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### Fostering an innovative entrepreneurial Sri Lanka

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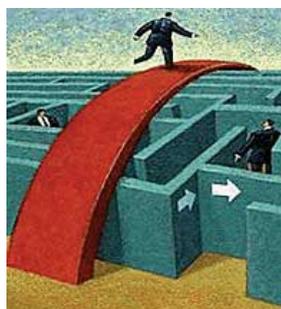


By Pamokya Marambe

Sri Lanka was featured in the recently released annual Global Entrepreneurship Index (GEI) by the Global Entrepreneurship and Development Institute (GED). 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 500 million rupees 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.

#### 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, organize 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

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to an innovative environment. This is partly a social standing issues entrepreneurship is considered an inferior alternative to a salary/wage career path. Part of this problem is due to the generalization of all startups as reflective entrepreneurships, 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.

(Pamokya Marambe 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](http://www.ips.lk/talkingeconomics))

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