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From *The Economist* print edition

Middle-class India now celebrates entrepreneurial success. Can it forgive failure?

SammaaN Foundation



IRFAN ALAM, a 27-year-old from the Indian state of Bihar, remembers clearly when he first felt the thirst for entrepreneurship. Sitting in the back of a cycle-rickshaw on a parched summer's day in his hometown of Begusarai, he asked his rickshaw-puller for a drink of water. He points out that India's rickshaw-pullers earn only a pittance after paying the rent on their vehicles. Perhaps, he thought, they could make a bit extra by selling drinks, newspapers or even mobile-phone cards to their passengers. And since the average rickshaw covers 10km (six miles) a day, perhaps it could also courier goods around town and advertise them to passers-by.

These ideas evolved into Sammaan (which means dignity), one of 30 Indian enterprises shortlisted in a competition to find the country's "hottest" start-up. The contest, which attracted over 500 nominees, is run by the National Entrepreneurship Network (NEN), which promotes the spirit of enterprise on India's campuses, and the Tata group, an Indian conglomerate, which was a hot start-up 140 years ago. The competition's five winners, decided by a mixture of online voting and expert judgment, will emerge in late December.

More than 75% of the nominees are, like Mr Alam (pictured above), first-generation entrepreneurs who do not hail from business families. Two-thirds of the final 30 have masters degrees. In short, they have plenty of options. Their enthusiasm for entrepreneurship represents a

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growing willingness on the part of highly educated Indians to turn their backs on careers in brand-name companies and strike out on their own. "In my early years, your business card was very important," says Kanwal

Singh, one of the competition's advisers, who has carried the cards of Hindustan Lever and Intel in his time. He now works for Helion Ventures, an Indian venture-capital fund, which has seen some 1,500 proposals in the past three years. Inside the NEN, "we call it a revolution in middle-class aspirations," says Laura Parkin, the network's executive director.

India, of course, has a deep entrepreneurial tradition, exemplified by merchant communities such as the Marwari banias, who have made money wherever they go, trusting each other and bargaining hard with everyone else. But the new generation of entrepreneurs follows a different creed. Its members are inspired by figures like N.R. Narayana Murthy and Nandan Nilekani, two of the founders of Infosys in 1981. According to Vir Sanghvi, a journalist, they wanted to create an "un-Marwari" firm based on merit and professionalism, not kith and kin.

One Infosys employee, Rajesh Varrier, quit in 2006 to start his own firm, activecubes, which also made the Tata NEN shortlist. When Mr Nilekani asked Mr Varrier why he thought he could make it alone, he replied: "Because of you." For India's younger entrepreneurs, even Mr Nilekani is now a distant, hallowed figure. They draw inspiration from more recent triumphs, such as Educomp, which sells multimedia materials to schools, and Naukri.com, an online job market.

Given these role models, it is not surprising that about a third of the nominees are in computing, and most of the rest are in services, such as entertainment, human resources and education. The new breed of entrepreneur still considers manufacturing "dirty", says Rakesh Basant of the Indian Institute of Management in Ahmedabad, not least because it entails greater interaction with government.

Mr Alam's venture is a partial exception: it builds customised rickshaws, using fibreglass for well-paved tourist towns and sturdier iron for the bone-jarring streets of Bihar's capital, Patna. He was able to offer these tangible assets as security for a bank loan. But outside finance is unusual: 87% of the nominees began with money from friends, family or their own pockets.

Many American companies start the same way, of course. But they quickly turn to "angel investors", mostly rich individuals, who invested \$26 billion in over 57,000 young enterprises in 2007, according to the Center for Venture Research at the University of New Hampshire. In India, says Mr Basant, investors will rarely consider amounts less than 5m rupees (\$100,000)—it is not worth the hassle—and they prefer to invest twice that. Even venture capitalists, who plough other people's money into newish firms, are still quite novel in India. They did just 108 deals (of an average size of \$6.3m) in the first nine months of 2008, according to Venture Intelligence, which tracks their activities.

Mr Singh's fund invests in only 1-2% of the proposals he sees, rejecting many firms because their management lacks experience. He prefers managers to have five to seven years of seasoning, although he concedes that determined entrepreneurs, prepared for a long haul, can learn as they grow. Ms Parkin's network also encourages young graduates to work at someone else's start-up before creating their own. She notes that India's leading business schools are now quite happy to let start-ups hire on campus. This is, she says, one sign of entrepreneurship's growing prestige, because a school's reputation rests on where its alumni work and how much they earn.

Ms Parkin grew up in Hong Kong, where many people think of themselves as "tomorrow's millionaires". She sees the same "essential optimism" in India. But the true test of an entrepreneurial culture is not how it celebrates success, but whether it forgives failure. India is moving in that direction, says Mr Singh, but it is not there yet. "I'm not sure if the entrepreneur is willing to accept it either," he says. Instead of walking away, many businessmen hang on, feeling they have to prove themselves.

Even successful entrepreneurs can cling on too long. Having reached a certain size, their companies would often benefit from bringing in professional managers. But in India, the proud founder will often resist. He feels "this is his baby and he has to run it," says Mr Singh. India's determined, optimistic entrepreneurs need to know when to cut their losses and when to pocket their gains. "In both instances", says Mr Singh, "you need to learn how to let go."

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