ideas and innovations emerge. They are business context (industry structure, market, competitiveness, etc), social context (social networks, family environment, support system for budding entrepreneurs, etc), special context (geographic features, community level, ethnic characteristics, etc) and lastly institutional context (cultural, social, political environment). Entrepreneurial innovations depend on two factors viz individual characteristics and environment (Koellinger: 2008). Individual characteristics such as level of education, employment status and level of self confidence discourage or encourage seeking new ideas. The act of perceiving, developing, exploiting an idea remains an individual act that is inseparably linked to the individual factors. Individual's creativity and innovativeness is highly related to high intelligence, the ability to and the interest of abstract and theoretical thinking and an unusual curiosity and enthusiasm for problem solving. Environment provides existence of business opportunities through ever-changing and dynamic relationship between technology, policies, regulations, demographics, etc. Researchers (Moreno:2008, Shane and Venkataraman: 2000, Long and McMullan:1984) point out that business ideas identified and explored by entrepreneurs depends initially on his/her previous

work experience and its relevance in present business activities and level of education Puhakka (2010) concludes that versatile and flexible use of intellectual capital (which includes formal and domain knowledge) is important for entrepreneur to discover new opportunities. Ardichvili et al (2003) further elaborates that high level of entrepreneurial alertness extended networks, convergence of domain knowledge and individual knowledge, prior knowledge of market and customer problems and about ways to serve markets lead to higher and better innovations.

### **Role of Diversity in Encouraging Social Entrepreneurship:**

Social entrepreneurs are found to have some special characteristics such as having deep commitment towards social mission, ability to bring out innovative solution to solve social problem, ability to build social network and creation of viable business model for achieving the mission, etc. Numbers of studies try to see the relationship between these special traits of social entrepreneurs and their background related to family environment, nurturing, socialization and educational background. These traits help in forming values and beliefs of the social entrepreneurs which play an important part in driving him/her in decision making (Hwee Nea, Shamuyanathan, G: 2010). The authors use Big Five Personalities measure developed by Schmit to assess the personality traits of social entrepreneurs. They identify five dimensions of social enterprises such as social vision, sustainability, social network, innovations and financial viability and their relationship with five personality traits such as openness, extroversion,

agreeableness, conscientiousness and neuroticism. The authors conclude that certain personality traits like agreeableness, openness and conscientiousness have a positive influence on social enterprise dimensions. Besides strong values and beliefs social entrepreneurs are also driven by other personal characteristics. Marshall (2010) observes that development of internal social entrepreneurial mindset is influenced by individual mindset (risk taking ability and compelling commitment to a social mission), networking ability (ability to partner with local organizations) and the ability to recognize opportunity which is customer oriented. Just like 'normal' entrepreneurship, social entrepreneurship is also influenced by diversity in personal attributes. Gender is one such attribute. The proportion of female entrepreneurs in the field of social entrepreneurship is reasonable high. Studies show that women are more likely to be involved in setting up socially oriented ventures than men and thus the gender gap in social entrepreneurship is less than mainstream entrepreneurship. For instance 38 % of social enterprises are headed by female entrepreneurs in UK as compared to only 19 % of all SMEs.

### **Role of Diversity in Stimulating Social Innovations:**

Number of studies focus on the role of diversity in identifying idea which stimulates social innovation. Family background of the entrepreneurs, earlier experience of working with social/ community organizations and education are key differentiators between social and conventional entrepreneurs (Dhesi: 2010, Bridgstock et al: 2010).

One common personal attribute which plays an important role in stimulating innovation in conventional and social entrepreneur is relevant education. The only difference is that in case of seeking opportunities in social entrepreneurship more weight-age is given to practical or real life education rather than only domain based theoretical education. Smith et al (2008) state that real life educational experience; exposure to social entrepreneurship model and actual interactions with social entrepreneurs has a positive impact in identifying business opportunities in social enterprise. Bloom and Pirson (2010) suggest incorporation of social entrepreneurship in educational curriculum of management studies as well as post graduation studies as a tool to promote social change agent. They further recommend incubator model established in various universities such as Stanford University, Harvard where there is a good blend of theory and practice. Smith, Barr and Barbosa (2008) also support this suggestion and state that with rising importance and reach of social entrepreneurs all over the globe, the entrepreneurship education should give special focus on social entrepreneurship and emerging opportunities in this field to find innovative solutions to social problems. The student run social ventures and live case studies will help integrating theory with practice in such education.

### **State of Education in India and Need for Social Innovations:**

India as a country is well known for its diversity in culture, languages, and geographical features as well as diversity in socio-economic context. This diversity poses many challenges as well as opportunities in the context of education as



universal standardized education may not satisfy requirements of various segmented communities and especially of marginalized communities. The overall status of education in India is not in very good shape. Report to the People on Education 2011-12 published by Ministry of Human Resource Development states that national literacy level has increased from 64.8 % in 2005 to 74 % in 2011, when world average literacy rate in 2010 was 84.1 %. Literacy rate of female has though rising is still at 65%. The drop-out rates from schools at primary and elementary level are very high such as 29 % at primary level and 42 % at elementary level (DISE Report: 2009-10).

Quality of education is another area of concern. Annual Status of Education Report (ASER) (2013) shows that though there is a marginal improvement in overall enrollment in schools, there is no marked improvement in learning abilities. Fifty percent of the children from standard II cannot read simple everyday words in their regional languages. Nearly 78 % of children in standard II and about 50 % of children in standard V cannot read standard II text. Only 26 % from standard III and 52 % from standard V children can do simple subtraction problems. Only 26 % from standard V can do simple division problems. The report also states that still 26 % schools are without drinking water provision. Nearly 37 % schools do not have toilets. Nearly 60 % schools do not have libraries.

This picture indicates that there is lot of need to bring out social innovations in various areas such as to integrate marginalized communities in mainstream



education, to design and develop educational content for segmented communities, to use technology to provide access to good quality of education in remote and interior areas as well as to strengthen mainstream educational institutions like public schools, government organizations, etc.

### **Summary of Literature Review and Research Gap:**

The existing research brings out the importance of diversity in inculcating entrepreneurial potentials and developing entrepreneurial attributes as well as in bringing innovations through acting as springboard. It focuses on how diversity in socio-economic context has played an important role in stimulating social entrepreneurship. It also throws light on the need for social innovations in the field of education in a country like India. It is however seen that very few studies have been made to find out the role of diversity in personal attributes in stimulating social innovations especially in Indian context.

### **Objectives of the Study:**

The major objective of the study to find out the role of diversity in personal attributes to encourage social entrepreneurship and stimulate social innovations. Specific objectives are as follows:

1. To find out the extent of diversity in social entrepreneurs and their social ventures working in the field of education in India
2. To find out the extent of diversity in personal attributes of social entrepreneurs which stimulate social entrepreneurship

3. To find out the relationship between the diversity in personal attributes of social entrepreneurs and the strategies used for social innovations in their social ventures.

### **Research Methodology:**

The study uses the sample of 55 social entrepreneurs working in the area of education who have received Ashoka Fellowship. Ashoka Foundation is founded by Bill Dryton in 1980 to provide a support system to social entrepreneurs in terms of funding, recognition and network. Over the years the Foundation has supported over 3000 social entrepreneurs from over 70 countries which are recognized as ‘Ashoka Fellows’ and are selected on rigorous parameters of entrepreneurial abilities of the person and the likely impact of their new ideas to solve social problem. The foundation has provided fellowship to over 350 fellows from India working under various fields such as civic engagement, economic development, health, human rights and education. The study has used the qualitative data of these 55 social entrepreneurs from its website specifically related to their social innovations and personal information. This data was collated and was converted into quantitative data for further analysis.

## **Data Findings:**

### **1. Research question 1: What is the extent of diversity in social entrepreneurs and their social ventures working in the field of education in India**

In all 55 social entrepreneurs working in the field of education and learning have received Ashoka fellowship since 1985. Their year-wise and gender-wise classification is given in Table 1.1 and Table 1.2.

**Table 1.1: Classification of Social Entrepreneurs according to year of awarding fellowship:**

<b>Sr. No</b>	<b>Year category</b>	<b>Total no</b>	<b>Percent (%)</b>
1	Up to year 1990	5	9.1
2	1991 to 1995	5	9.1
3	1996 to 2000	7	12.7
4	2001 to 2005	21	38.2
5	2006 to 2010	10	18.2
6	2011 onwards	7	12.7
	<b>Total</b>	<b>55</b>	<b>100.0</b>

**Table 1.2: Classification of Social Entrepreneurs according to Gender:**

<b>Sr. No</b>	<b>Gender</b>	<b>Total no</b>	<b>Percent (%)</b>
1	Male	34	61.8
2	Female	21	38.2
	Total	55	100.0

The above data shows that relatively large number of social entrepreneurs has received fellowship after 2000. The proportion of female entrepreneurs is significantly higher in this sector as compared to ‘normal’ entrepreneurship.

Table 1.3 to 1.6 describe the diversity of social ventures set-up by these social entrepreneurs in terms of location, regions, target beneficiaries, and target level of education

**Table 1.3: Classification of Social Ventures according to the Location:**

<b>Sr. No</b>	<b>Location</b>	<b>Total no</b>	<b>Percent (%)</b>
1	Urban	20	36.4
2	Rural	18	32.8
	Urban & Rural both	17	30.9
	Total	55	100.0

**Table 1.4: Classification of Social Ventures according to States:**

<b>Sr. No</b>	<b>States</b>	<b>Total no</b>	<b>Percent (%)</b>
1	Maharashtra	17	28.8
2	Gujarat	8	13.6
3	Uttar Pradesh	8	13.6
4	Karnataka	7	11.8
5	Andhra Pradesh	6	10.1
6	Rajasthan	4	6.8
7	West Bengal	3	5.1
8	Kerala	2	3.4
9	Others (Orissa, Ladakh, Kashmir, Madhya Pradesh))	4	6.8
	<b>Total</b>	<b>59</b>	<b>100.0</b>

**Table 1.5: Classification of Social Ventures according to Type of beneficiaries:**

<b>Sr. No</b>	<b>Type of Beneficiaries</b>	<b>Total no</b>	<b>Percent (%)</b>
1	Schools and Teachers	13	23.6
2	Minority Communities	5	9.1
3	Individual beneficiaries like children / adults	11	20.0
4	Multiple beneficiaries	26	47.3
	<b>Total</b>	<b>55</b>	<b>100.0</b>

**Table 1.6: Classification of Social Ventures according to Category of Age group targeted:**

Sr. No	Category of Age group	Total no	Percent (%)
1	Pre-primary and Primary education	5	9.1
2	Secondary education	6	10.9
3	Primary & secondary education	29	52.7
4	Higher education	9	16.4
5	Adult education	6	10.9
	Total	55	100.0

Social ventures are spread more or less equally between rural and urban areas. Though they are spread across various states, it can be seen that their representation is more in progressive states like Maharashtra and Gujarat compared to underdeveloped states like Orissa, Bihar, etc. Most of the social ventures are targeting multiple beneficiaries such as schools, educators, children as well as parents. The educational level targeted by most of the social ventures is primary and secondary education.. Relatively less social ventures are focusing on higher education or adult education.

An attempt is made to find out the diversity in strategies used for social innovations by looking into three components such as target beneficiaries, type of intervention and the use of technology. The strategies were classified into five groups as follows:

1. Supplementary to main education – Social innovations which support the mainstream education such as running remedial classes, mentoring children, looking after enrollment, etc.
2. Intermediation to strengthen institutions – Social innovations which actively take part in rejuvenating established education institutions such as taking over state run schools, establishing networks between different stakeholders, etc.
3. Development of curriculum & educational aids – Social innovations in designing curriculum, educational aids, games, etc.
4. Targeting marginalized group – Social innovations specially focusing on needs of particular minority group such as migrant workers’ children, etc.
5. Use of technology – Social innovations using technology (specially Information and Communication Technology - ICT) in the field of education

Following table provides the description of each along with few examples.

**Table 1.7: Classification of Social Ventures according to Type of Social Innovation:**

**Sr. Strategies of Examples  
No Social  
Innovation**

		Name of the Social Innovation Social entrepreneur	
1	Supplementary to main education	Maxine Berstein	Preschool and follow-up supplementary education for poor and village children
		Yogendra Singh	Autonomous and informal child centric education for slum children
		Sarat Babu Vasireddy	Setting up community managed and controlled schools for slum dwellers
2	Intermediation to strengthen institutions	Suchitra Sheth	Rejuvenation of state-run homes for children
		Ramchandra Gunari	Connecting mentors for village students coming to cities for higher education
		Falgun Sheth	Creating the network of parents, teachers and schools to promote



- |   |                                       |                   |   |
|---|---------------------------------------|-------------------|---|
|   |                                       |                   | quality education and prevent child labour  |
| 3 | Dev. of curriculum & educational aids | Padmanabha Rao    | Provision of multi-grade and multi-layer learning modules for village schools   |
|   |                                       | Ashraf Patel      | Development of multifaceted curriculum to sensitize urban youth about various social issues   |
|   |                                       | Geeta Ramanujam   | Use of story-telling as a teaching tool to encourage inquiry based learning and to develop enthusiasm   |
| 4 | Targeting marginalized group          | A. R. Palaniswamy | Rehabilitation programme for the children of convicted criminals  |
|   |                                       | Sonam Wangchuk    | Reinforcing cultural identity of minority Tibetan community   |
|   |                                       | Rohit Baluja      | Training drivers, traffic police, engineers to develop 'road culture'   |
| 5 | Use of technology                     | Randolph Wang     | Founded "The Digital study Hall" which is a uses generated video sharing system intended to overcome the shortage of qualified teachers in villages and poor children's schools |

- Santosh Choubey

Parag Mankeekar

Bridging the IT gap between urban and rural India

Training children in disaster management through camps and computer games

The classification of social innovations as per the strategies of innovation categories is given below.

**Table 1.8: The classification of social innovations as per the strategies of innovation**

Sr. No	Type of Social innovation	Total no	Percent (%)
1	Supplementary to main education	8	14.5
2	Intermediation to strengthen institutions	12	21.8
3	Curriculum dev & educational aids	20	36.4
4	Targeting marginalized group	9	16.4
5	Use of technology	6	10.9
	Total	55	100.0

The strategies used by social entrepreneurs for creation of social value are varied. Most popular strategy is to develop new curriculum or education aids to support existing education followed by helping schools, educators or NGOs to through empowerment policies.

It can be stated that social entrepreneurs come from varied backgrounds and the social ventures set-up by them show a divergent outlook in terms of target beneficiaries, target age-groups, locations, states as well as the innovation strategies adopted by them for social intermeidiation.

### **Research question 2:**

#### **What is the extent of diversity in personal attributes of social entrepreneurs which stimulates social entrepreneurship?**

Looking at the data related to personal attributes one can see that there are five factors which stimulate entrepreneurship and innovations. These are i) Conducive family background (close family relatives/ parents working in social sector), ii) Relevant educational background (relevant for identifying business opportunity or innovation), iii) Relevant work experience (Worked in social sector or relevant field) iv) Personal experience (entrepreneur himself/herself affected by similar social problem). v) External stimulator in terms of incidence or close interaction with mentors/inspirer who had worked in social sector. Table 2.1 presents few representative examples of how these stimulators have influenced social entrepreneurs to set-up social ventures.

**Table 2.1: Representative Examples of Stimulants Influencing Social Entrepreneurs**

Sr no	Stimulant parameter	Entrepreneur	Relevance
1	Suitable family environment	Suchitra Sheth	Raised to stand for rights, learnt about cultural diversity since childhood, feminist mother
		Yogendra Singh	Father progressive leftist leader
		Falgun Sheth	Father involved in freedom struggle
2	Relevant education	Maxine Bernstein	MA in English literature & Linguistics for PhD thesis on class differences in use of Marathi language
		Suchitra Sheth	Design course in Visual communication - worked on assignments related to communication & children's welfare
		Anjana Batra	Master's degree in sociology - visited various societies dealing with social problems.



- |   |                                    |                 |  |
|---|------------------------------------|-----------------|--|
| 3 | Relevant work experience           | Suchitra Sheth  | Worked as a designer in Centre for Health education, freelance work for NGOs   |
|   |                                    | Urvashi Sahani  | Founded organization for women's safety and family counseling, started few schools                                   |
|   |                                    | Padmana bha Rao | Worked in the capacity of curriculum development, training & dev, research, etc                                      |
| 4 | External stimulant/ Influencer     | Pankaj Jain     | Worked under 'Vargis Kurien' a well know social entrepreneur, interactions with Grameen bank, other NGOs             |
|   |                                    | Murali Mohan    | Influenced by Telangana peasant's movement in college days   |
|   |                                    | Umesh Malhotra  | While on the job in USA he found out the gap between the books availability to Indian children and children from USA |
| 5 | Personally affected by the problem | Sonam Wangchuk  | He was personally affected by cultural mismatch between Ladakhi and Kashmiri culture                                 |
|   |                                    | Bastu Rege      | Comes from a humble family background from village   |
|   |                                    | Randolph Wang   | Comes from China at the time of cultural revolution when his parents suffered  |

This table provides an indicative list of type of stimulants to show the manner in which these stimulants might have affected the entrepreneurs to take a social cause. It is also seen that in most of the cases, social entrepreneurs seek their innovative ideas from more than one stimulant.

**Table 2.2: Classification of social entrepreneurs according to Number of diverse stimulants:**

Sr. No	No of stimulants	Total no	Percent (%)
1	One	7	12.7
2	Two	27	49.1
3	Three	15	27.3
4	Four	6	10.9
	Total	55	100.0

It may be argued that in most of the cases, the conducive environment for social entrepreneurship is created with the combinations of various stimulants such as suitable family environment, relevant work experience, relevant education, etc.

Table 2.3 provides the relative importance of the various parameters of stimulants.

**Table 2.3: Frequency distribution of factors/influencers**

Sr. No	Factors/influencers	Total number	Percent
1	Suitable family background	21	38.2
2	Relevant education	33	60.0
3	Relevant work experience	47	85.5
4	Personal experience	10	18.2
5	External stimulants/Mentors/ Inspirers	21	38.2
	Total	55	

It is seen that relevant work experience followed by relevant education are found to be most important influencers for identifying business opportunity.

In order to find out whether the difference between these factors is significant or not ‘one sample t-test’ was carried out the results of which are shown below:

**Table 2.4: The mean values of independent factors**

Sr. No.	Independent factors	Number	Mean	Std. Dev.	Sig
1	Suitable family environment	55	.38	.490	.000
2	Relevant education	55	.60	.494	.000
3	Relevant work experience	55	.82	.389	.000
4	Personal experience	55	.18	.389	.001
5	Interaction with mentor	55	.38	.490	.000

The table shows that mean values of relevant work experience and relevant education are higher than that of other factors or stimulators. One Sample t Test carried out on this data shows that the difference across these factors is statistically significant as  $P < 0.05$ .

It can thus be concluded that there is a diversity in personal attributes which stimulates social entrepreneurship. Relevant education and work experience play a very crucial role in this process.

**Research question 3: Is there any relationship between the diverse entrepreneurial background and the social innovation?**

An attempt is made to find out the relationship between the divergent stimulants and the social innovations brought out by the social entrepreneurs. The Cross table with Chi-square test was used to find out the statistical significance. Table no 3.1 shows the relationship between different parameters of stimulants and strategy used for social innovation.



**Table 3.1: Relationship between Divergent Stimulants and the Social Innovations:**

<i><b>Sr no</b></i>	<i><b>Social Innovation</b></i>	<i>No</i>	<i>Family backgro und</i>	<i>Releva nt educati on</i>	<i>Relevan t Work ex</i>	<i>Perso nally affecte d</i>	<i>Extern al Stimula nt</i>
	<i>Supplementary to main education</i>	8	5	3	7	1	3
	<i>Intermediation to strengthen institutions</i>	12	6	4	10	3	3
	<i>Curriculum dev &amp; educational aids</i>	20	3	13	17	2	7
	<i>Targeting marginalized group</i>	9	3	7	6	2	5
	<i>Use of technology</i>	6	4	6	5	2	3

	<i>Chi-square tests</i>		$\chi^2(4, N = 55) = 9.42, p > 0.05.$	$\chi^2(1, N = 55) = 10.63, p < 0.05.$	$\chi^2(2, N = 55) = 1.72, p > 0.05.$	$\chi^2(3, N = 55) = 2.43, p > 0.05.$	$\chi^2(5, N = 55) = 2.47, p > 0.05.$
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The Chi-square tests show that the difference across the groups is significant only in case of relevant work experience. In all other cases it is not found to be significant.

### Discussion and Conclusions:

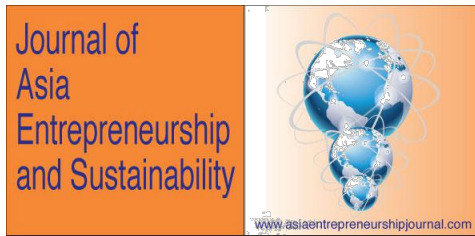
The summarization of findings is given below:

- Diversity in personal attributes of social entrepreneurs is found in various demographic attributes such as gender, location, states, etc. The representation of female entrepreneurs is relatively large in social entrepreneurship. The social ventures set up by these entrepreneurs are more or less equally distributed in rural and urban areas. The state-wise classification of social ventures shows that most of the ventures have been set up in relatively advanced states and some of the backward states such as Bihar, Chhattisgarh, Assam are not represented at all.

- Diversity in the nature of social ventures is found in the nature of social ventures in terms of type of the beneficiaries targeted, targeted educational level, strategies used for social innovation, etc.
- Demographic factors such as stimulating family environment, relevant education, work experience act as stimulants to take plunge in social entrepreneurship. The study also found that in few cases entrepreneurs have identified innovative idea from their own personal problems. External stimulant in the form of either any event or incidence or some other person acting as mentor or inspirer has also helped inculcate social entrepreneurship.
- In most of the cases, social entrepreneurship has been encouraged by more than one stimulant of personal attributes. This shows that family environment, education, work experience and other factors stimulate each other to encourage social entrepreneurship and bring out innovative ideas.
- The paper finds that the educational background has a strong linkage with social innovation strategy used by an entrepreneur. In all rest of the case, the relationship cannot be statistically established.

### **Limitations and future scope for research:**

This paper has used secondary data from only one source and has converted that into quantitative data for further analysis. Primary data collected from using survey method or interview method would have given better insights in this field.



Social entrepreneurship is an emerging field for research. It is possible to explore further links between diversity and social innovations in other sectors (besides education) such as health, economic welfare, etc.

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# **Entrepreneurial Intention and Motivating Factors for Entrepreneurship: A Survey of Shantou University Students and Graduates**

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## **Abstract**

### **Purpose:**

This research focuses on factors influencing Shantou University students' and young graduates' entrepreneurial intention and actions. Recommendations to increase entrepreneurial intentions and to facilitate entrepreneurial start-up businesses by university students and graduates will be put forward.

#### Design/Methodology/Approach:

The research was carried out by means of literature review, questionnaires and interviews. Several references and e-references were reviewed to explore previous studies on entrepreneurship. A structured questionnaire was distributed online to investigate Shantou University students' and young graduates' entrepreneurial intentions and motivating factors. There are 175 valid online respondents, and 7 entrepreneurs were interviewed in-person or by telephone with the assistance of computers.

#### Findings:

This research showed that individual factors, family background factors and social environmental factors have a significant influence on entrepreneurial intentions and activities of university students or graduates. It also revealed that at Shantou University some students and graduates held positive attitudes toward entrepreneurship and are interested in becoming entrepreneurs. University students are one of the most innovative and receptive of entrepreneurship groups. The promotion and implementation of local government policies supporting student entrepreneurship are insufficient and lack supervision.

#### Practical implications:

Entrepreneurship contributes to job creation and economic development. The results suggest that to increase entrepreneurial intentions and to facilitate business start-ups by university students and graduates it is necessary for the government

and universities to take measures to create an entrepreneurship-friendly environment, so as to achieve employment through entrepreneurship.

#### Originality/ Value:

This thesis attempts to advance the general level of knowledge concerning entrepreneurship by tertiary students and young graduates in a fast pace of technological change and to suggest actions to encourage more university students and graduates to become entrepreneurs.

#### Introduction

Entrepreneurship is a process of creating and realizing values of entrepreneurs (Morris & Jones 1999). And entrepreneurial activities play an important roles in promoting economic and social development. One notable challenge confronting the developing nations globally is how to get their legion of youths gainfully employed. In China, myriad of students are graduating from universities every year without a corresponding job opportunities for them. To solve this problem, the Chinese government emphasizes promoting employment by entrepreneurship and supports university graduates to create their own businesses. However, at present there is a low proportion of entrepreneurs among Chinese graduates and previous researches showed that the success rates of undergraduate entrepreneurs is less than 1%. In 2010, only 1.5% of university graduates chose to start their own businesses, which is dismal compared with 20% ~ 30% of university graduates in developed countries (Wang 2013). To promote entrepreneurship among graduates

and to drive employment by entrepreneurship, it is necessary to explore the entrepreneurial intentions of university students and factors affecting entrepreneurial start-up by fresh graduates.

This paper analyzes Shantou University students' and young graduates' entrepreneurial intention and actions, as well as factors affecting their motivation.

### 1. Literature Review

Literatures on entrepreneurship has a long and distinguished lineage. “The study of entrepreneurship dates back to the seventeenth and eighteenth centuries as illustrated by the work of Richard Cantillon and Jean-Baptiste Say” (Mars & Rios-Aguilar, 2009). In recent years, entrepreneurship has been receiving greater attention because of its importance in economic development. According to Lazear (2005), “entrepreneurship is the process of assembling necessary factors of production consisting of human, physical, and information resources and doing so in an efficient manner”. More specifically, entrepreneurs combine all different resources to create a new product or to produce an existing one at a lower or competitive cost. Entrepreneurship contributes not only to the economic development, but also provides new opportunities for prospective entrepreneurs by delivering information and knowledge for the next business creation.

A growing body of literature exist indicating that entrepreneurial intention plays an important role in the decision to start a new business. Researchers argue that the individual's entrepreneurial intentions are the significant variables to predict their entrepreneurial behaviors. There are various definitions about entrepreneurial intentions. Referring to entrepreneurial intentions, scholars adopt some similar conceptions such as career orientation, new business owner-managers, nascent entrepreneurs (Korunka et al., 2003) and so forth. According to Bird (1998), entrepreneurial intention is the state of mind directing a person's attention and action towards self-employment in contrast to getting employment. Krueger (1993) deems that entrepreneurial intention refers to a commitment to starting a new business. It seems that researchers often tend to give operational definitions to entrepreneurial intention. In this paper, entrepreneurial intention is defined as a mental orientation such as desire, wish and hope of a potential entrepreneur are willing to engage in business activities<sup>8</sup>.

## 2. The Motivating Factors for Entrepreneurship

Researchers have had a deep and wide discussions on the important factors that predict entrepreneurial behaviors. These factors can be divided into three categories: individual factors, family background factors, social and environmental factors.

## 2.1 Individual Factors

Individual factors mainly refer to personality traits, individual competence, and individual experiences contributing to their entrepreneurial intentions. According to Burch (1986), the entrepreneur is actually the source of innovation and creativity, the schemer, the heart and the soul of economic growth. It could be expected that, compared with ordinary people, entrepreneurs often show certain distinct personality traits such as strong achievement orientation, willingness to take risk, strong locus of control, agreeableness and endurance which produce positive impact on driving entrepreneurial decision making (Frank, Lueger, & Korunka 2007). Many researchers have also explored the influence of individual competence on individual's entrepreneurial intentions. Researchers such as Lazear (2005) agree that well-trained entrepreneurial and business skills have significantly positive influence on prospective entrepreneurs whenever they encounter a challenging task in their entrepreneurial development. According to Davidsson (1991), an entrepreneur's ability to start entrepreneurship is highly correlated with his prior business related experience and education. In today's complex world, entrepreneurs need skills in law, finance, management, accounting, and marketing. Krueger argued that an individual's entrepreneurial intentions are also impacted by their subjective norm which is influenced by perceived expectation level from those who are important to him or her like relatives, parents, friends, colleagues and others to their behaviors and individual's obedience to these expectations (Krueger, 1993).

## 2.2 Family Background Factors

Researchers also explored the influence of familial factors on individual's entrepreneurial intentions and most of them focus on the role molding perspective of the family history of entrepreneurial activities. McElwee and Al-Riyami (2003) explained that parental occupations would set example to influence children's entrepreneurial intentions and children whose parents are entrepreneurs tend to have a greater propensity to choose an entrepreneurial career. Another factors such as family income, familial business experiences are believed to have direct bearing on entrepreneurial intention due to the fact that they can become an important source of financial and non-financial help.

## 2.3 Social Environmental Factors

Researchers have indicated that social environmental factors like government policies and procedures, public attitude towards entrepreneurship, government support are significant factors motivating individual's entrepreneurship. "Governments can influence the market mechanisms and make them function efficiently by removing conditions that create market imperfections and administrative rigidities. They can also create an 'enterprise culture' that enables firms to take reasonable risks and seek profits" (Gnyawali, & Fogel 1994). People's perception on the entrepreneurial intention and action can be facilitated or hindered by attitudes toward entrepreneurs from family, friends, teachers and community around them. As for university students and graduates, what matters most is actually the entrepreneurial culture that their universities encourage and

promote. Generally, a positive attitude of the society toward entrepreneurship, and university support programs and education for entrepreneurial action will stimulate individuals to start their own business.

### 3. Research Methodology

The methodology used consists of survey and interviews. Survey questionnaire were distributed online and we received 175 valid respondents who have or had studied at Shantou University, including 100 males and 75 females. The interviews with seven entrepreneurs were carried out in-person or by telephone with the assistance of computers.

### 4. Research Results

#### 4.1 Shantou University Students' and Graduates' Entrepreneurial Intentions

The survey shows that Shantou University students and graduates have quite strong interest in entrepreneurship. To the item “what is your attitude towards entrepreneurship” (See Table 1), no one showed any objections, while 69.71% of the respondents expressed their support and 30.29% remained neutral. Nearly 90% of the respondents said that they are interested in entrepreneurship, with 34.86% taking great interest in entrepreneurship. Moreover, only 17.71% of the respondents said that they have never thought of becoming an entrepreneur while over 80% of them have considered do so and some of them are even preparing or are already doing so at the moment (See Table 2).



Table 1 Results of Item 6 (What is your attitude toward entrepreneurship?)


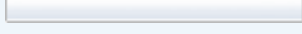
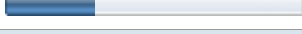

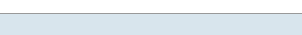
□ □	小 □	比例
支持	122	 69.71%
反 □	0	 0%
保持中立	53	 30.29%
本 □ 有效填写人次	<b>175</b>	

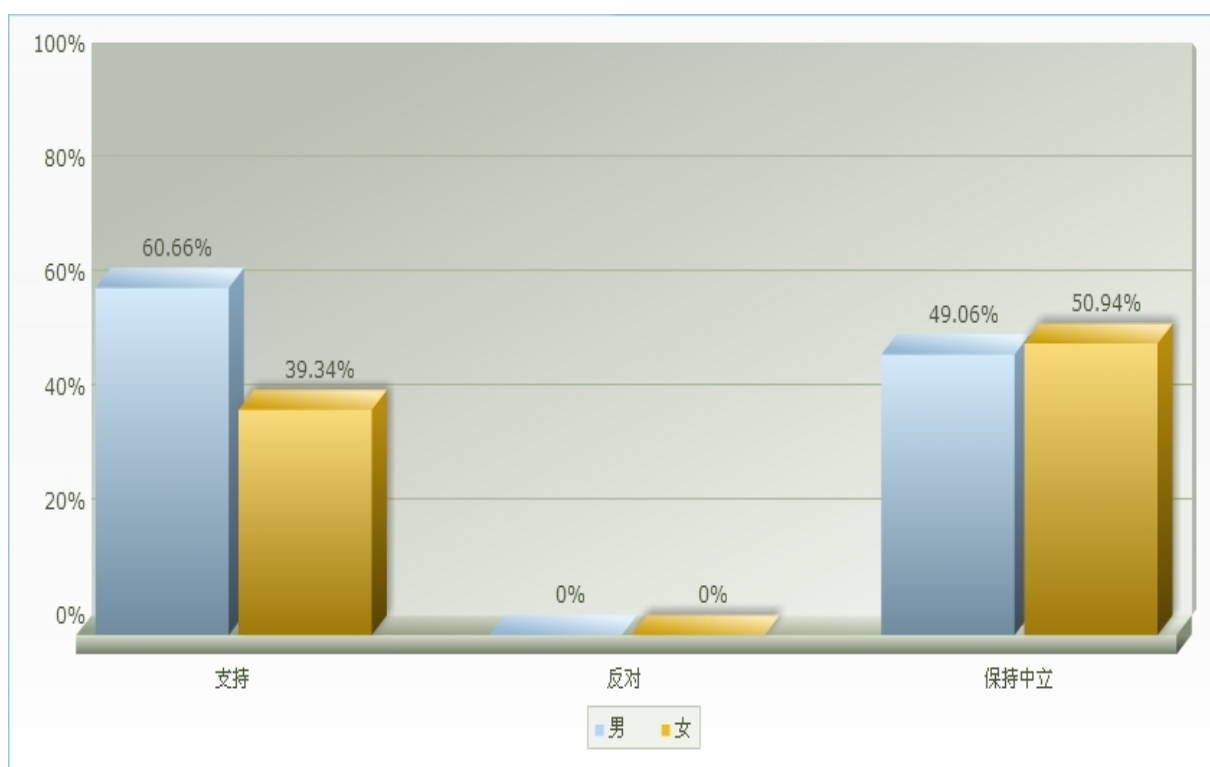
Table 2 Results of Item 5 (Do you plan to become an entrepreneur?)

□ □	小 □	比例
想 □, 但没有 □ 施	127	 72.57%
做 □, 但 □ □ 失 □	7	 4%
□ □ 中	4	 2.29%
正准 □ □ □	6	 3.43%
从没想 □	31	 17.71%
本 □ 有效填写人次	<b>175</b>	

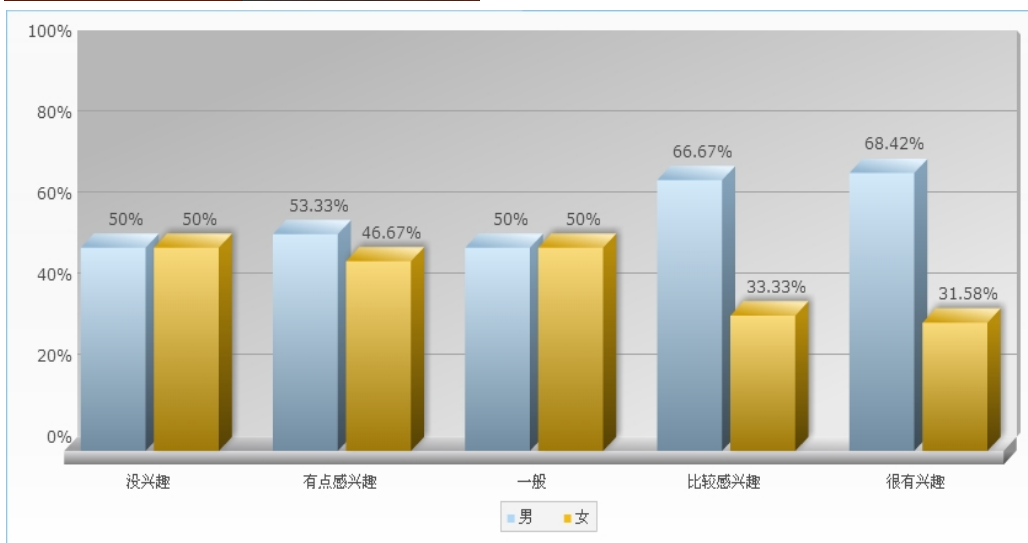
Many researchers have explored the impact of gender on individual's entrepreneurial intentions. In this survey, males generally have stronger intentions than females. As Bar Chart 3 shows, among those who hold supportive attitude towards entrepreneurship, 60.66% of them are males compared with 39.34% females. Among those who showed great interest in entrepreneurship, the proportion of male is close to 70% (See Bar Chart 4). Among those who have considered becoming an entrepreneur, males make up more than half (59.06%) compared with 40.94% females (See Bar Chart 5). Some argued that the reasons

for low entrepreneurial intentions among females are because they have low self-efficacy and they may avoid starting their own business for the lack of necessary capability (Fielden, et al, 2003). Some stereotyped notion of female as housewives supporting the family and raising the children may also have negative influence on female’s entrepreneurial intentions.

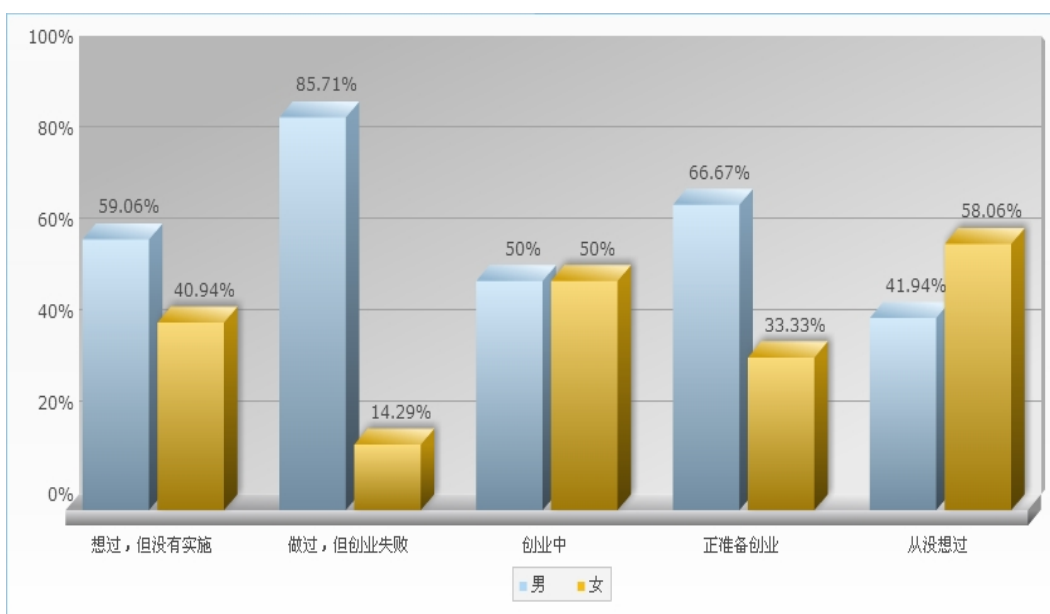
Bar chart 3 Attitudes toward Entrepreneurship According to Gender



Bar Chart 4 Level of Interest in Entrepreneurship According to Gender

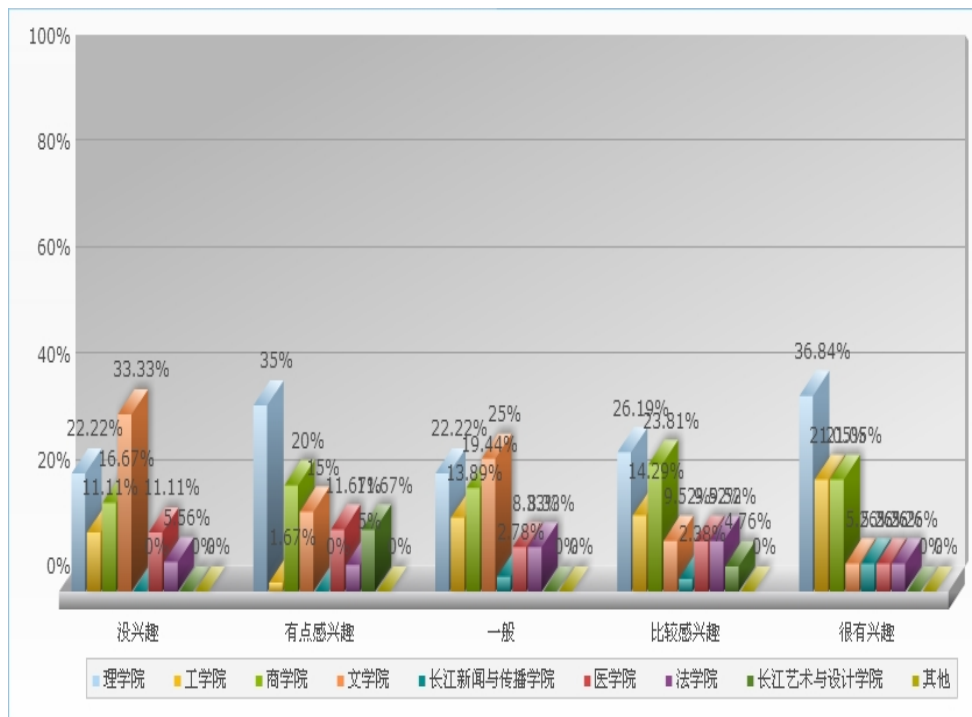


Bar Chart 5 Level of Intention toward Becoming Entrepreneurs According to Gender



The survey also revealed that individual's major, interest and hobby exert significant influence on their entrepreneurial intentions. Respondents from the colleges of science, engineering and business tend to have stronger entrepreneurial interest and intention than those from the college of liberal arts (See Bar Chart 6 and Table 7). This is partly due to the fact that a liberal arts education is always associated with thinking and contemplation rather than praxis. Entrepreneurship, on the other hand, is almost situated within the domain of business and increasingly involves with qualities like risky, exciting, innovation, high technology and so forth, which represents not only engagement with the outside world, but also the attempt to change the world according to a particular vision. Besides, an individual's interest and hobby also plays an important role in fostering their supportive behavioral intentions towards a particular industry. Most of the interviewees have chosen the industry that are closely related to their interest or hobbies. For instance, one interviewee who opened a painting studio with her partner explained that it is because they are good at teaching and love art and design.

**Bar Chart 6 Level of Interest in Entrepreneurship According to Schools**



**Table 7 Level of Interest in Entrepreneurship According to Schools**

X/Y	理学院	工学院	商学院	文学院	长江新闻与传播学院	医学院	法学院	长江艺术与设计学院	其他	小计
没兴趣	4(22.22%)	2(11.11%)	3(16.67%)	6(33.33%)	0(0.00%)	2(11.11%)	1(5.56%)	0(0.00%)	0(0.00%)	18
有点感兴趣	21(35.00%)	1(1.67%)	12(20.00%)	9(15.00%)	0(0.00%)	7(11.67%)	3(5.00%)	7(11.67%)	0(0.00%)	60
一般	8(22.22%)	5(13.89%)	7(19.44%)	9(25.00%)	1(2.78%)	3(8.33%)	3(8.33%)	0(0.00%)	0(0.00%)	36
比较感兴趣	11(26.19%)	6(14.29%)	10(23.81%)	4(9.52%)	1(2.38%)	4(9.52%)	4(9.52%)	2(4.76%)	0(0.00%)	42
很有兴趣	7(36.84%)	4(21.05%)	4(21.05%)	1(5.26%)	1(5.26%)	1(5.26%)	1(5.26%)	0(0.00%)	0(0.00%)	19

Shantou University provides entrepreneurial education in various ways. 92% of the respondents think that entrepreneurial education is useful for future entrepreneurship and career planning (See Table 8). A series of elective courses such as Entrepreneurial Management, Fundamentals of Entrepreneurship, Career Planning, Business Practice, Value Based Innovation, Start Your Business, Employment Guidance, Career Consultation and Training are offered to students as career planning guidance<sup>12</sup>. However, the survey shows that only 25.14% of the respondents have taken these courses (See Table 9). Apart from courses, Shantou University also hold various entrepreneurship talks and competitions every year to promote innovation and entrepreneurship. Some university programs like STU Enactus, Business School Practice Centre, Shantou University Modern Top provide great opportunities for students to engage in entrepreneurial activities. According to the survey, 34.29% of the respondents had participated in entrepreneurial activities, 26.86% had attended entrepreneurship talks, and 25.14% had taken part in related competitions.

Table 8 Results of Item 11

To what extent are STU's entrepreneurship education helpful for entrepreneurial development?

□ □	小 □	比例
没有帮助	14	<div style="width: 8%;"></div> 8%
有一点点帮助	79	<div style="width: 45.14%;"></div> 45.14%
有一些帮助	73	<div style="width: 41.71%;"></div> 41.71%
有很大的帮助	9	<div style="width: 5.14%;"></div> 5.14%
本□有效填写人次	<b>175</b>	

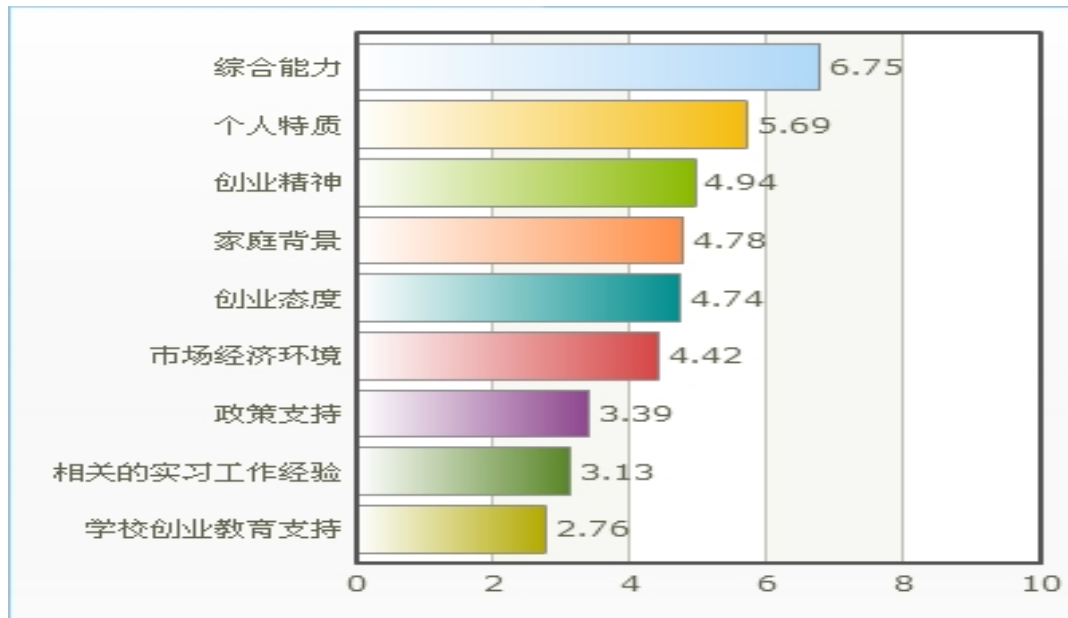
Table 9 Results of Item 10

What kind of entrepreneurial activities have you ever participated before?

□ □	小 □	比例
□ □ □ □ 大 □	44	<div style="width: 25.14%;"></div> 25.14%
□ □ 教育 □ 座	47	<div style="width: 26.86%;"></div> 26.86%
□ □ □ 践 活 □	60	<div style="width: 34.29%;"></div> 34.29%
□ □ 指 □ □ 程	44	<div style="width: 25.14%;"></div> 25.14%
其他	47	<div style="width: 26.86%;"></div> 26.86%
本 □ 有效填写人次	<b>175</b>	

In terms of the major factors affecting entrepreneurial development, comprehensive ability is regarded as the most critical intrinsic motivations, winning the highest score of 6.75 (See Bar Chart 10). Personal traits ranks the second place (5.69), following by entrepreneurial spirit (4.94), family backgrounds (4.78), entrepreneurial attitude (4.74), economic environment (4.42), supporting policies from the government (3.39), relevant work experience or internship experience (3.13) and entrepreneurial education provided by the university (2.76). Respondents believe that individual factors are intrinsic motivations that are more important than external entrepreneurial environment. It is noteworthy that entrepreneurial education is considered as the least important among the above factors, indicating that entrepreneurial education still has a long way to make students believe in its effectiveness.

Bar Chart 10 Major Factors Affecting Entrepreneurial Development According to Importance



When it comes to the measures that the government and university can take to promote entrepreneurship among university students and graduates 81.14% of the respondents support the establishment of entrepreneurial platform and 78.29% hope to establish entrepreneurial foundation (See Table 11). This is due to the fact that one of the main deterrent to starting a small business for most people is the lack of money. Therefore, students and graduates hope that the government can provide supporting policies such as tax preference, loan guarantee, economic compensation and product procurement, etc. In addition, the results above indicated that respondents think highly of individual factors, so naturally they expect the university to provide high quality entrepreneurial education to enhance



their ability and invite successful students or alumni to share their experiences on entrepreneurship.

Table 11 Results of Item Thirteen

What can the government and university do to promote entrepreneurship among university students and graduates?

□ □	小 □	比例
搭建大学生□□平台	142	<div style="width: 81.14%;"></div> 81.14%
提供□□□□程教学	92	<div style="width: 52.57%;"></div> 52.57%
建立□□的□□基金	137	<div style="width: 78.29%;"></div> 78.29%
加□□□教育的□□□伍建□	85	<div style="width: 48.57%;"></div> 48.57%
定期邀□□□比□成功的大学生或校友分享□□	95	<div style="width: 54.29%;"></div> 54.29%
□□□的大学生□施更多的政策扶持和税收□惠	118	<div style="width: 67.43%;"></div> 67.43%
其他	1	<div style="width: 0.57%;"></div> 0.57%
本□有效填写人次	<b>175</b>	

## 4.2 Shantou University Students and Graduates

Interviews were carried out with several entrepreneurs, namely Wei Guangchao, Chen Xian, Zhang Nan, Chen Mingjian, Shan Xiaoshuang, Pan Huachao, and Chen Silin<sup>13</sup>. The interviewees talked about their stories of their entrepreneurship and the daily ups and downs. Based on their experiences and the questionnaire results, we summarize their strengths and weaknesses as well as their entrepreneurial environment.

#### 4.2.1 Strengths:

**Strong interest in entrepreneurship:** The result above already shows that Shantou University students and graduates have quite strong interest in entrepreneurship.

**Young and energetic:** The survey reveals that 87.43% of the respondents regard youth and vigor as most favorable asset of university students who want to become an entrepreneur. More importantly, they dare to think, dare to speak and dare to act. Unlike the middle-aged who have to endure the pressure of supporting the family, they do not have too much scruples and dare to risk failure, for even if they fail, they are young enough to start over.

**Innovative and receptive:** There is no doubt that university students and fresh graduates are one of the most innovative and receptive of entrepreneurship groups. 87.43% of the respondents hold the view that university students have strong sense of innovation and open-mindedness as they grew up in an era of knowledge and information via multiple social networks, new media and other sources. Compared with the older generation, they are more willing to accept and acquire something new, which is believed to be one of the most important qualities being a successful entrepreneur. The University spares no effort to nurture students' innovative awareness and global vision. For instance, it has widely conducted international academic exchanges and cooperation with overseas universities, invited world-class and well-known scholars to give lectures.<sup>14</sup>

According to some interviewees, knowledge and technical skills acquired on campus are very useful resources for starting new ventures. Likewise, the survey indicates that 28.57% of the respondents view excellent professional and technical expertise as an advantage to university students. 25.71% of the respondents consider having a good command of theory as an important strength, which can be used to guide practice. Furthermore, university students, especially those studying science and engineering, are observant and good at finding opportunities in more unconventional fields, and are believed to have strong practical skills.

#### 4.2.2 Weaknesses:

**Lack of experience of business management:** In the survey, 97.14% of the respondents viewed inadequate experience as one of the most challenging problem for university students or graduates. Entrepreneurship is a very complicated process. One had to integrate all kinds of resources to run a company effectively. Operating a company requires the coordination with the government, suppliers, wholesalers, customers and other stakeholders. Usually they do not have an adequately wide social network to foster “guanxi” (relationships) with prospective partners.

**Lack of money:** 90.29% of the respondents think that one of the greatest difficulties that the university students and graduates will encounter when doing business is the lack of money. On March 1, 2014, the amended new Company Law of the People’s Republic of China abolished the minimum amount of registered

capital of a limited liability company<sup>15</sup>. Nevertheless, young entrepreneurs still have to turn to their family, friends or loans to acquire enough capital for their start-up business. Other weaknesses include deficiency in market awareness, lack of self-developed innovative products and unfamiliar with relevant policies and laws.

### 4.3 Entrepreneurial Environment

#### 4.3.1 Opportunities

The Chinese government has assisted entrepreneurs through commercial registration system reform, reform of the administrative approval system, replacing business tax with value-added tax and reducing the burden ratio of companies and individuals for their social security contribution<sup>16</sup>. It has specially issued a series of preferential policies for university students and graduates, trying to create an entrepreneurship friendly culture that encourages university students and graduates to take risks and start their own businesses. For instance, the government has abolished the minimum amount of registered capital of a limited liability company. Such measures make it easier for entrepreneur registration, government permission, support of Venture Capital and Private Equity and reduction of the tax burden. On 10 December 2014, the Ministry of Education put forward a proposal that universities should practice flexible educational system and establish integral teaching management system which support students' suspension of schooling to start entrepreneurship and allow the transfer between credit and entrepreneurial achievement<sup>17</sup>. Shantou University endeavors to cultivate students' innovative

and integrated thinking ability and to help them translate their entrepreneurial intentions into entrepreneurial actions. It offers entrepreneurial courses, holds entrepreneurship competitions, gives entrepreneurship lectures, and establish entrepreneurship zones to encourage entrepreneurship among students. In 2013, Shantou University established the Pioneering Park and set up an Entrepreneurial Fund. Every year, 500,000 RMB will be offered to entrepreneurial project of promising commercial potential. The projects entering the Pioneering Park can apply for grants of 30,000?150,000 RMB upon approval<sup>18</sup>.

#### 4.3.2 Threats

Students and young graduates are greatly challenged by other entrepreneurs. Unlike them, their senior counterparts have experience in business operations and corporate management. Furthermore, they often have to endure pressures from their family. Entrepreneurship is risky and family members traditionally prefer their children to find a stable job such as being a civil servant. This causes another problem: great personnel fluidity. The interviewees pointed out that when their team members are going to graduate many of them tend to leave Shantou and go to first-tier cities like Guangzhou and Shenzhen to hunt jobs in large companies with more comprehensive welfare benefits.

In addition, the promotion and implementation of local government policies supporting students and fresh graduates to become entrepreneurs are insufficient

and lack supervision. Hence, they are faced with difficulties in obtaining financing from finance agencies.

## 5. Recommendations

While this research focuses on Shantou University students and graduates, the findings are intended to advance the knowledge concerning tertiary educated youths embarking on their entrepreneurship journey. Based on the findings, there are some recommendations for the government and universities to increase entrepreneurial intentions and to facilitate start-up businesses by university students and graduates, reaching the goal of promoting employment through entrepreneurship.

### 5.1 Government

1. It is vital for the government to create an environment that has the potential to increasing entrepreneurial activities. The government should run mass awareness and public education programs to create positive attitudes towards young entrepreneurs. In a socially supportive culture, young entrepreneurs will be more confident to start-up new businesses.
2. Authorities should reduce legal and public obstacles and restrictions for entrepreneurship start-ups. Related procedures and laws or rules related must be clear and simplified so that young entrepreneurs will not be excessive burdened in having to deal with the government regulations.

3. The government should put more emphasis on promoting high-growth, high-tech start-ups by university students and graduates. It should legislate and improve laws on intellectual property to protect intellectual rights.

4. It will make a difference for the government to provide low-profit loans, tax exemption, pro bono consultations, and even initial ‘angel investments’ to support start-up entrepreneurial ventures.

## 5.2 University

1. Universities should feature entrepreneurship as a career alternative. It should advocate innovative and alternative approaches of entrepreneurship teaching, and adopt an interdisciplinary approach towards syllabus planning in entrepreneurship and business management. Entrepreneurship education should combine theory with practice. Educators should give students an academically and practically rigorous learning experience. Meanwhile, educators should improve their entrepreneurial knowledge and enrich their practical experiences to add value to entrepreneurship studies. Universities should adopt a multi-disciplinary approach to entrepreneurial education and encourage participation across different faculties.

2. Universities can support for students and young graduates start-up ventures by offering rent-free office space, shared services, business consulting assistance at very low costs, and help student entrepreneurs gain access to financial loans, angel investors and/ or venture capital investors.

3. Universities can incubate high-technological, knowledge-based start-up enterprises.

## 6. Limitations

This research, like other studies, also has its limitations. First, a limitation of the survey is the sample size of 175 Shantou University students and recent graduates who participated in the survey. The questionnaires were distributed online and participants were invited to complete the questionnaires through multimedia method. Online survey has the advantages of quick response and lower cost. However, it has a low representative level and short representative range of the sample. Second, there is a low proportion of graduates who became entrepreneurs and hence it is difficult to contact some of them, so only several entrepreneurs were interviewed. Third, the research mainly focuses on university students' and recent graduates' entrepreneurial intentions and not behaviors. It is not necessarily the case that the intentions are translated into actual entrepreneurial behaviors. This area could be subject for further research.

## Conclusion

Based on questionnaires and interviews conducted on Shantou University students and graduates, this research analyzed the entrepreneurial intentions of Shantou University students and graduates. The result showed that some hold positive attitude towards entrepreneurship and are quite interested in becoming an entrepreneurs. We also explored the influencing factors such as individual factors,



family background factors and social environment factors and their impact on entrepreneurial intentions and activities of university students or graduates. Analyses of the university students and graduates, and their entrepreneurial environment was carried out based on the interviews with those who have experienced business start-ups. Finally, some recommendations are offered to the Chinese government and universities to increase entrepreneurial intentions and to facilitate entrepreneurial start-up businesses by university students and graduates, reaching the goal of promoting employment through entrepreneurship.

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## Appendix

### Questionnaire of Students Entrepreneurship at Shantou University

This questionnaire is designed to research on Shantou University students entrepreneurial intention and actions, their motivating factors, and to suggest actions to encourage entrepreneurship at Shantou University. Your information will be kept strictly confidential, so please complete the questionnaire truthfully. Thank you for your support for this survey.

1. Gender:

- A) Male B) Female

2. University affiliation:

- A) Freshman  
B) Sophomore  
C) Junior  
D) Senior  
E) Postgraduate  
F) Graduates  
G) Others

3. School (if any):

- A) Science  
B) Engineering  
C) Business  
D) Liberal Arts  
E) Journalism

- F) Medicine
  - G) Law
  - H) Art and Design
  - I) Other
4. Are you interested in entrepreneurship?
- A) Not interested
  - B) Not very interested
  - C) Less interested
  - D) Very interested
  - E) Of great interest
5. Do you plan to become an entrepreneur?
- A) Yes, but never take action
  - B) Have already done but failed
  - C) Doing entrepreneurship now
  - D) Preparing for entrepreneurship
  - E) Never
6. What is your attitude towards entrepreneurship?
- A) Support B) Object C) Neutral
7. What do you think are the advantages of starting entrepreneurship immediately after graduation? (you can choose more than one answer)
- A) Young and energetic
  - B) Strong practical ability
  - C) Strong consciousness of innovation

- D) Excellent professional and technical expertise
  - E) Profound knowledge of theoretical basis
  - F) Preferential supportive policies
  - G) Others
8. What are the obstacles of starting entrepreneurship immediately after graduation?
- A) Lack of money
  - B) Lack of ability
  - C) Inadequate experience
  - D) Lack of self-developed new products
  - E) Not familiar with relevant policies and laws
  - F) Deficient in the awareness of the market
  - G) Others
9. Have you ever participated in any entrepreneurship courses or activities?
- A) Yes
  - B) No
10. If yes, what types? (you can choose more than one answer)
- A) Entrepreneurship competition
  - B) Entrepreneurship talks
  - C) Entrepreneurship activities (E.g. Enactus)
  - D) Entrepreneurship courses
  - E) Others

11. To what extent are STU's entrepreneurship education helpful for entrepreneurial development?

A) Not helpful B) Little helpful C) Some help D) Helped very much

12. What do you think are the major factors affecting entrepreneurial development? Please sort the following factors by order of importance:

- A) Personal traits
  - B) Comprehensive ability
  - C) Family backgrounds
  - D) Support from the university
  - E) Supporting policies from the government
  - F) Entrepreneurial spirit
  - G) Entrepreneurial attitude
  - H) Economic environment
  - I) Relevant work experience or internship experience
- (Please sort them from higher importance to lower importance.)
13. What can the government and university do to promote entrepreneurship among university students and graduates?
- A) Establish entrepreneurial platforms
  - B) Provide more entrepreneurship education
  - C) Establish entrepreneurship foundation
  - D) Strengthen the construction of the faculty team for entrepreneurship
  - E) Invite successful students or alumni to share experiences on entrepreneurship

F) Provide supporting policies such as tax preference, loan guarantee, economic compensation and product procurement, etc.

G) Others