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Fostering an innovative entrepreneurial Sri Lanka

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By Pamokya Marambe

Sri Lanka was featured in the recently released annual Global Entrepreneurship Index (GEI) by the Global Entrepreneurship and Development Institute (GEDI). The country appeared in the Index for the second consecutive year, however, dropped 16 places from its debut rank of 71st to place 97th in the world.

Entrepreneurship also took a significant spot on the local stage as the 2016 Budget proposed an allocation of Rs. 500 million to support Small and Medium scale Entrepreneurs (SMEs), and the creation of a central agency for SMEs. While the country seems to be taking many initiatives to promote entrepreneurs, there are still many challenges. This article explores the problems that Sri Lanka faces in terms of entrepreneurship and innovation, and suggests possible solutions to overcome them.



BY PAMOKYA MARAMBE

Who is an Entrepreneur?

In the global perspective, entrepreneurs are regarded as an essential component in a country's economic growth. The interest and studies on entrepreneurship have flourished in the last decade, with many theories presented on the classification and role of entrepreneurship in the economy. Ignoring the more nuanced classifications, Entrepreneurship can be broadly defined as the 'capacity and willingness to develop, organise and manage a business venture along with any of its risks, in order to make a profit'. It is basically the process whereby an individual makes use of the opportunities in the current market place and create a new business venture.

This definition is considered too broad by some scholars, and they distinguish between 'replicative entrepreneurs' (those who set up businesses copying already existing ventures), and 'innovative

entrepreneurs' (who upset the existing way with new and growth driven ventures). While replicative entrepreneurship plays a part in lifting families out of poverty, it is innovative entrepreneurship that provides a sizeable boost to long term economic growth of a country.

How innovative is Sri Lanka?

The distinction in defining entrepreneurship causes some issues in measuring the innovativeness of a country in a meaningful manner. Most studies that attempt to quantify entrepreneurship in a country usually measure replicative entrepreneurship – the number of small businesses or the number of self-employed people. While these numbers tell an important story about the economy in their own right, using them to determine innovativeness paints a much distorted picture. A large number of self-employed people are engaged in grunt work such as cooking, cleaning, driving etc., while most small businesses are small convenience stores that may never grow into anything more. Innovators on the other hand, find a void in the market that has not been filled and step in to do so.

Measuring entrepreneurship in Sri Lanka is therefore still largely uncharted territory. The GEI ranking is not a wholly accurate representation for the country due to significant methodological issues; for example, Sri Lanka is not surveyed to calculate some key data values. As such, it becomes difficult to state exactly how innovative Sri Lanka is, although in a more general sense it is clear that there is still a lot of work to be done.

Barriers to entrepreneurial growth in Sri Lanka

Innovative entrepreneurship largely depends on a prospective entrepreneur's ability to perceive opportunities in the market and responds to them by starting a new business venture. This entrepreneurial intent is affected by both economic and socio-cultural factors. The differences in socio-cultural and economic factors are major external influences that lead to certain parts of the world being more conducive for entrepreneurial activity than others. As such, a startup venture in Sri Lanka cannot really be comparable to a similar venture in Silicon Valley, California which has been the breeding ground for thousands of startup companies and is internationally synonymous with innovative entrepreneurship.

The latter has a much more conducive environment for fostering innovation, with a far superior institutional structure to support it, which is a stark contrast to the environment in Sri Lanka. This makes it very important for Sri Lanka to identify its own environment and the barriers that entrepreneurs face, in order to achieve innovative progress.

From a socio-cultural aspect, there are many problems that can be identified as being directly harmful to an innovative environment. Studies have consistently found that Sri Lankans, in general, are not favourable towards 'entrepreneurism' as an occupation. This is partly a social standing

issue as entrepreneurship is considered an inferior alternative to a salary/wage career path. Part of this problem is due to the generalisation of all startups as reflective entrepreneurs, which is associated with self-employment and small businesses rather than the concepts of innovation and value creation. The country's education system also plays a role in this issue as there is little done to promote and encourage entrepreneurship and innovative thinking.

Even when this barrier is breached, budding entrepreneurs find themselves facing a range of technical and economic problems in getting their venture off the ground. Starting a business in Sri Lanka is not always a walk in the park. Barriers in areas such as enforcing contracts, registering property and taxes are among major reasons that startups do not look to grow into large organisations that can provide a significant boost to the economy, but prefer to stay at a small manageable scale. Financing is another major hurdle for startups as the banking system in Sri Lanka is not a friendly place for young entrepreneurs that have no collateral to secure the necessary capital. A lack of Angel Investor networks, which pool funds and invest in small business startups, and other methods to fund potential startups prevent a lot of would-be entrepreneurs from ever getting started.

Creating an innovative environment

Facilitating a more innovative and entrepreneurial society to promote growth is vital for the Sri Lankan economy. One important aspect in this regard for policymakers is to provide access to relevant data related to innovation in Sri Lanka. Having an index that works at sub-national level and caters to the country's unique socio, cultural and economic conditions would help obtain a better idea of the strengths and weaknesses of policies on fostering entrepreneurship. A dependable measurement of entrepreneurship would be a foundation for a targeted innovative development program.

Facilitating entrepreneurship can be approached from two angles. One is to encourage innovative thinking and promote new ventures that create value in the market. The other is to lower the risks and barriers associated with startups, allowing more people with commercial ideas to start and expand business ventures.

Introducing concepts of entrepreneurship and innovation into the education system is an important requirement to fulfil the first approach. Entrepreneurship education can contain two different elements. The broader concept of education for entrepreneurial skills and attitudes, which involves developing the characteristics and qualities in a person required for innovation. The other is a more specific approach of training on how to create a new business.

In addition, promoting Universities to get involved with fostering entrepreneurial ventures would help connect students from various fields required to get a business venture off the ground. Introducing these aspects into the education system would go quite a way towards reducing the social complexities associated with entrepreneurial ventures.

Having a system in place to provide new startups with access to credit without unreasonable risk and simplifying the regulatory procedures related to running a new business venture are also two essential points that need to be addressed. Angel investor networks and venture capitals should be promoted to allow the growth of high potential entrepreneurial ventures.

Overcoming all these problems cannot be done without a concentrated long-term effort by both the government and the private sector. We certainly cannot reach an innovative paradise overnight, but if the need for innovation and the barriers against it are acknowledged, Sri Lanka would be on the path towards becoming an entrepreneurial and economically stronger nation.

(The writer is a Project Intern at the Institute of Policy Studies of Sri Lanka (IPS). To view this article online and to share comments, visit 'Talking Economics' – www.ips.lk/talkingeconomics).

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