

Case Study:

## **PARTNERS IN CRIME: THE RISK IN ENTREPRENEURSHIP**

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**DOI: 10.23862/kiit-parikalpana/2017/v13/i1/151283**

Article available at: <http://ksom.ac.in/faculty-and-research/research/parikalpana-the-research-journal/>

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### **ABSTRACT**

*This case study presents a unique case of spectacular growth and dramatic failure of entrepreneurial endeavour. Often the entrepreneurship is a group dynamics rather than a pure individual play. Each individual in the team is not sufficient to fructify a new venture formation alone. At the same time having an organic team from the beginning is difficult. The team formation process would have its own challenges; it would depend more on level of trust between the partners. However, trust can't be taken for granted in a formal organization setting, so there is need for adequate reporting and control mechanism. The entrepreneurial organization can't have byzantine reporting, control and audit procedure, and thus has to depend on the level of trust. Considering this aspect the entrepreneurial organization has to transform itself into a professionally managed organization, but the exact time and context can't be predetermined. If the transformation is not appropriate there is inherent risk to survival. During the start up phase promoters would have role overlap and unclear hierarchy, their actions and motives regarding wealth and power would determine the fate of new venture.*

*This ethnographic research was the result of interview process of one of the promoters of the company. It is divided into two parts, the first part describes the events that unfolded during the entrepreneurship process and the second part describes teaching note with applicable theories.*

**Key Words:** Team Entrepreneurship, Intention, conflicts, Risks, Horizontal Accountability,

### **Family and Early Career:**

Ashish graduated in engineering in the year 1986, and started working with the State Electronics Development Corporation. Later on he also completed MBA in the year 1993. His engineering and MBA were from premier institutes of the country. He quit the first job and joined a private company manufacturing printed circuit board. In 1996, he joined his third company FireProof, which was giving consulting on fire safety designs.

He got married in 1994, and has two daughters. His father was a seasoned bureaucrat, who joined State Civil services, got promoted to Indian Administrative Services and got retired in 1995. His younger brother was studying. Ashish is the first one to venture into entrepreneurship among his family and relatives.

### **Getting Exposed**

Ashish was working in a Norwegian company in 1998. The company used to give fire system design, consulting and creation of master plan for fire safety. The company had client all across the globe, but their major client base was USA and Europe. The services ranged from designing, planning and verification around fire safety measures taken by companies. The activities used to get executed from Bhubaneswar, India. The nature of services was almost similar to off-shoring and Ashish was the director of operations. Alex a non resident Indian, was one of the partners of this Norwegian company, settled in USA.

Since most of the clients were abroad, Ashish had to frequently travel abroad a lot to meet and find out actual requirement. FireProof was started in 1996 and had completed 2 years of operation.

During one such visit to USA, during September 1998, Ashish met Mathew, the brother of one of the promoters of FireProof (Alex). Mathew was working in jewellery industry in USA and had more than 20 years of experience in it. He was working as the manager for production and outsourcing in a jewellery company. Over few meetings and couple of drinks, Mathew shared about the fashion industry and the general economic boom. Economic growth had made labor very expensive and as a result, the labor intensive jobs are getting outsourced to different countries. The jobs are moving to countries like Haiti, Vietnam, Cambodia, Bangladesh and Pakistan. Mathew also had tried to get some outsourcing to be done in India; in fact he had tried for two three years and at almost eleven to twelve locations across India. But his experience had been bad. The quality is not up to the mark, and conformance to delivery schedule is very poor. He complained that Indians don't seem understand the American requirement of conformance to specification. The Indian thinking is that there is no problem if the length of necklace is little long or little short. The outsourced job did not involve any manufacturing, the materials and specifications are given by the parent company in US and it needs only to be

assembled. Mathew also narrated at length how previous attempts with very skilled craftsman from Meerut, Lucknow and elsewhere have failed.

It sounded little amusing to Ashis and he did not have the faintest idea about fashion jewelry industry. It somehow sounded challenging to him and he wanted to help.

### **Taking the Chance:**

Ashis wanted to take up the challenge and he thought that if there had been so many failures, let there be another failure. He asked Mathew to give me some materials for assembling at Odisha. Mathew was not sure if workers at Odisha can deliver the quality where good craftsman from Meerut and Lucknow have failed.

Ashish returned to India and spoke with his family members and relatives. His brother-in-law became very enthusiastic and also wanted to try at a different location. The family wanted to do their best; it was an opportunity without risk. It was not their regular income.

Back in his hometown, Ashis, went to the people in nearest slum. Slum dwellers were usually rural migrants in search of livelihood, the idea of getting work was boon for them. Women in slum used to manually make incense sticks for the temple of International Society For Krishna Consciousness (ISKON), for a paltry sum of Rs 12 a day and they were told to do it for God. They all worked hard to deliver the first sample within 7 days! When the company received the material, its

president, Ronald, called up to confirm that the quality is exceptional good. He never did think that the turnaround time would be so fast and asked Ashis “When are you starting a company”? The rationale was very apparent. India’s labour force is large and cheap; the capacity can be scaled up quickly. US Company would send the material to a legal entity, rather than an individual. There is assured jobbing or subcontracting work reducing the revenue risk of the company drastically. It seemed win-win for all.

Ashis discussed with Mathew and Alex, they were all excited and wanted to be partners. Mathew could see the jobbing possibility beyond his own company.

### **Registering the company**

Any Indian company intending to export-import has to get importer-exporter code from Directorate General of Foreign Trade. Also since this company is to be involved in Jobbing (Material to be assembled manually and exported back) it has to be registered with Central Excise and customs. A custom bonded warehouse was to be created, where in the specific work to be carried out and inspected. This would enable free import of raw materials. In addition to these, there has to be registration for commercial tax and municipality in which it is located.

They registered the company Fashion Jewellery Private Limited (FJPL) within 2 months, compared to usual 3 months time period required. Ashis became the managing director of the company. The

company received its first air consignment from New York to its premises during Christmas of 1998.

### **Taking the Challenges head on**

Indian economy was not opened up that time. It was not free from license raj. The biggest challenge was having a custom bonded warehouse, a separate area, wherein the imported materials are received separately. Each incoming and outgoing material has to be accounted for and documented for audit by different government agencies. That time fashion jewellery items were not under open general license, it was under restricted list for import. Customs department will check and seal the material from the airport, noted in their register, transported to the warehouse under their security. The materials have to be issued to various assembly areas under their supervision. Once it is assembled customs department will inspect it and have to be satisfied that there are no pilferages and all the issued materials are used for the purpose. There were other teething problems as well. However, by April 1999, there were more than 200 persons working in different parts of Odisha.

To minimise the risk of fluctuation in jobbing work, the employees were not on pay roll. Secondly, the pay was linked to productivity and quality. Quality inspectors were on payroll only. A well accepted formula was created for calculating the remuneration. Women employees could earn 5000 to 6000 rupees per month,

much above the wage available elsewhere. The remuneration was attractive enough to get more and more people with right skill and attitude.

Ashis visited his clients in US regularly to understand their impression about quality and timely delivery. US based partners were following up with the customer for prompt payment realization. To reduce the dependency on single company, Ashis visited US frequently to be a vendor for more companies. He visited more than 30 companies in one year, in the cluster of jewelry industries in Manhattan. The company started doing business for 5/6 principals. He also visited Europe, the volume of work was less but payment was attractive (almost 3 to 4 times). The company started making good profit. The first year revenue was more than 10 million INR. The company got jobbing work from countries like UK, Australia, Spain, and France. Good days never seemed ending.

### **Riding the wave**

During 2001 celebrated artist Madonna started performing her shows with Indian traditional costumes and jewelry. It created a huge demand for Indian fashion products. FJPL in turn started developing its own products and sent samples for approval. These were instant hits. The products were not having import components thus the margin was much higher. In one of the Miss Universe competitions, the first runner up was wearing fashion jewellery made by FJPL which was the official supplier. The firm

started developing its own vendors for sourcing of components, set up office in New Delhi. The firm was all set to grow exponentially.

Ashis used to travel for almost 20 days in a month to different locations of India to develop vendors. The company operation was getting reported to all the partners, it was all open and transparent. The supply chain was in firm footing. Mathew separately tried to develop some items in Cuttack and get it exported. However there were issues regarding quality and delivery, and it used to get rejected. Finally these orders were getting routed to FJPL.

### **Process innovation to gain trust**

Due to failed and low quality delivery, there was a perception that most of the businessmen in India are liars. They always lie about delivery and quality. While sending samples for approval the metal parts would be nickel and lead free, but after few transactions the goods used to contain nickel. To make items nickel and lead free is very expensive; the cost becomes almost 2 times. Many times, Indian suppliers would not have not started the work but would confirm the client that the goods are in packing stage, ultimately failing the delivery due date. FJPL wanted to create trust among its customers. During 2000-01, when the internet and ICT had not spread much, it installed IP enabled cameras in assembly locations, to actually show the progress of the work. The company website had specific client registration, through which they can check

the progress of their orders as well as stages of shipment. The clients also could actually see that no child labour is used for production. The equipment and process were very costly nevertheless it was done to build trust and confidence.

By 2003 FJPL had about 30 million INR turn over. The company commissioned a metal finishing line for electroplating of metal parts. The finishing line had electroplating, polishing, soldering units. It also had hydraulic epoxy coating and rhinestone gluing units. Earlier these works were getting done in Noida, Delhi; required skills were created to have the manufacturing in-house. Advanced effluent treatment plant was commissioned to minimise pollution. complete and a lot of equipment were purchased for metal finishing. By 2003 the company The Company acquired an industrial land in export processing zone. The future could not be rosier than this, for the promoters.

### **Beginning of the end**

The expansion and meteoric growth brought in its own challenges. Now it was more difficult for the three promoters to agree on different issues. Now more data was required, more questions were raised, solutions seemed to be debated endless. It was becoming tougher to decide and execute. The relationship seemed strained to the degree of suspicion. Reinvesting the profits or taking dividend was major discussion and disagreement.

During 2005-06, FJPL found a disturbing trend debtor realization. The wire transfer

to the company's bank account started getting delayed. Initially it was about 20% of the total but gradually increased till it was almost nil for the last quarter. As a normal practice, the invoice copy was sent to US based partners, each time an invoice was raised. The practice was to make sure about the follow up and transparency. Ashish realised that for most of the orders delivered, the company had not received payment in time. The company kept sending reminders to customers but rarely was replied. Few were replied to as the accounts department had been asked to follow up. But payments were not realized even after 90 days. The industry practice was a 30 day credit period. Typically American customers pay within the credit period and FJPL had 80 percent of the business from American firms. This was quite perplexing for Ashish. Cash flow situation was getting worse; vendors and labours were to be paid. The trust generated because of regular and in time payment was getting eroded. Finally Ashish went to US and met few customers. They said that they had paid invoices in time. This was a shock to Ashish, he insisted on seeing the details. He found that the payment has been done to an US bank account of the company. Ashish did not have any idea about an US bank account of the company. Secondly the account mentioned in the invoice was found to be forged from the original invoice. Ashish decided to confront both his partners. The US partners actually registered a LLC firm in the same name and had the US bank

account for the firm. Mathew was known to most of the customers and they paid on the changed invoice. Alex and Mathew told that because of repatriation issues they opened a US bank account for the company. They needed money to buy their house and thought of returning the money later. Since FJPL was registered under RBI, dollar repatriation was not an issue. The money siphoned off was not profit but the revenue of the company.

Since FJPL was exporting the items and had the bonded warehouse, it was legally supposed to get the foreign exchange. Ashish was under legal scrutiny, now that the company has not received the payments it can't further export and if exports are not done, further revenue is blocked. Ashish went to Mumbai to speak to Reserve Bank of India, and was informed that FJPL can still send materials as sample piece where there is no obligation to account for exports, but the value has to be below INR 50000. But exports earlier was to be accounted for, being the managing director of the company he is responsible. It was a catch 22 situation for Ashish.

### **The last attempt**

Ashish tried to trade in stone craft. Artists create sculptors which can sell for 5 million INR, but it was not exported. Ashish thought it to be a good opportunity. He managed to send a container load of stone craft to France, which was covered by the local press. Stone craft being a cultural item, there are a lot of respected artists in this

craft. Ashis did this though FJPL, he thought the situation could be saved. But the legal entity had same three partners. Also he realized that export of stone craft was much more troublesome than jewelry business. The stone crafts have to get the clearance from the archaeological survey of India. The clearance is necessary to make sure that heritage sculptor or figures are not getting smuggled out of the country. At the same time it gave them the discretion to delay causing late delivery. The tests are conducted at the expense of exporter. Getting stone from the stone query for carving was still more difficult. Mafias had control over the repository, it was dangerous and unprofessional. However FJPL continued to work on stone craft export for about a year.

The business could not run any longer, Ashis decided to liquidate the assets; pay off the debt and formally dissolve the company. The company was finally dissolved in 2008.

### **Reminiscence**

Since then Ashis has not move out of his hometown, he considers himself homesick and his family did not want him to move out. He still has the urge to go back to entrepreneurship. He enjoyed those years where he was completely engrossed in the nitty-gritty of work. He was responsible for everything in the business; met designers; help people earn; went to many exhibitions around the world; learnt a lot of things and gathered knowledge about industry. He claims to be more confident

now and feels that he could do better if he starts anything fresh. He wished if everything had been going well, FJPL would have become INR 100 million in revenue. FJPL had the capacity to grow and there was market potential. Marketing was not an issue. Ashis's academics and professional training provided the confidence to execute. He did not get any help during the process, he spoke to family and friends, but they had little idea. He sighs and philosophises "Trust and greed are the factors that kills business"

### **Case analysis/ Teaching notes**

The case points to many facets of entrepreneurship and raises many questions. Why did Ashis decide to take up entrepreneurship? Between Ashis and Mathew, who was the entrepreneur? Was he little rash in seizing the opportunity? Was the selection of partners appropriate? To what extent education and prior experience helped Ashis in stabilizing the production quality and delivery time? Which factor is more responsible for growth; the market, personal relationship or the process innovation? Was the super normal growth responsible for conflict? What could have been done to protect the organization as a legal entity from the fraud? What else could have been done to save the growing organization?

The following section discusses in brief about the various facets identified in the case study.

### **I. Dimensions of entrepreneur**

Ajzen's theory of planned behavior (TPB)

and Shapero's model of the entrepreneurial event (SEE) are pioneering works about entrepreneurial intentions. Established literature indicates risk tolerance, perceived feasibility and desirability significantly predicts self employment intentions (Segal, Borgia and Schoenfeld, 2005). However entrepreneur may not be a single individual, since shouldering all the functional responsibilities of an organization is difficult. Cooney (2005) in his editorial comments highlighted the importance of team in new venture. In this case, Mathew actually was the person who was aware of the opportunity and tried to fructify it earlier, without success (Shane, 2003, Individual-opportunity nexus). On the contrary it can be questioned if Ashis took risk, as is the case with entrepreneurs? The risk perception of the project was very low for Ashis and his family, their logic was that we don't depend on the outcome of the effort. Research indicates that risk taking propensity may not be a distinguishing characteristic of entrepreneurs (Brockhaus, 1980). As a person, Ashis was hard working and meticulous in executing the idea. His experience did help in executing the production process and ensuring an effective supply chain. Exiting research points that prior experience and entrepreneurial self efficacy are related (Krueger, 1993; Boyd and Vozikis, 1994). In this case also Ashis has demonstrated self-efficacy. Ambition has been pointed as one of the characteristics of entrepreneurs. Ashis switched from a government job to private job indicates

opportunity seeking and ambitious trait. He also did MBA after 6-7 years of doing a job. It indicates the ambition characteristics. Effective networking is also an important ability of an entrepreneur. Ashis was well networked. His career was in the same place all throughout. His father's link in bureaucracy helped him to get an industrial land and necessary support. Entrepreneurial network has been found to have multidimensional influence (Pesqueux, 2013; Hoang, & Antoncic, 2003; O'Donnell, Gilmore, Cummins, & Carson, 2001). Considering his father's position, Ashis was also from a upper middle class background

## **II. The Opportunity**

From the case study, there was no entrepreneurial challenge with regard to building market or product innovation (for fashion jewelry). The market was well established and customers were identified, thus giving the initial and crucial advantage for the new venture. The opportunity needed very low investment, being only manual assembly work at the beginning, the business expanded later. However it is to be noted that Ashis failed in subsequent attempt of exporting stone crafts, though he felt a perceived demand. It was a new market and product that was ventured into. The success could not be replicated.

## **III. The organization structure and partnership**

The partners were from same ethnicity, so a degree of natural bonding or trust was

there. Partners were having same stake. Ashis had to spend a lot of time and effort to establish the plant and supply chain, there was lack of touch with customers in between. He depended on and trusted his partners. Early sign of reduction in cash flow was taken up later because of trust (on partners, customers). The issue relates to the dual role of owner and manager which created conflict and accentuated the conflict of interest. Professional could have been hired to look after customer follow up rather than promoters doing the role.

Entrepreneurship is commonly thought of as an individual act. However, group dynamics plays a vital role in a new venture. Team brings social network, virtual team, heterogenous skills, diversity. Morris, Avila and Alien (1993) indicated that entrepreneurship is highest under conditions of balanced individualism-collectivism poles, but declines at the extreme ends. The venture performance also depends on the friendship within the team (Francis and Sandberg, 2000). It is indicated that social interaction in the team and venture performance is related; however, conflict as a measure of social interaction is questionable (Lechler, 2001).

#### **IV. Innovation**

Innovation is associated with entrepreneurs and Schumpeter (1934) identified innovation in the following areas; New product, New method of production, New Market, New source of supply of raw material, New Organization of any industry. Each new venture has some degree of

innovation that attracts the customers in the form of value proposition. Though contract manufacturing may have less degree of innovation, in this case, establishing a production process and supply chain to give quality product was innovative. The entrepreneur tried to give service visibility to the customers by implementing technology solutions and gained customer's trust.

#### **V. Managing growth and conflict**

Growth of the organization and individual needs of the entrepreneur may have conflicting demands on organization. Principal-Agent or moral hazards are well known conflicts and these conflicts are caused by information asymmetry (Wikipedia). Research proposes concept of horizontal accountability (Kenney, 2003) among the members of entrepreneurial team for conflict resolution.

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#### **Web resources**

[https://en.wikipedia.org/wiki/Principal%E2%80%93agent\\_problem](https://en.wikipedia.org/wiki/Principal%E2%80%93agent_problem)

[https://en.wikipedia.org/wiki/Moral\\_hazard](https://en.wikipedia.org/wiki/Moral_hazard)

<http://www.qualitative-research.net/index.php/fqs/article/view/1589/3095>

