



Entrepreneurship
Development
Institute of India,
Ahmedabad

INAUGURAL LECTURE OF DR. V.G. PATEL MEMORIAL LECTURE SERIES

EDII Campus, 6 September 2019

Distinguished Speaker

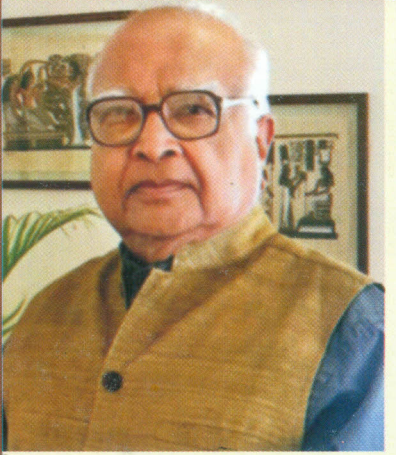
Shri Prabhat Kumar

Former Cabinet Secretary & Former First Governor of Jharkhand

Topic of Discourse

ENTREPRENEURSHIP WITH AN ETHICAL TWIST





Dr. V. G. Patel

(6 September 1939 - 4 April, 2019)

Dr. Viharidas Gopaldas Patel, fondly known as VG, a noted economist and hailed as the 'Father of Entrepreneurship Movement' in the country, left for heavenly abode on Thursday, April 4, 2019 at Ahmedabad. Honoured with the Padma Shri in 2017, Dr. Patel, an eminent economist and international figure in the sphere of entrepreneurship, small industry policies and growth management, held several key positions in his career. He was the Chief Economic Advisor to Gujarat Industrial

Development Corporation; Founder Director of Centre for Entrepreneurship Development, Gujarat and Managing Director at Gujarat Industrial & Technical Consultancy Organization Ltd. An institution builder, he set up EDII in 1983 to work for potential and existing entrepreneurs. Dr. Patel's work towards inclusion of entrepreneurship in the formal education system, sensitization of support system, and entrepreneurship research in addition to routing several developing countries on the trajectory of entrepreneurship, has been widely recognized. The Government of India also incorporated the EDP approach as a part of its self employment schemes.

His book "The Seven Business Crises & How to Beat Them" (reissued as When the Going Gets Tough) is a best seller. Equally acclaimed are "Managing India's Small Industrial Economy" and "Entrepreneurship Development Programme in India and its Relevance to Developing Countries"

The trailblazer that he was, he introduced the country to a distinctive development concept. The discipline of entrepreneurship will always owe its existence to Dr. Patel, and his vision will continue to guide the entrepreneurship fraternity.

ENTREPRENEURSHIP WITH AN ETHICAL TWIST



SHRI PRABHATH KUMAR

Former Cabinet
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“Let me at the outset express my gratitude to Entrepreneurship Development Institute of India and its dynamic director Dr. Sunil Shukla for inviting me to deliver the first VG Patel Memorial lecture. It has given me another opportunity to visit this lovely complex which incidentally has bagged the Agha Khan Award for its distinctive architecture.

As you are aware, Dr Viharidas Gopaldas Patel was known for his passionate role in entrepreneurship movement, small industry policies and growth management. He set up this Institute in 1983 to work for potential and existing entrepreneurs.

Because of his visionary initiative, EDII is now a globally-recognised institution in this field.

The theory of entrepreneurship has developed enormously over the last century. The venerated Dr Patel carried it with aplomb when he showed empirically how entrepreneurship can be nurtured with passion and perseverance. That he was a formidable pioneer in his time is obvious.

The only thing I can claim to have in common with Dr Patel is the passion for small industrial sector of Indian economy. In his book *Managing India's Small Industrial Economy*; he elaborated the role of industrial counsellors in the growth and sustainability of small scale industries. Like him, I have also worked relentlessly for the development of small enterprises for more than three decades through policymaking first at the state government level and then at the national level. In a way, I was instrumental in bringing the Year Package for SSI which till now is regarded as one of the most progressive policy packages in the area. The last time I visited this institute was in connection with drafting a policy paper for MSMEs for government of India in which Dr Shukla had an important role to play.



So, when asked by old friends Dr Sunil Shukla and Dr Shailendra Narain to deliver this lecture, I could not say no. But then the problem arose when Dr Shukla called me for the topic of the lecture. I had not even thought about the topic. So quickly thinking that it should have something to do with Entrepreneurship, I blurted out 'Entrepreneurship with an Ethical Twist'.

I am no entrepreneur in the strict sense of the word though I have observed with interest a large number of young men and women write their stories and create their singular enterprises in various fields. Besides, I had a five year opportunity of showing my entrepreneurial prowess in a public sector corporation as CMD, which I handled rather well. So much so that the Corporation blew up the competition with big players in the private sector and emerged as the best company in its league.

It may sound rather incongruous to talk about entrepreneurship in the time of slowdown of global economy when everybody is talking about low GDP growth, declining demand, closing factories and retrenching workers. But I think this is the right time to plan innovative enterprises. An enterprise that is conceived and is born during these stressed times is bound to go a long way.

WHO ARE THESE ENTREPRENEURS?

I believe that the world is populated by two types of people; those who are reasonable people trying to adapt to the world around us and those rare unreasonable people who persist in trying to adapt the world to the rules made by them. According to George Bernard Shaw, it is the power of the unreasonable people which keeps the world going round and

progressing. These unreasonable people are the world's entrepreneurs.

In a fantasy film the name of which I forget, a great magician goes to a town for giving a performance. There are four youngsters who want to become magicians like him. He gives them a simple test by stretching his right arm and spreading the fingers. He asks the boys, 'The power to control the world is in which finger?' Three boys pick different fingers, but the fourth one stands thinking. The magician asks him what he is thinking. The boy says, 'well, it is a stupid thought; to pick my own finger'. The magician says, 'that's wonderful, you will prove to be a true magician'.

Obviously, the fourth boy is in a different league from the others.

Most of us hope to find meaning by fitting ourselves in a readymade story, but for the entrepreneur the truth is just the opposite. He thinks, 'the universe does not give me meaning. I give meaning to the universe'. That, in my view, is the essence of entrepreneurship. It is true that some of them are insanely ambitious. They are can-do people surrounded by don't-do, can't-do and won't-do people.

Before I talk to you on the subject I wish to talk about, I would like to tell you a story of a small enterprise started by two young Chinese Americans in their twenties.

Tony Hsieh and Alfred Lin decided to start an online shoe selling company in 1999. The immediate provocation was that one of them wanted to buy a pair of shoes for himself. He visited three stores but could not find what he was looking for. If he found the right size, the colour was wrong; and if he found the right colour the shape was wrong. He came back without buying anything.

Since they did not have much money, they took the help of a Venture Capital Fund. In a couple of years it became the largest shoe selling company in the world blowing up all the competition. The giant e-retailer Amazon wanted to acquire the business.

In 2009, they sold it to Amazon for 1.2 billion dollars. Today, it is a wholly owned subsidiary of Amazon and its roughly 1,500 employees; headquartered in Las Vegas, produce in excess of \$2 billion in revenues annually.



But how does this company, with less than 2,000 employees, continue to dominate the mainstream and social media headlines? After all, there are many other companies selling shoes online. Why does it seem as though it has a stranglehold on press hits and mentions? What's the secret?

The name of the company is Zappos. The banner headlines on their website: There isn't anything we won't do for our customers. 'We want our customers to love us'. In a word, it's all about "culture". They want to give 'wow' service to their customers. They call their training centre 'The School of Wow'.

Zappos will take an order as late as midnight and deliver it to the customer's doorstep before breakfast. It has the world's largest selection of shoes, and its service includes free returns. If it doesn't have the shoe you want in stock or in your size, a Zappos call centre employee will go to three competitors' sites to try to help you locate what you want to buy. Seventy-five percent of its business comes from repeat customers, despite the fact that its prices are far from the lowest.

The core company values include; Deliver wow through service, build a positive team and family spirit, be passionate and determined and be humble.

The case of start-ups like Zappos is particularly relevant in the current scenario when profits are the only determinant of success.

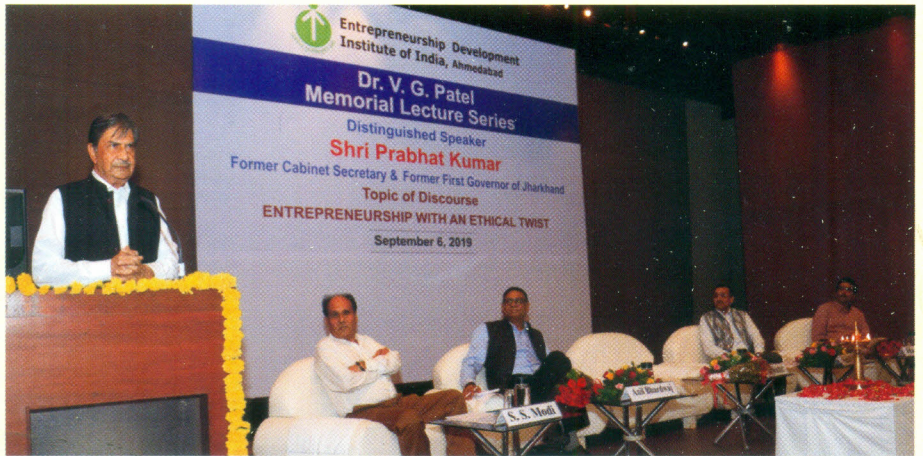


The dictionary meaning of the word Entrepreneurship is 'the activity of setting up a business or businesses, taking on financial risks in the hope of profit'. The watchword is 'profit' measured in terms of money or wealth.

During the next 20 minutes or so, I will talk of the need to refine the definition in view of emerging trends in the enterprise culture. In fact, I believe that there is a need to do sustained work on the requisite policy environment of ethical enterprises in our country, which benefit the wider society as well as the entrepreneur.

Today, there seems to be a concerted assault on ethics and morality in every profession. In education, for instance, we have converted educational institutions into shops; we do not teach our children in schools, we steal theses in research; we sell degrees and appointments in universities. In medicine, we pinch kidneys and advertise impossible cures; we perform unnecessary surgeries; we play with lives of millions of infants and pregnant women by embezzling budgeted funds in National Rural Health Mission. In business, we have perfected the art of duping financial institutions; we under invoice and over price; we fudge balance sheets and evade taxes; we adulterate everything from milk to turmeric. And similarly all other professions have their fault lines in the area of ethics.

In short, ethics is at a discount everywhere. No organization, public or private, wants its employees to practice ethics. They consider ethics as utterly



useless and even counterproductive. At best, the code of ethics makes a good decoration on the walls of the reception office.

Unethical practices like bribing to get orders, undercutting competitors through dubious means and inside information, providing false information about emission norms etc are being quoted. A large number of prominent companies like Siemens, Volkswagen, Enron, and Satyam have been found to be guilty of questionable conduct and legal violations in the recent past. Even highly respected accountancy firms like Arthur Andersen (Enron, Waste Management) and Price Waterhouse Cooper (Satyam, Global Trust Bank, United Breweries) have been involved in controversial cases of balance sheet fudging and endorsing inflated profits.

But I am not here to talk about the criminality of businesses. The business ethics being taught at management schools confines itself to compliance with laws and regulations. If you are fully law compliant, then you are ethical, they say.

The Nobel Laureate Milton Friedman says that the only social responsibility of business is to use its resources for increasing profits, so long as it remains within law and does not indulge in deceit or fraud.

I am of the view that Milton Friedman's definition is severely limited.

I go beyond the observance of rules and regulations and being on the right side of law. I go beyond the fulfilment of CSR expenditure as required by the

Companies Act. I even go beyond the Triple Bottom Line Approach. I am concerned with the core of business being ethical, providing social good through the core business. That marks the ethical twist of business, the ethical twist of entrepreneurship.

Similar sentiment is somewhat reflected in the recent resolution of America's top corporations.

Recently, the CEOs of nearly 200 of top companies in the US have attempted to redefine the purpose of a corporation, saying a stockholder's interests are no longer the top priority and the new focus is to better society. The updated definition was released on 19 August 2019 by the Business Roundtable which includes America's most influential corporate leaders.

The statement redefined the purpose of a corporation with social consciousness in mind, saying corporations are now committed to valuing customers, investing in employees, dealing ethically with suppliers, protecting the environment and supporting communities.

The statement was signed by 181 CEOs including Amazon's Jeff Bezos, Apple's Tim Cook, BOA's Brian Moynihan, Boeing's Dennis Muilenburg and Blackrock's Larry Fink.

The new idea takes from the concept of 'conscious capitalism' which promotes a company having the responsibility to serve society, an ethos that has been growing in popularity with CEOs over the past decade.

It is called social business, a for-profit venture to fulfil ethical objectives. Unlike traditional corporate businesses, social entrepreneurship ventures focus on maximizing gains in social satisfaction, rather than maximizing profit gains.

For-profit entrepreneurs typically measure performance using business metrics like profit, revenues and increases in stock prices, but social entrepreneurs blend for-profit goals with generating a positive "return to society" and therefore must use different metrics.

For a clearer definition of what social entrepreneurship entails, it is necessary to set the function of social entrepreneurship apart from other voluntary sector and charity-oriented activities. The self-sustainability is what



distinguishes social businesses from charities, which rely almost entirely on donations and outside funding.

Muhammad Yunus says about this characteristic, "He (or she) competes in the marketplace with all other competitors but is inspired by a set of social objectives. This is the basic reason for being in business".

The good news is that there are areas of light in this gathering gloom. I can cite exemplars of exceptional organizational ethics in the private sector like Berry Wehmler, Zappos, and Next Step etc. I am happy to report that there is a company Profits Through Ethics Limited, whose promoter Michael Solomon runs a movement called 'Responsible 100' by testing companies on verifiable credentials..

As founder and director, Michael describes Responsible 100's ambition as becoming a kite mark for businesses determined to have the maximum positive impact on society and the environment.

Almost 14 years in development, R100 sets a high but demonstrably achievable bar. To join, businesses are required to answer challenging questions on a range of social, environmental and ethical issues; have their answers reviewed, assessed and scored; guarantee their information as complete, accurate and verifiable, and maintain it as such at all times; and make it available for public scrutiny, comment and rating on www.responsible100.com.



First, they are entirely open and honest, and are prepared to explain and justify all the things they do. Second, they are on a path to becoming net positive by increasing their positive impacts on people and planet, and decreasing their negative impacts, as far and fast across their operations as possible. Third is an acceptance of their role as businesses: to deliver goods and services, make profits, AND make the world a better place. Lastly, they don't just say "yes, yes, we do these things", they actually provide proof by making a clear, public, unequivocal commitment.

Responsible 100's soon-to-be-unveiled new brand will manifest these qualities and, as such, differentiate businesses determined to help create and be part of a better world. Responsible 100 is not a PR exercise; it is setting benchmarks for ethical business, of total transparency and responsibility. The members of Responsible 100 are committed to answer all questions truthfully.

Social entrepreneurs often say that they have multiple bottom lines but the main bottom line is service to the society. As a result, their calculus is very different from that followed in the mainstream business.

Ethical fibre is important because leaders who are about to change the world must be trustworthy.

One distinguishing attribute of entrepreneurs is that they rarely take credit

for making change. They insist that the change they have brought about is due to everyone around them. They also tend to be driven by emotion; they are not trying primarily to make a profit but to address suffering.

Therefore, the need of the community in our country is a band of entrepreneurial leaders who can show by example that ethical entrepreneurship and ethical business are as profitable, if not more profitable, than self-serving business.

Mohammad Yunus of Grameen Bank fame coined the phrase 'Social Business'; in the context of the rural poor in Bangladesh. He cites the cases of Grameen collaborating with Adidas of Germany and Danone of France to produce shoes and fortified yogurt for the poor children at affordable prices. Grameen's collaboration with Danone called Grameen Danone Foods has a bottom line 'will be to deliver benefits to people and the planet rather than to earn money for the investors'.

I am of the view that an entrepreneur without creativity is flawed.

An entrepreneur without ethics is flawed.

An entrepreneur without a vision is flawed.

Thus far, there has been no firm consensus on the definition of social entrepreneurship, as so many different fields, disciplines and organization types are associated with social entrepreneurship, ranging from for-profit businesses to hybrid models combining charitable work with business



activities, to non-profit charities, voluntary sector organizations and non-governmental organizations.

My hypothesis is that the ethical movement in our country has to start from the entrepreneurs. We cannot expect it from the multinational companies. We have seen Enron, Volkswagen, Johnson and Johnson and many others failing the test of ethics and social accountability. We can't expect it from big companies as we have recently seen disgusting cases of swindle, cheating and fraud.

Therefore, it is imperative for celebrated institutions like EDII to come forward and be in the vanguard of the ethical movement.

In their book 'The Power of Unreasonable People', John Elkington and Pamela Hartigan mention the characteristics of social entrepreneurs as:

ok 'The Power of Unreasonable People', John Elkington and Pamela Hartigan mention the characteristics of social entrepreneurs as:

They want to change the system

They are insanely ambitious

They are propelled by emotion

They think they know the future

They seek profit in unprofitable pursuits

They ignore the evidence

They try to measure the immeasurable

They refuse to act as superheroes

Mohd Yunus defines a 'social business' as 'a non-dividend company dedicated to solving human problems'. It was a concept that arose from not theorizing or speculation but from his practical experience working with villagers to solve tough social problems in one of the poorest countries on Earth.

Christobol colon, a Spaniard set up a dairy business in 1982 that employs mostly mentally ill workers. Today, La Fageda, his dairy farm is a thriving business and has third largest market share after Danone and Nestle. Its

annual revenue is about \$10 million. It works with public sector which refers psychiatric patients for training and employment. It has a fully staffed mental health facility on site. Here mentally ill are not viewed as 'patients'. They earn their living and are proud of it.

Mind you, La Fageda is not a NGO. It is a fully self sustaining enterprise. It is a for-profit enterprise but not a profit maximizing business. Its business is social transformation. Working with mentally ill is its core business, not a public relations exercise or a CSR activity. It does not work on charity or philanthropy.

In our country, Dr Devi Shetty has worked to make sophisticated health care available to all. He founded Narayana Hrudayalaya in Bangalore. It is a network of hospitals that provide 60% of its treatments below cost or free, thanks to reduced cost from high volumes and innovative management.

It was fifteen years ago that I remember having challenged a number of big companies to set up an enterprise to produce sanitary napkins which could be sold for Re 1 a piece to the millions of rural women in our country. I was disappointed as none accepted my challenge. If Tatas or Birlas or a public sector corporation had accepted my request, it would have been a pioneering social business.

Last week, I read in the newspapers that the Central government has decided to make available Re 1 napkin at 5500 Jan Aushadi Kendras across the country.

Then we also have people like Sri Kanth Bolla.

Bolla was born visually impaired at childbirth in Machilipatnam, a city in Andhra Pradesh in 1992. Bolla was denied admission to coaching institutes for Indian Institute of Technology, where he wanted to study engineering, because he is blind. He attended Massachusetts Institute of Technology, where he was the first international blind student.

In 2012, Bolla started Bollant Industries, which manufactures Areca based products and provides employment to several hundred people with disabilities, with funding from Ratan Tata. Addressing a combination of issues – employment, economic and environment – Bollant produces eco-



friendly recycled Kraft paper from municipal waste or soiled paper, packaging products from recycled paper, disposable products from natural leaf and recycled paper and recycles waste plastic in to usable products. Bollant has shown exceptional growth averaging 20% a month since inception and a turnover of ₹ 150 Cr in 2018.

BOLLANT Industries' major objective is to employ differently-abled people and also help in environment restoration by producing products which would help everyone to say no to plastic products.

Srikanth says, "To be a successful entrepreneur, you don't need eyes, you need vision".

I could go on and give several other examples of businesses motivated mainly by an objective of serving the society, but would stop here for shortage of time.

I will end with good news that was announced in the budget speech by Nirmala Seetharaman. In the Budget 2019-20, the Finance Minister spoke

about setting up a social stock exchange for listing social enterprises besides voluntary organizations so that they may be able to raise capital as equity or debt. The move seems to give recognize the value of those enterprises which have a substantial social impact.

The idea of creating a SSE as put forward in the Budget makes a departure from multiplication of money being the classical intent of investment. It tries to establish that increasing the welfare of the people could also be a legitimate objective of capital. Therefore a parallel track for 'impact investment' is proposed to deliver social and environmental good along with profits.

For such an exchange to be a global path breaker it must be based on stores of value that are independent of or superior to monetary value and, therefore, defy the power concentrating tendency of capitalism. The 'how to' appears daunting. But the real danger lies in the outdated mindset which equates value with money. The future belongs to those who can manage the shift that makes social, cultural and ecological capital more powerful than promise-to-pay on currency notes.

My hypothesis is that all social enterprises which wish to register themselves with the SSE (Social Stock Exchange) should be tested on 'social impact' benchmarks. Those who qualify to be registered with the Exchange would be considered eligible to receive financial support in the shape of equity, loan or grant from various agencies including government, financial institutions, development agencies, foundations, private investors or crowd funding platforms.

Therefore, I would challenge EDII to prepare a framework of criteria to define social businesses for the consideration of SEBI and Niti Aayog. ”



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