Entrepreneurs, Take Charge!

At its core, entrepreneurship is a process of creation of value, both for consumers in particular and for society at large
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We transitioned to the entrepreneurial economy from the managerial economy around the turn of the millennium and entrepreneurship has been gaining increased traction among investors, policymakers, consumers and society at large. Indian society has embraced the entrepreneurial turn in its economic sphere in the last few decades with great enthusiasm. However, we seem to have arrived at a critical juncture that demands introspection and course correction in the way we understand entrepreneurship and pursue it for larger good of the society. As the global economy braces up for a possible recession, the risk of being caught napping when the tides recede stares the Indian startup ecosystem in the eye. While issues of over valuation, free fall of listed stocks, startup governance, and layoffs are being debated in the ecosystem, the quintessential questions of what is the entrepreneurial value that is created and how do we sustain it remain poorly understood.

To answer these questions, we need a clearer appreciation of how entrepreneurship adds value in the first place. The essence of entrepreneurship is to provide customers with products and services that prove to be of superior value to them. While the superior value is initially a conjecture in the mind of the entrepreneur, she works tirelessly with the co-creators–stakeholders like customers, investors, and employees–and shapes the conjecture in form and content to realise superior value to the end users. These end users reward such provision of superior value, and over time it is hoped that these rewards accumulate to result in a positive bottom line for the venture.

Entrepreneurship is expected to create value at two levels. The first and more direct is the superior value through its offerings to the consumer for which the entrepreneurs are rewarded financially. The second is the social value created through both intended and unintended consequences of the consumer value creation – in terms of its contribution to the economy, the jobs it generates, the problems it solves, the stocks of knowledge and innovations it introduces, the opportunities it opens etc. It is the promise of this spill over social value that legitimizes the financial returns to entrepreneurs and provides the implicit reason for society to support and nurture entrepreneurship as an economic process.

Thus, at its core, entrepreneurship is a process of creation of value – both for consumers in particular and for society at large. Though orchestrated by entrepreneurs, this value creation process is collaborative in nature. It has always been so in the past, it is so now, and it will continue to remain so in the future. Cocreation - collaborating to create value - is not just a good idea or a heuristic, but a necessity to tame uncertainty - the fundamental challenge of entrepreneurship. Irrespective of the degree of uncertainty faced by an entrepreneur in a specific venture, value is cocreated by cooperative efforts of multiple stakeholders in bringing together and recombining resources. The necessary resources and knowledge to create a venture are never concentrated in any individual but are dispersed across different people in society. Coordinating this diffused private knowledge is so vital that the economist Hayek dubbed it the fundamental economic problem. It is entrepreneurs who solve this problem by bringing them together, coordinating their actions and decisions towards building a venture. Cocreation is thus the cardinal feature of the entrepreneurial process. No venture comes into existence and sustains itself as a business without the participation of multiple stakeholders – co-creators - to varying degrees.

Hence, for entrepreneurship to sustain and thrive, it is necessary that the ecosystem enables smooth cocreation of value. A fair distribution of the entrepreneurial rewards to all the stakeholders who contribute in different measure to the creation and sustenance of the venture is obviously necessary to ensure cocreation. However, recent trends in the world of entrepreneurship cast serious doubts whether the entrepreneurial process as practised can ensure distributive justice of rewards across the spectrum of stakeholders.

Specifically, the unicorn status as a prime yardstick of value creation, the emphasis on the speed with which new ventures acquire this status, and the astronomical sums of risk capital that flow into the new ventures to prop them up as unicorns, and the pre-mature IPOs pushed through by the large risk capital investors based on their exit needs and the subsequent erosion of value dramatically right on the day of listing point to a serious imbalance of power and rewards amongst the stakeholders of entrepreneurial firms. An implicit pecking order amongst the stakeholders with the large, adventurous return seeking investor outpowering the rest of the stakeholders including the entrepreneur, employees, and the consumer seems to be emerging.

The early investors – those who back the venture before it proves its economic viability - are indeed justified in expecting to be rewarded with a premium to compensate for the additional risk that they court through their investment at the early stages. Such early-stage investors as stakeholders are the backbone of any vibrant entrepreneurial process. However, the problem arises when entrepreneurial activity departs from being entrepreneur led to become investor led. The priorities change, key stakeholders get side lined and designing exit events to meet time bound return targets of large early-stage investors becomes the prime focus of existence of the venture rather than ensuring consumer and social value.

The question then arises as to whose responsibility it is to restore the balance and ensure a fair distribution of rewards to all the stakeholders. For long, the driving idea has largely been the shareholder paradigm. It sees a firm as a mere governance mechanism where the board of directors and top management are responsible in governing the organization such that shareholder wealth is maximized. However, the maximization of shareholder wealth in entrepreneurial economy can get disconnected from creation of customer and social value as we are getting to witness in certain investor led startups. As Professor Venkataraman of Darden Business School has thoughtfully argued, business organizations might want to adopt a stakeholder approach where the primacy is to function as arbitrators amongst stakeholders with often conflicting interests and not merely wealth maximization for shareholders. It is obvious that the entrepreneur must take on the moral responsibility to design a stakeholder centric organization and play an equilibrating role to ensure that all stakeholders are fairly rewarded. Such an endeavour may not bestow a celebrity status on the entrepreneur in the short run. But it will certainly go a long way in ensuring that society does not lose faith in the entrepreneurial process and throw the baby out with the bath water. It is time that the entrepreneurs decisively demonstrate that they are the foundations of the entrepreneurial process and not just its scaffolding.

This is urgent and important in the Indian startup ecosystem now. If the distribution of rewards remains skewed for long, the legitimacy of entrepreneurship could be questioned in society, and regulators might step in to ensure distributive justice. Once a discourse of regulation and delegitimization sets in, the freedom and the resources required to tinker and experiment can get curtailed and consequently, the process of taming of uncertainty might itself get compromised. The process of co-creation with the entrepreneur orchestrating the cooperation of multiple stakeholders is a subtle yet necessary balancing act in entrepreneurship. All actors in the ecosystem need to appreciate the nuance of this fine balance. The ecosystem must recognize that the entrepreneur is to be the captain steering the ship away from the torrents of uncertainty to viable shores of profitability all the while catering as judiciously as possible to everyone on board. We are afraid that the ecosystem is in peril as we see ships being abandoned in deep waters of uncertainty before viable business models are built with positive bottom lines. Entrepreneurs might increasingly get tempted to play along as the ships they are supposed to steer get navigated towards fantasy islands of dizzy valuations to facilitate the exit of investors. At the worst, entrepreneurs too might exit along with investors abandoning the ship mid-water. Lessons in responsibility, distributive justice, and value sharing – the old wisdom of business - could be the compass that the new age entrepreneurs need as the ecosystem helps entrepreneurs reclaim the steering wheel of their ventures.

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