

# Understanding Business Environment, Creativity, Innovation and Value Creation

*Don't get stuck with your own idea, go with a constant adjustment to discover and explore what it is that is untapped.*

—Richard D'Aveni  
(Professor of Strategy, Tuck School of Business)

## Learning Outcomes

*After studying this chapter, you should be able to:*

- Understand entrepreneurial environment and factors effecting entrepreneurial environment.
- Identify various approaches to the development of business idea.
- Understand the concept of creativity process, innovation and value creation.
- Assess a business opportunity available in the environment.
- Develop an effective business plan.

A business organisation is a system comprising various sub-systems, namely, production, marketing, finance and human resource. These sub-systems can be described as pillars of any organisation contributing towards its long term success. Thus, the plans pertaining to the sub-systems must be carefully drawn. In order to formulate the appropriate plans, an entrepreneur first needs to acquire an in-depth understanding of several variables that lay both inside and outside the business and influence its operations. Variables that exist within the organisation, relate to its internal management and are largely controllable are called *internal factors*. *External variables*, on the other hand are forces that affect the functioning of business from outside. These are uncontrollable factors and an organisation's adaptability to these forces is a pre-condition for its survival and growth. The external factors collectively form the environment of business or the entrepreneurial environment.



### 3.1 ENVIRONMENT ASSESSMENT: SOCIO-CULTURAL, ECONOMIC AND POLITICO-LEGAL INFLUENCES

As we continue with the discussion, *entrepreneurial environment* refers to a combination of external factors that play a role in the development of entrepreneurship. This combination consists of individuals, organisations and institutions outside the individual environment and is conducive to or inhibitive of the choice of a person to become an entrepreneur, or the probabilities of his success following launch. The individuals and organisations representing environment are referred to as entrepreneurship stakeholders as these carry an interest in the entrepreneurial activities of a region. The stakeholders include government, educational institutions, i.e., schools and universities, students, private sector, family businesses, individual entrepreneurs, investors, banks, multinational corporations, common man, labour representatives, private foundations and international aid agencies. A collective role of entrepreneurship stakeholders creates entrepreneurial environment. In regions with extensive amount of entrepreneurship including Silicon Valley, Boston and New York City, many of these stakeholders are strong and have evolved in tandem.

Empirical studies on the entrepreneurial environment of various countries reveal that countries that keep rules and regulations to minimum, offer tax and other incentives and provide training and counselling services to start-up entrepreneurs increase the likelihood of new ventures (Dana 1987, 1990). Further, factors such as the availability of financial resources, being in large urban areas and the presence of universities for training and research are also found to be very important in increasing rate of new venture creations (Pennings 1982). Studies also show that entrepreneurs face several inhibitive elements including lack of financial assistance, lack of information on various aspects of business, excessive taxation and high rates of inflation (Young and Walsch 1993; Fogel 1994).

In short, more conducive the business environment, the more likely new businesses will emerge and grow. A thorough understanding of entrepreneurial climate requires an assessment of the following environmental elements.

#### 3.1.1 Socio-cultural Factors

This includes people's attitudes, habits, values and customs, etc. Entrepreneurship results from interaction of the following socio-cultural factors:

- (i) **Family and friends:** Parents may encourage or resist a curious, experimentative and analytical child. Families that accept, affirm and support inquisitive behaviour, keep patience while answering even weird queries and encourage the child to know the unknown, definitely channelise his energies towards entrepreneurship. His company of friends that belong to the enterprising families also plays a role in stimulating his entrepreneurial instincts.
- (ii) **School teachers and atmosphere:** School atmosphere, in general, and behaviour of subject teachers, in particular, may boost the formation of entrepreneurial pool in a nation. While imparting regular education, schools may work on enhancing the intelligence quotient of the students, teach adaptability, discipline, professionalism and values. This facilitates creation of a perfect entrepreneurial environment around them. A school's efforts towards holistic



learning of students through live experiences that go beyond rote book learning also help shaping entrepreneurial characters.

Further, a teacher that takes utmost care of students through expressions of love, affection, respect, honesty, fairness and dutifulness, etc. prepares ground for rearing entrepreneurial talent. A teacher also needs to induce and satisfy inquisitiveness in students.

- ✓(iii) **University:** Towards final stages of formal learning, college education polishes an individual's personality that may prepare him take up entrepreneurial activities. At this stage his pre conceived ideas and notions are either confirmed or dismissed. Adequate research facilities, appropriate class room teaching, special lectures, seminar and conferences followed by interactive sessions and educational trips stimulate entrepreneurial behaviour.
- ✓(iv) **Social values:** A nation's philosophy regarding social tenets of democracy, liberty, equality, justice, tolerance, secularism, non-violence, diversity and inclusiveness determine entrepreneurial character of its citizens. Also, countries where citizens believe in fulfilling their social responsibility through preserving and enriching nature and act towards the ideology of giving back to the society, entrepreneurial culture, in such countries is bound to flourish.
- ✓(v) **Religious beliefs:** The cultural set up of a country also determine its entrepreneurial character. For example, the principles of "शुभ लाभ" and "वासुदेव कुटुम्बकम्" as mentioned in Hindu Vedas teach people to earn fair profits while safeguarding interests of all stakeholders.
- ✓(vi) **Community character:** It is observed that in societies some communities are more enterprising than others. For example, Punjabi, Sindhi and Marwari communities are well recognised for their handwork, innovativeness, risk taking and flexibility. They are also found to be more mobile and ready to migrate to different geographic locations.

### ✓3.1.2 Economic Factors

The economic climate of a country plays a significant role in promoting entrepreneurship. The important economic variables responsible for entrepreneurial growth are:

- ✓(i) **Economic system:** There are three types of economic systems—capitalist, socialist and mixed system. Capitalist system is marked by economic freedom, private enterprise and profit motive whereas dominance of public sector and its commitment for social good are the major features of a socialist system. A mixed economy is a combination of capitalism and socialism. It is clear that capitalism provides sufficient boost to entrepreneurial environment. Countries that support principles of capitalism nurture new ventures.
- ✓(ii) **Economic planning:** The basic objective of economic planning is to remove economic ills such as unemployment and poverty, which can be fought by creating more job avenues in the economy. Obviously, this is possible through entrepreneurial and industrial growth. Thus, industrialisation and creation of congenial entrepreneurial atmosphere always remain in special focus of union governments while undertaking economic planning.
- ✓(iii) **Tax structure and incentives:** The tax structure of a country is divided into two major categories—*direct* and *indirect*. In order to increase the investment potential and induce entrepreneurs to undertake industrial activities, governments adopt policies of tax exemptions



and tax holidays. Sometimes, exemptions are allowed for capital gains and wealth tax to promote entrepreneurial growth.

(iv) **Rebates:** Besides exemptions, special categories of industries may be provided rebates on raw-material purchase and imports. Therefore, rebates also influence possibilities of entrepreneurship by facilitating production process of small, medium and large industries.

(v) **Import and export duties:** Concessions and exemptions on import duty act as a protective cover and help entrepreneurs develop new ventures amidst competition and market pressures. Similarly, exemptions in export duties stimulate entrepreneurship as they induce entrepreneurs to take initiative on innovative enterprises and add value to the products before export.

(vi) **Specific industry incentives:** To promote specific industries, like 100 percent EOUs (Export-oriented Units), government may declare various incentives from time to time. This acts as stimulant to entrepreneurial growth.

(vii) **Chamber of commerce and industry:** They greatly influence the entrepreneurial environment by organising training programmes, seminars, conferences and workshops that benefit entrepreneurs. These organisations also remain in touch with the government to put forth opinions of small, medium and large scale entrepreneurs on various aspects of industrial development.

(viii) **Availability of capital:** Investment decisions are generally influenced by the availability of both fixed and working capital. Economic and financial environment should be conducive so as to broaden the base of availability of capital to accelerate entrepreneurial development. A country can support its entrepreneurs by increasing their access to venture capital, private equity and hedge funds.

(ix) **Ecosystem for startups:** Countries, especially those with tough business environment, need to assure a favourable startup ecosystem for entrepreneurs. The business adversities can be balanced by support organisations with sufficient provision for incubators and accelerators. University education, funding and research organisations and special service providers including lawyers, financiers and financial advisors can develop a suitable ecosystem for entrepreneurs.

(x) **Financial institutions:** These include development financing institutions, commercial banks, state finance corporations, industrial development corporations, money market and capital market. Financial institutions provide monetary assistance to the entrepreneurs in setting up and running their units. Provision for easy credit facilities by these institutions can enrich the small scale sector and influence the investment decisions.

### 3.1.3 Politico-legal Factors

The government of a country through policy formulations and initiatives promotes a congenial business environment, encouraging people to take up entrepreneurship. A widely accepted parameter indicating the degree of concern of a government to facilitate acts of entrepreneurship is "the ease of doing business" index\* created by the World Bank Group. A country's high

\*Ease of Doing Business Index explains how much easy it is to start and operate business in a country. It includes government's rules regarding starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.



ranking on this index means existence of a favourable regulatory environment for starting and operating businesses. The following variables determine political and legal business environment of a country:

- ✓ (i) **Political stability:** Unstable political conditions are created when a country is ruled by a weak government or when the government policies change frequently. This results in loss of investors' confidence as they fear for safety of their investment. They prefer to pull out their investments and the prospective entrepreneurs feel discouraged to start business in such politically weak countries.
- ✓ (ii) **Government's support to economic development:** A government can create a positive business climate through infrastructural development, industrial parks and Special Economic Zones (SEZs). Good roads, power, communication facilities and a tight check on corruption and bureaucratic delays in obtaining such utilities encourage entrepreneurship in a country.
- ✓ (iii) **Labour and environmental laws:** While most businesses accept laws related to the safeguard of labour rights and the environment, some countries have retrograde laws that make their compliance very difficult, lengthy and time consuming. Such legal hurdles act as barriers to entrepreneurship.
- ✓ (iv) **Special policies, schemes and programmes:** Positive measures concerning entrepreneurship introduced by the government through launching special policies and schemes also help in the promotion of entrepreneurship. Indian government's Skill India programme, National Policy for Skill Development and Entrepreneurship, 2015 and Pradhan Mantri Kaushal Vikas Yojana (PMKVY) are important instruments to encourage entrepreneurship. These policies and programmes are supported by special initiatives of the government of India such as Make In India, Start-up India and Stand-up India. Further, schemes that promote rural development and envisage first generation entrepreneurs with limited access to resources and skills can be introduced to nurture entrepreneurial talent of the country.
- ✓ (v) **Entry barriers:** These are factors that prevent startups from entering a particular market by imposing a cost element on new entrants. They discriminate these startups against existing players that enjoy strong brand loyalty and an easier access to financial resources, desired distribution channels and raw materials. Thus, they restrict competition and promote monopolies in a market. In order to promote entrepreneurial environment the impact of these barriers must be minimised.
- ✓ (vi) **Ease of doing business:** A government's efforts to streamline procedures for setting up business, simplification of forms and elimination of unnecessary forms and other formalities prepare ground for more and more people start new businesses. Also, simpler regulations for business and stronger protections of property rights improve prospects for economic growth, thus attracting the opening of new businesses. Various types of environmental influences and their role in business operations is summarised in Figure 3.1.



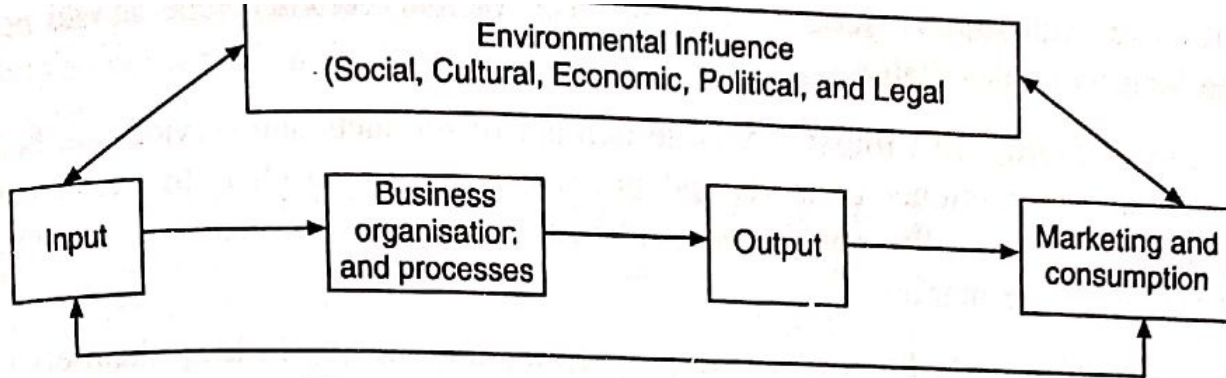


Figure 3.1 Environment of Entrepreneurship.

### 3.2 ENTREPRENEURIAL ENVIRONMENT AND THE BUSINESS

While the business environment changes, the basic rules of doing business remain the same. Also, an individual aspiring to become an entrepreneur not only observes the obvious environment, but also senses the opportunities emerging from the interaction of environmental elements. These opportunities are translated as future needs for goods and services which are not perceived by general masses. The impact of business environment on entrepreneurial activity is shown in Figure 3.2.

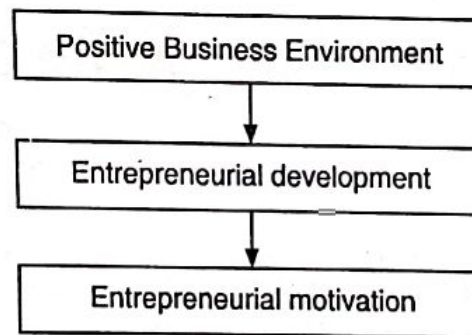


Figure 3.2 Analysis of Business Environment.

### 3.3 APPROACHES TO BUSINESS IDEA

It all begins with the germination of an idea that is new and worthy to be pursued. The business idea arises from a latent market opportunity observed by the entrepreneur, yet largely ignored by others. Here, *market opportunity* means the need for a product or service which is going unfulfilled or not being adequately met. This need, when translated into an opportunity by the entrepreneur results in conception of a business idea, which is the first step in the setting up a business. Local environment as experienced and interpreted by entrepreneur can offer a number of fertile business ideas. An entrepreneur, while dwelling on such ideas tends to explore several sources of information from the environment and scans multiple product ideas. These could be interacting with people, visiting shops and specialty stores, reading books and journals, attending trade shows, visiting research institutes and his own analysis. His efforts now are streamlined and give way to the following major approaches:

(i) **Brainstorming:** It is thinking about a large number of possible product ideas. However, it



does not involve evaluating or judging them in terms of marketability. One should not worry even if the idea looks unsuitable.

**(ii) New ways of doing old things:** A large number of products and services are being sold in the market using traditional methods and practices. One approach is to examine if these can be made or sold by a different, newer and better method. This may give entrepreneur a competitive edge in the market.

**(iii) Converting hobby into business:** Some people pursue hobby to keep themselves happy and also for homemaking. A hobby can be applied as a special skill to set up an enterprise. Hobbies like painting, photography, origami, interior decoration, fashion designing are often developed as business ventures.

**(iv) Utilising waste material:** Global warming causing rapid climate change is seen as the biggest threat to the mankind today. This can be partially contained through a swift approach towards environmental protection. Recycling and upcycling practices that turn waste into useful products can be sound business ideas. Similarly, energy conserving products may also have good market potential.

**(v) Improving an existing product:** An existing product can be modified and improved by using various technologies and methods. Market is always receptive to better and more efficient use of a product.

#### CREATING IDEAS OUT OF CONSTRAINTS

It is interesting to know that many times constraints create ingenious ideas. A recently published handbook on Organisational and Entrepreneurial Ingenuity cites an example of engineers in an aeronautical firm who were faced with the problem of ice formation on the tip of the nose of the jet engine, damaging it. Working under cost constraints, instead of going with a change in design, the engineers simply proposed a rubber tip for the nose, preventing ice formation.

### 3.4 CREATIVITY PROCESS, INNOVATION AND VALUE CREATION

Idea generation, which is the starting point of a business, takes place only when the entrepreneur thinks creatively on the lines of a new idea, method or practice, offering a novel solution to a perceived problem. Thus, creativity is the ability or potential to develop new ideas, to discover new ways of looking at problems and to bring something new into existence. According to D.T. Campbell, creativity is largely a product of sweaty trial and error. To be creative, a person must work long hours and hard enough to generate multiple solutions to a problem. A creative person must conceive something new and envision how it will be useful to the society. The action for putting the conceived idea to use is immaterial. Even if no effort is made to follow up the conceived idea, the person is a creative person.

#### 3.4.1 Creativity Process

Idea generation that prepares foundation for setting up a business does not happen automatically.



Rather, ideas evolve through a creative process wherein ideas are germinated, nurtured, matured, shaped and developed in the brain of an imaginative individual. The creativity process involves six stages:

### ***Stage I: Curiosity to learn problem and getting started***

Also, called *germination* or *seeding stage* when the person develops a deep interest or curiosity about something, i.e., a specific problem or an area of study. He has a burning desire to discover something, and is internally motivated to learn about an issue or solve a problem. Hence, the seed of curiosity takes the form of a focused idea. If the perceived problem is motivating enough to capture the individual attention, it leads to Stage II.

### ***Stage II: Searching information to solve the problem***

It deals with a conscious search for the solutions, seeking information about the problem and knowing how others have tried to solve it. This stage helps in building up information regarding the problem. It includes tricks, shortcuts or algorithms that might be useful for the task. A market research is also conducted for new product or service. This stage generally does not produce the results. However, the efforts of gathering information and knowledge is useful for the final solution. Collection of relevant knowledge leads to Stage III.

### ***Stage III: Incubation***

At this stage, there is subconscious assimilation of information. Existing problem and limitations take a back seat, creative process begins, making way for even human fantasies which look irrational. The subconscious mind starts imagining unimaginable and assimilates unusual knowledge and information which is difficult to collect rationally. This leads to the fourth stage.

### ***Stage IV: Idea generation***

At this stage, individual generates multiple ideas and solutions. Hence, this stage is about resurfacing of ideas leading to realistic creation. Various approaches to the problem are attempted using previous experiences, insights and fears. Ideas are recognised as feasible, giving him sense of realisation. Idea generation is normally triggered by an opportune incidence. Most creative people, after going through the phases of preparation and incubation remain in search of an incident which helps giving full meaning to their ideas.

### ***Stage V: Idea validation***

Idea generated in the previous stage need to be verified as realistic and useful. Entrepreneurial effort is required to translate the generated ideas into verified, realistic and useful application. At this stage knowledge gets refined into application. Each potential solution is tested against the problem.

### ***State VI: Outcome assessment***

An assessment of the creative process can lead to either the achievement of goal wherein a creative idea or solution to the problem is identified or no progress in this direction is achieved. In either case the creative process ends. There is also a possibility that the outcome is in



between the two extremes. If so, the individual returns to Stage I of the creative process. It is clear from the above that generation of idea is the first step to creativity. Rest of the process involves efforts to develop, refine and verify the business idea. A summary of the creative process is shown in Figure 3.3.

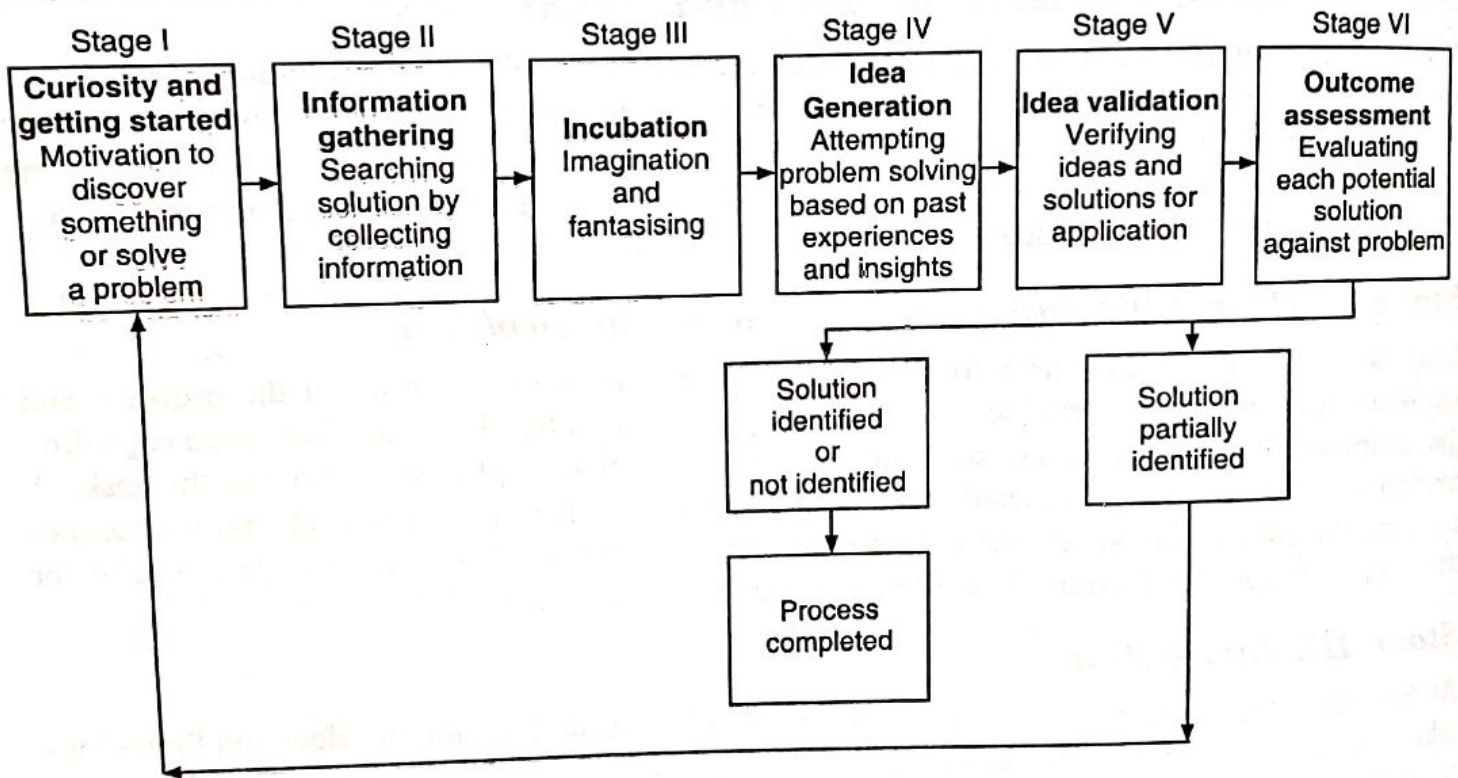


Figure 3.3 The Creative Process.



### **3.5.2 Search for Business Opportunity**

There is no specific or tailor-made technique to select a business opportunity. However, most people while searching a business opportunity apply the following methods:

**(i) Identification of needs of people:** This method is about studying and identifying market needs of a large number of people in the society. Such needs may be existing but are either going unnoticed or are inadequately satisfied. An entrepreneur captures this situation, studies the gap as business opportunity and starts business. Some examples of need based opportunity are E-commerce, courier service, event management and up-market convenience stores.

**(ii) Reports of market surveys and management consultants:** Market surveys conducted by specialised research organisations present data on the market scope, competition, production techniques, raw material requirements and several other variables concerning a product or service. These organisations and the management consultants screen the environment and provide guidance to the potential entrepreneurs.

**(iii) Trade journals, business magazines and newspapers:** There is periodic publication of statistical information and reports in trade journals, business magazines, business supplements of newspapers, and bulletins of industry and trade associations. These are valuable sources and can be used for searching business opportunity. For example, industry experts predict that in future technology-led Indian start-ups will perform better than other companies.

**(iv) Inventions, discoveries and knowledge development:** New knowledge gained through inventions and discoveries can be suitably applied to set up a business venture. Entrepreneurs that tap such knowledge in their businesses also earn competitive advantage. However, these



scientific breakthroughs have to be first fully explored for their commercial viability. For example, discovery of radium led to its commercial use in manufacturing watches and treatment of cancer. Similarly, the invention of photocopying technique led to the making of photocopiers by 'Xerox India Ltd'.

**(v) Technical and vocational skills:** A person may learn technical and vocational skills in ITIs and polytechnics. Such skills can be professionally applied to run lucrative businesses. For example, after doing a course in carpentry, a person can set up a specialised furniture store or a course in automobile engineering can offer rewarding business opportunities to establish an outlet for automobile accessories or a world-class automobile service station.

**(vi) Education:** In India, education has become a huge industry offering tremendous business opportunities. Due to tough competition students' demand for coaching institutes, tuition centres and professional training organisation is ever rising. Obviously, this demand can be viewed as a business opportunity. People can set up private computer training institutes or special coaching centres for C.A., M.B.A. and MBBS degree aspirants.

**(vii) Monopoly business:** The most attractive opportunity in monopolistic situation is absence of competition. However, entering a monopoly business is a huge challenge as the entrepreneur has no idea of the response of market variables vis a vis demand, sales, profitability or sustainability. Entering an unknown field poses greater risk and only an extraordinary person with proper plans to cope with eventualities may see a great opportunity in it. Netflix Inc. when started its business in California (US) as a DVD rental company was an example of monopoly business. At present, Netflix is an international provider of on demand internet streaming media available to viewers in several countries across the globe.

**(viii) Imaginative and perceptive attitude:** A highly imaginative and perceptive thinking enables a person see a vista of entrepreneurial opportunities. However, this quality is found in very few people. Imaginative people are highly creative and receptive to even unthinkable business ideas. For example, advertisement and publicity industry and industries dealing with costume designing, jewellery designing, window decoration, maid-training, and event management need imagination, perception and creativity.

**(ix) Abundance of raw material:** People find it easier and more sensible to establish business at sources of raw material. Processing and finishing of a job at the source of raw material offers economy and convenience. For example, it is sensible to set up a sugar manufacturing unit near the sugarcane fields or establish a steel plant near the coal mines.

**(x) Shortage of raw material and products:** If raw materials are not available in a particular area or if people are not able to get the raw material easily, it may throw a large number of business opportunities for trading activities. Business opportunities can also be developed if some products or services are in short supply. Budget airlines like Indi Go and Go Air offered "no-frill" flying experience to a large number of travellers with limited budget.

**(xi) Government schemes:** The government has developed a network of support institutions for the promotion of entrepreneurial activities. For example, Khadi and Village Industries Development Board provides a set of incentives to villagers in the form of training, subsidies,



---

cheap loans and export-related knowledge. Similarly, the Small Industries and Service Institute (SISI) provides access to several project ideas and reports. The government has published a list of nearly 900 industries to be reserved exclusively in small-scale industry sector.



## 4.7 LOCATIONAL MOBILITY OF ENTREPRENEURS

*Locational or geographical mobility* refers to the movement of entrepreneurs from one location to another. An entrepreneur's drive and initiative to move to alternative place is the result of his desire to find better business opportunities. In a country, only a small percentage of entrepreneurs tend to be mobile and if the number of entrepreneurs is limited and that too is unevenly distributed, there will be strong regional imbalances in industrial development. This explains the need for locational mobility for economic growth. Further, a nation's all-round development in economic, political, educational and cultural fields promotes locational mobility. So, locational mobility can be studied as both, as a cause and as an effect of economic prosperity of a nation. The degree of entrepreneurial mobility depends upon the following factors:

- (i) **Own resources of entrepreneur:** Locational mobility means a higher resource requirement, thus, a higher risk. As in the initial stages of a business resources are limited, an entrepreneur has no choice, but to operate within a limited geographical area. When he gets a greater access to resources, he may think of assuming higher risk. He can now avail better information, make better contracts and can operate more successfully within a wider area. Thus, larger the resources, greater the locational mobility and vice versa.
- (ii) **Education:** A better education opens doors for wider business prospects by increasing the negotiating power of the entrepreneur with his customers. It also enhances his communication skills to help him during his discussions with the concerned government officials. A sound educational base enables him take rational and timely decisions. With proper educational background he can see and tap the opportunities available at distant places. Thus, education enlarges spatial horizon of an entrepreneur and increases his locational mobility.
- (iii) **Language:** Knowledge of local language increases probability of locational mobility of an entrepreneur. He would prefer to move only to those areas where he can converse well with the customers, suppliers, employees and concerned authorities. Obviously, a lack of knowledge of local language hampers locational mobility. In India, for example, most people living in Eastern and Southern parts cannot cope up with Hindi which is a connecting language of north India.
- (iv) **Experience:** An experienced entrepreneur with a sufficient exposure to environmental uncertainties and adversities is likely to be more mobile than a naive business person. The uncertainties and risks associated with business help him learn skills to be applied in different areas of business including production, marketing, finance and human resource. Through sufficient experience an entrepreneur's fitness to survive against odds gets better.



✓(v) **Aspiration for growth:** Entrepreneurs always aim growth and their determination for business success opens up immense opportunities. They are interested in increasing size of business through expansion and diversification, for which more land is needed. Due to non-availability of land in the immediate vicinity, they may move to distant places that may offer plenty of land at cheaper prices.

✓(vi) **To handle distress:** Sometimes, due to personal and social reasons, an entrepreneur finds locational mobility as a way to manage the persisting anguish and pain. Difficult family circumstances or hopeless relationships may also compel an entrepreneur to search alternative locations.

✓(vii) **Political system:** A fair amount of political support from local authorities, state and Central Government boosts locational mobility. Political support refers to government's attempt to maintain a peaceful, non-interfering and a corruption-free business atmosphere, in addition to offering various entrepreneurial incentives. Entrepreneurs are likely to move to places that offer a favourable business climate. Further, places with hostile political set up may also cause mobility of entrepreneurs.

✓(viii) **Labour conditions:** It means availability of skilled, semi-skilled and unskilled workers at a place and necessary knowledge of labour attitudes, aspirations, expectations and beliefs. Workers tend to display and practice their established notions which are hard to change. Unfavourable labour conditions of a place reduce entrepreneurs' willingness to shift to such location. The violent conflict between the workers and management of Maruti Suzuki India Limited in July 2012 at Manesar (Gurgaon) is an example.

✓(ix) **Support of government:** Government support in the form of general, fiscal and financial incentives creates a favourable business climate and attracts entrepreneurs to specific regions. Tempting government policies on excise duty, Foreign Direct Investment and labour laws encourage entrepreneurs to locate their units in such regions. Tax holidays and loan schemes, establishment of industrial estates and modern testing facilities and arrangement for adequate credit facilities are examples of government support.

✓(x) **Attraction of availability of inputs:** Shortage of various inputs like power, raw material supply and poor infrastructural facilities would adversely effect the chances of entrepreneurial mobility to such areas. Regions with abundance of these inputs would attract entrepreneurs from existing locations.

The early theories of location suggest that factors such as nearness to the source of raw material and labour may be the most important influences on location decisions. But, over a period of time due to various environmental factors, the importance of these factors has considerably reduced. For example, it is now common to locate industries in areas with poor natural resources. Because of the easy availability of effective distribution channels and improved transportation facilities at most places, locational mobility of entrepreneurs has improved.

A survey of entrepreneurial mobility in India reveals a high tendency to set up industries either at or near own location of entrepreneurs during the initial stages of industrialisation. This was due to their limited access to capital and information and lack of supporting conditions.



The entrepreneurs from Bombay, Calcutta and Ahmedabad who set up their industrial units are examples of locational mobility with narrow spatial horizon. With passage of time, as more entrepreneurs attracted to these regions, the cities became industrial hubs leading to concentration of industries. Later, due to expansion in size and better access to financial and other resources, higher experience and greater information flows, entrepreneurs became highly mobile, even cutting across national boundaries. Multinational Corporations and Non-Resident Indians (NRIs) setting businesses abroad are examples of such mobility. This phenomenon marked by initial contraction followed by expansion of spatial horizon is explained as stages of entrepreneurial mobility in Figure 4.3.

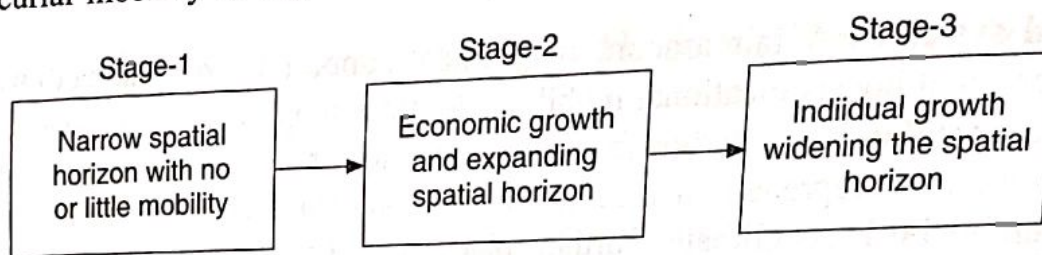


Figure 4.3 Stages of Locational Mobility.

Empirical evidences point out entrepreneurs' varying preferences allocated to different locational considerations. This fact is highlighted in Table 4.1.

Table 4.1 Entrepreneurs' Considerations for Selecting Location of Industries

Considerations	Entrepreneurs (in %)
Homeland	52
Availability of raw material	8
Availability of labour	4
Availability of market	10
Availability of infrastructural facilities	20
Government incentives	2
Others	4
<b>Total</b>	<b>100</b>

It is clear from Table 4.1 that Homeland is still considered as the most important factor in the selection of location. However, it also implies that enterprise is not a freely mobile factor, willing to move to any place for only marginal advantage. Availability of infrastructural facilities ranked the second most significant consideration in determining location of an enterprise. These facilities include roads, transportation, telecommunication and power, etc. The incentives offered by the government in the form of various concessions like tax rebates, tax holidays and import and export duty exemptions were not found to significantly influence entrepreneurial mobility. This may be due to a lower importance accorded by entrepreneurs to fiscal and financial benefits in comparison to infrastructural facilities and hometown land. Nearness to market is also rated as less important consideration in selecting entrepreneurial location because of easy availability of appropriate modes of transport in most geographical



---

areas. Similarly, availability of raw material, labour and other considerations have not been comprehended as important influences on locational mobility of entrepreneurs.

The development of Indian economy is characterised by 'imbalanced regional growth'. While a few urban areas are developed, the remaining vast percentage of rural areas continue to be underdeveloped even after more than 60 years of independence. Though, the Government of India, through various policy measures has endeavoured to promote balanced regional development, the results are not very encouraging. The situation may be improved by establishing new business units in less developed areas. This explains the significance of entrepreneurial mobility.



# Establishing a Small Enterprise

*You don't need to have a 100 person company to develop that idea.*

—Larry Page  
(Co-founder, Google)

## Learning Outcomes

*After studying this chapter, you should be able to:*

- Describe the process of setting up a new business.
- Understand the problems faced by new ventures.
- Make the selection of a viable project.
- Explain product development and selection.
- Understand the steps in the preparation of project report.
- Explain the process and various aspects of project appraisal.
- Make the selection of appropriate business location.
- Identify legal requirements for establishing a new unit.

Promotion of a venture is a complex process involving several steps. An entrepreneur has to face many hardships as he goes through the formation of business. However, his strong will, self-ignition spirit, determination and positivity keep motivating him to stick to the business idea and make way amid adversities and challenges.

## 6.1 PROCESS OF SETTING UP A NEW BUSINESS

Once an entrepreneur becomes aware of the concept and role of his new venture, he could make up his mind and proceed forward towards taking concrete action to establish his business. The various steps taken by him in setting up the business are as follows:

- (i) **Decision to set up a business:** The first step in establishing own business is of making the final decision to be self-employed. After weighing all the advantages and disadvantages of becoming an employer by and setting up own business, the entrepreneur takes the most crucial decision of shunning salaried employment to opt for self-developed career in entrepreneurship.



- ✓(ii) **Environment analysis:** A study of the prevailing business environment is essential to understand the general business climate and the opportunities and threats therein. Environmental analysis also aids the entrepreneur in deciding upon the form of ownership organisation, administrative framework, policies, procedures, laws and by-laws, rules and procedures as prescribed by the government.
- ✓(iii) **Analysing strengths, weaknesses, opportunities and threats (SWOT) analysis:** The potential entrepreneur, then assesses and analyses his own strengths, weaknesses as well as opportunities and threats in the environment. This would enable him to find out the type and size of business most suitable to him.
- ✓(iv) **Training:** The best way to enhance strengths and to improve upon his limitations available to the entrepreneur is to acquire formal training by joining formal training programmes. Various institutes like EDI, NIESBUD, IEDs offer tailor-made and module-based EDPs for new and existing entrepreneurs as well as for employees of small scale businesses.
- ✓(v) **Product development and selection:** An important decision as to the product choice is taken at this stage. Product is finalised on the basis of opportunity assessment of the market. Another decision in this regard includes product variety.
- ✓(vi) **Market survey:** Marketability is the true test of goodness of a product. Higher the marketability, higher the sales and profits. For this purpose the entrepreneur undertakes a vast study of the market and collects data and information concerning its manufacturing, competition, demand patterns, supply and demand gaps, substitutes, pricing, distribution and promotion.
- ✓(vii) **Form of organisation:** Selection of the most suitable form of organisation is a pre-condition for long-term business success. Since, it is largely an irreversible decision, utmost care should be taken while choosing form of ownership, i.e., sole proprietary, partnership, private limited company, etc. An entrepreneur decides on a particular type of organisation on the basis of nature and scope of business, resources in hand and his personal preferences.
- ✓(viii) **Location:** It means the specific place or site of business. Locational decisions also include plot size, ratio between open and covered area and type of construction. An entrepreneur takes into account connectivity, law and order situation and availability of infrastructural facilities of the area selected for locating his business.
- ✓(ix) **Technology:** Here, information on all available technologies is procured by the entrepreneur and the most suitable production technology is identified. After zeroing on the type of technology, he moves further to decide the type of plant, machinery and equipment.
- ✓(x) **Machinery and equipment:** Having chosen the type of plant and machinery, manufacturers and suppliers are shortlisted and purchase orders are placed depending upon machine quality, durability, reliability, installation and servicing capacity of the supplier.
- ✓(xi) **Preparation of project report:** This report compiles information regarding progress of the project through every stage. It also describes the economic viability and technical feasibility of the project, and thus, is useful in obtaining finances, land at concessional rate, power and water connections, raw material quotas, etc.



- (xii) **Project appraisal:** Ordinarily, project appraisal implies a cost and benefit analysis of business. This type of evaluation is generally undertaken *ex-ante* i.e., for a proposed project to obtain a second look. The project is assessed on various economic, financial, commercial, technical, managerial and social parameters.
- (xiii) **Arranging finance:** Arrangements are made for procuring adequate and timely finance to meet both fixed and working capital requirements. The entrepreneur follows the norms and procedures specified by the financial institutions and banks to obtain finance. A number of other agencies also provide capital assistance and venture capital. Under the PMRY and REGP schemes financial assistance and subsidies are provided to the entrepreneurs.
- (xiv) **Provisional registration of business:** The DIC or the Directorate of Industries provide the prescribed application form for provisional registration. The entrepreneur, after filling the registration application form, submits it in the local DIC or Directorate of Industries along with the relevant documents. Registration of business helps the business in availing various government facilities, incentives and assistances.
- (xv) **Procuring technical know-how:** In technology-driven businesses, the technical know-how can be arranged through TCOs, NSIC, SSIDC, DIC, SISI, EDIs, private consultants or foreign collaborations. Industry associations like FICCI, ASSOCHAM, CII, and PHD Chamber of Commerce and Industry also assist businesses in acquiring the required technical skills.
- (xvi) **Electricity and water connection:** Applications to the relevant power and water supply authorities are made for procuring connections. The meters are fitted within the business premises before releasing the supply of electricity and water. Adequate power and water supply are essential for uninterrupted business activities.
- (xvii) **Installation of machinery:** The plant layout scheme would guide the machine installation. For this purpose, often an installation agreement is made between the buyer and the seller at the time of purchase. The trial run or demonstration is mostly part of machine installation.
- (xviii) **Manpower recruitment:** Human resource is considered to be the most important input for a business. The total number and the kind of personnel required must be carefully decided keeping in mind requirements in major functional areas. Proper plans must be drawn for their training and development, motivation and maintenance.
- (xix) **Purchase of raw material:** The raw materials are purchased indigenously or through imports. Some major issues concerning raw material procurement are quality, price and assured supply.
- (xx) **Starting production:** With all the factors of production, namely, manpower, raw material, machines and equipment in place, a trial run is given to the production work. This is followed by mass scale commercial production.
- (xxi) **Marketing:** Each single business activity is directed towards ensuring effective marketing results. Marketing involves product-related decisions, concerns regarding distribution network, price determination and promotional tools to be used. A new business first carries test marketing—an exercise to determine product success and to know scope for improvements in any of the marketing mix elements.



- ✓(xxii) **Quality assurance:** Depending upon the type of product, the entrepreneur applies for quality certification from the Bureau of Indian Standards (BIS) or Agricultural Produce Grading and Marking (AGMARK), etc. This certificate is issued after a thorough examination and testing of the product by the BIS/AGMARK. However, for many products, no such certification is required and the entrepreneur can evolve his own quality control system.
- ✓(xxiii) **Permanent registration:** After a small scale enterprise starts production and marketing, it becomes eligible to obtain permanent registration on the basis of earlier provisional registration from DIC.
- ✓(xxiv) **Market research:** A rewarding business practice that keeps the business alive, fresh and competitive is its constant pursuit to obtain knowledge of market-related variables like competition, future demand forecasts, customers' preferences, and supply-related developments, etc.
- ✓(xxv) **Profit generation and reinvestment of profits:** Once the venture starts making profits, an important task is to set aside a substantial portion of earnings for investing back in business. It is essential to ensure survival and growth of the business.
- A careful follow up of the above-mentioned steps is highly rewarding for the new entrepreneurs in achieving the mission of establishing a successful business venture.



## **BUSINESS INCUBATION**

Business incubators nurture entrepreneurial companies by providing them guidance and support during their start-up period, when they are most vulnerable. They offer a range of business development services to meet the needs of new ventures. The rationale for setting up incubators lies in its capacity to increase the initiation, survival, and growth of new ventures.

The first incubator in the world is thought to be the Batavia Industrial Center, which opened near New York in 1959. The real explosion in the number of incubators came much later. In 1980, there were only 12 incubators in the USA



[National Business Incubation Association (NBIA)], but by 1990, there were over 385 incubators in the USA (NBIA 1990). Currently, there are over 1400 incubators in the USA (NBIA 2007). In contrast, there are very few incubators in India. Department of Science and Technology estimates that there are about 50 incubators in the country. Most incubators in India have been promoted by an educational institute. In fact, the most successful incubator in India is in IIT Bombay.

## **Incubation Benefits**

Incubators are found all over the world and their approach to venture development can be summarized along the following dimensions:

- Offering space on flexible terms
- Providing shared office services
- Presenting a business consulting network
- Providing opportunities to develop business relations
- Facilitating access to capital

### ***Offering Space on Flexible Terms***

Commercial real estate developers do not find it attractive to lease small spaces to new clients. To make it commercially viable, the per square foot lease rates for small spaces are generally pegged at a higher level than the rates for larger spaces. Entrepreneurs also find it difficult to take on leased spaces from developers because of high down payments, security deposits, and long tenures for leases. Also, it is difficult to secure additional space when the needs of the firm grow.

In business incubators, entrepreneurs are provided small spaces on flexible terms. Short-term leases are provided and the new venture can vacate premises at a very short notice. The security deposit paid by the entrepreneur is also much less than the norms established by the commercial real estate developers.

As the incubator has spaces of varied sizes, it is relatively easier for the entrepreneurs to shift to a suitably sized part of the incubator, depending on their changing needs.

### ***Providing Shared Office Services***

Incubators make available shared services and facilities such as printer, fax, photocopier, secretarial services, phone connection through a PBX, and conference room. Incubators focused on manufacturing provide additional facilities such as shared storage, loading docks, and tool rooms. Start-ups have a need for these services, but pooling the services allows the incubator to spread the cost among a number of start-ups. Some of these services help entrepreneurs to project a professional image



to their business associates and customers without them having to incur the cost of having the in-house services.

### ***Presenting a Business Consulting Network***

An entrepreneur is not expected to have all the skills and expertise needed to start and run the business efficiently, but it is important that the entrepreneur have access to consultants and other experts who have the skills and knowledge. The range of consulting services needed by the entrepreneurs can be varied. They may need assistance from a legal consultant to set up the firm and to sign contracts with suppliers, customers, and employees. A chartered accountant will be essential for drawing up their financial statements and for help with other business and regulatory matters. Technology-related consulting can be provided by researchers as well as industry experts. Entrepreneurs also may need assistance from academicians on an array of topics ranging from technical issues to making a business plan.

An incubator can really assist start-ups by creating a support system and structuring a mechanism for its incubatees to take assistance from this network.

### ***Providing Opportunities to Develop Business Relations***

Lichtenstein (1992) found that one of the most important contributions of incubators lies in providing an opportunity for entrepreneurs to interact and develop business relationships.

The incubator can have a database of suppliers and service providers, which will be of generic interest to a number of sectors, for example printers, website designers, and transporters. If the incubator is focused on a certain industry, they will have an opportunity to develop a similar list of interest to a specific sector.

Additionally, the incubators should develop contacts with many others in the industry so that they are able to pass on these contacts to the entrepreneurs that need the specific contacts.

Another important networking that an incubator can facilitate is the networking between the entrepreneurs in the incubator. Even though each new venture faces a unique set of issues, a group of entrepreneurs can set up their own support mechanism by communicating with each other.

### ***Facilitating Access to Capital***

One of the most important activities of an incubator is to get an entrepreneur in touch with the financiers. This process starts when the consulting network of the incubator helps the entrepreneur to refine the business idea and make a business plan.



### Exhibit 6.4 SINE, Powai

Some of the successfully incubated companies from SINE, the incubator at IIT Bombay, are discussed here.

- **Herald Logic Pvt. Ltd.**  
Develops products in enterprise information, rule-based engine.
- **Voyager2 Infotech**  
Raised US\$ 250K, built a creative ideas portal, and was bought out by Purple Yogi in an all-stock deal.
- **Myzus Technologies**  
Raised US\$ 600K, develops products and services in the areas of wireless gateways and connectivity bridges.
- **eInfinitus**  
Raised ₹ 1.2 crore, develops products in network operations: real-time bandwidth provisioning and specialized router software.
- **Powai Labs Pvt. Ltd.**  
Focused on innovation in the electronics design automation (EDA) space.
- **Seclore Technology Pvt. Ltd.**  
Delivers radically innovative Information Rights Management Firewall solutions.
- **Eisodus Networks Pvt. Ltd.**  
Develops technology for broadband access through Ethernet.
- **Quantum Phynance Pvt. Ltd.**  
Provides leading edge software solutions for financial risk management.

The incubator helps the entrepreneur locate potential source of finance and, in some cases, may even put together a team to directly assist the entrepreneur in securing funding. Most successful incubators have a very strong relationship with funding agencies.

### Managing Incubators

For an incubator to be successful, there needs to be a clear vision about its intended purpose. It also needs to be financially successful. Some of the best practices followed by incubators all over the world are discussed here.

1. There should be an incubator manager and a team of professionals to manage the entrepreneur. The role of the incubator manager should include management facilities at the incubator and developing and nurturing a network for the entrepreneurs. There should be a proper balance between these roles.
2. The incubator should set clear guidelines for eligibility. A policy document should clearly outline how the business idea is going to be evaluated and what



is the profile of the entrepreneur the incubator is primarily interested in. Sometimes, university-sponsored incubators restrict themselves to students and alumni. Many focus on high technology, and some look at firms in a specific sector. All these should be declared by the incubator when looking for entrepreneurs to incubate.

3. An incubator should have clear-cut guidelines for the admission process. The entrepreneurs can submit their business plans and CVs, to be short-listed, and a rigorous process of selection should include an interview by a panel of experts.
4. A contract should be signed by the incubator and the entrepreneur laying down all the terms and conditions. The entrepreneur should be clear about the facilities being provided to the enterprise and what the incubator expects in return.
5. The long-term financial viability of the incubator will depend on its business model. Usually, the founders of the incubator are willing to put in the initial investment, but would be reluctant to fund the ongoing expenses of the incubator. The revenue streams of the incubator would primarily be what it charges its incubatees. This can be broken up into the following three parts:
  - A *fixed rental* to cover the cost of basic infrastructure
  - A *usage-based charge* for services such as conference room, copier, etc.
  - A *success fee*, which can be in the form of an equity stake in the new venture
6. Just like guidelines for admission, there should also be clear guidelines for exit. An incubator should cater to start-ups. Once the firm has established itself, it should make way for other new firms. The venture's tenure in the incubator can come to an end under the following circumstances:
  - After a fixed period
  - When the start-up receives substantial funding
  - When it achieves a certain level of profitability
  - In case of irresolvable disputes



## ✓ 6.7 BUSINESS LOCATION

Selection of an appropriate site of business is a major decision that has a far reaching long-term impact on the success and growth of business. Ideally, the first step towards the choice of the most suitable location is to prepare a list of needs of business with regard to location. Thereafter, different available sites can be compared on the basis of opportunities offered by each such site. Finally, the choice can be made by comparing and contrasting business requirements as against the opportunities available at different locations. In other words, the entire exercise is about examining how best the facilities at a particular site will match needs of business. The best site is one which will satisfy the maximum number of conditions that the entrepreneur seeks.

### ✓ 6.7.1 General Locational Factors

The general locational factors can be placed under two major heads—*primary* and *secondary*. Though opinions differ as to which of these factors are to be given primary importance and which to be treated of secondary importance, the common understanding classifies market, raw material, labour, transportation, acquisition cost, tax and government incentives as *primary factors*. *Secondary factors*, on the other hand are normally understood as climatic conditions, water and power supply, banking and finance services, law and order conditions and adequacy of space.

#### ✓ *Primary Factors*

These include the following:

- ✓ (i) **Market:** An easy access to market for sale of the produce is considered as a factor of strategic importance. This is so because the final product can be delivered promptly and more economically at the place of consumption. Proximity to market is essential in the case of consumer goods. In the case of industrial products too, nearness to market is desirable if the products are heavy and big in size and the market is concentrated. Further, repair and maintenance of machines and equipments can also be more quickly and easily organised by the manufacturer.
- ✓ (ii) **Raw material:** Mostly businesses that are engaged in production processes prefer a location near to the source of raw material. For example, sugar mills are mostly located near



the sugarcane farms and steel manufacturing units are established near the coal fields. This not only saves time, but also results in reduced transportation and overall production cost. As cost of raw material constitutes a sizable part of the total production cost, nearness of factory to the source of major raw material is a significant advantage in many cases. If the raw material to be processed is heavy and bulky and the transportation facilities are inadequate or too expensive, locating business near the raw material source will considerably economise the cost of production.

- ✓(iii) **Labour:** For a labour-intensive industry, it is important to locate the business unit around the source of labour supply. This is true both for procuring unskilled as well skilled labour. For example, IT professionals are mainly located in metros and selecting a site far off from cities or in rural area may, though fetch few government concessions, will pose a serious challenge in recruiting the required IT staff. Apart from the quantity of workforce, the quality of workers that includes level of education, experience, aptitude, productivity, intelligence and loyalty is also an important parameter of selection of labour. The influence of local political leaders on trade unions within the vicinity is also to be taken into account.
- ✓(iv) **Transportation:** Transport facilities are required mainly for carrying raw materials from the source of supply to the plant and also for transporting the finished product from plant to the market for sale. As a large proportion of workforce may be located away from the place of work, an easy availability of a variety of transport facilities at cheap rates near the office will be an additional advantage. Proximity to highways, railways and waterways also helps in promoting convergence of more industrial activities in an area.
- ✓(v) **Cost of acquisition:** The land and building costs, rental expenses, rates and taxes payable periodically vary greatly from place to place. Cost of acquisition is too high in urban areas. Though in rural areas, land may be cheaper, these areas will not be a preferred location due to non-availability of daily utilities, skilled labour, telecommunication networks, financial and insurance services and health care facilities. However, the government offers special concessions and subsidies for setting up industrial units in rural areas.
- ✓(vi) **Tax burden and government incentives:** Certain categories of businesses, if set up in specified rural areas are entitled to receive varied government grants and incentives. Aspiring entrepreneurs with limited funds may avail such benefits by locating their businesses in such areas. Further, a business has also to pay multiple taxes, namely, property tax, inventory tax, service tax, value added tax, excise duty and sales tax. By opting for notified location they can also reduce the tax burden of business.

### ✓**Secondary Factors**

Though secondary factors are not directly related to the business operations, these factors are important in influencing business performance. For example, harsh climatic conditions at work reduce capacity to work whereas a pleasant climate together with natural surroundings contributes to the enhancement of productivity. Similarly, an erratic supply of water and power calls for finding alternative solutions like maintaining generators and water boosting pumps. In many cases, despite of favourable climate and satisfactory supply of power and water, entrepreneurs may not opt for a particular location because of a poor maintenance of law and



order. Besides this, the presence of banking, finance and insurance services tends to promote the location and growth of business enterprises. At a business location, space available should be expandable as and when required, for the purpose of material handling, inventory upkeep, display, office work, meetings and conferences, etc. In other words, proper arrangements should be made in advance keeping in mind the future space needs.

## 6.8 LEGAL REQUIREMENTS FOR ESTABLISHING A NEW UNIT

An entrepreneur has to take a number of steps in the formation of a business. Each stage calls for a variety of legal compliances, fulfillment of legal formalities and adherence to policies and procedures laid down for this purpose. Some of the important laws and regulations commonly applicable to all types of enterprises are as mentioned:

- ✓(i) **No objection certificate (NOC) from local body/municipality:** The first legal requirement for setting up an enterprise is to obtain a No Objection Certificate from the local body which is a legal permission to start the business. The NOC is required for the purpose of construction of building and for land utilisation.
- ✓(ii) **Registration of business in DIC:** A small scale unit is required to register itself with the District Industries Centre (DIC) of the state. The District Industries Centres in India function under the Directorate of Industries. This registration makes the unit eligible to get government incentives, subsidies and exemptions provided for in the Industrial Policy Resolutions (IPRs). For registration, the entrepreneur fills EM-I (Entrepreneur Memorandum-I) and EM-2 forms. In case of a micro enterprise, EM-I is filled whereas for a small enterprise EM-2 is needed. Both EM-I and EM-2 forms can be obtained from the District Industries Centre.
- ✓(iii) **Statutory license or clearance:** Under the New Industrial Policy announced in July 1991, industrial licensing is required only for eighteen notified industries. Licensing is mandatory in case of industries related to security and strategy of national significance, social concerns, hazardous chemicals and environmental issues and items of super luxury consumption.

Table 6.3 depicts products/services/lines and their corresponding governing authorities from which the entrepreneur obtains clearance certificates.

**Table 6.3** Authorities to Contact for Various Clearance Certificates

Starting a MSME unit.	Registration certificate, EM-1 and EM-2 to be obtained from District Industries Centre (DIC) under Directorate of Industries.
For units operating at places other than industrial estate.	NOC from Local Body/Municipal Corporation.
Pollution control.	State Pollution Control Board.
Registration under the State Sales Tax Act.	Local sales tax authorities.
Manufacturing of drugs.	State drug controller.
Registration under Central Excise Act.	Superintendent of Central Excise of the area.
Manufacturing of fruit and vegetable based products.	Deputy Director, Fruit and Vegetable Preservation, Ministry of Agriculture, Government of India.



Registration of the unit under partnership.	Registration of partnership firms.
Registration of manufacturing of electronic items under decentralised category.	State level technical committee under Directorate of Industries.
Electronic items other than decentralised items.	Development Commissioner, Small Scale Industries through State Directorate of Industries.
Certificate of quality/standardisation.	Bureau of Indian Standards.
Licence for export of products.	Chief Controller of Imports and Exports, New Delhi/ Directorate of Export Promotion, Udyog Bhavan, New Delhi.
Power connection.	State Grid/Electricity Board.
Registration under Factories Act for the units employing 10 workers or more with power or 20 workers or more without power.	Chief Inspector of Factories.
100 percent export-oriented units (EOUs), other than free trade zones and export processing zones.	Secretariat for Industrial Approvals (SIAs), Department of Industrial Development, Government of India.
Industries using water and involving effluent disposal gaseous wastes, etc.	Directorate of Public Health of the State Government, District Health Officer of the particular district.
For production and sale of fire crackers, explosives and related goods.	License from District Collector under Explosive Act.
For benefit of purchases made for government office.	Registrations with Director General of Supplies and Disposal (DGS&D) or National Small Industries Corporation (NSIC).

The following sub-sections provide a description of various compliances for MSMEs.



## 4.6 CONDITIONS FOR MARKET ECONOMY TO BOOST ENTREPRENEURSHIP

The entrepreneur is a creative person with a zeal to do things differently, is motivated to maximize profit and achieve one's identified goals in this economy. The whole economy includes visible and invisible economic activities.

### 4.6.1 Economic Activity Visible in the Whole Economy

The visible economic activity includes formal sector and informal sector:

#### Formal Sector

- **Big Business**: Firms employing 100 or more people and owned by a corporation whose head office is usually located in a major city.
- **Medium and Small Business**: Firms employing between 10 and 100 people which are run as either branch plants or franchises. In other words, much control lies outside the community.
- **Crown Corporations**: As with big business, control of policy, programmes and employment lies outside the community.

#### Informal Sector

- **Small Business**: Firms that are locally-owned and operated, often as a family business, and nowadays home-based businesses. The number of employees seldom exceeds 20, but there may be exceptions.
- **Public Sector**: Mainly the functions of local Governments or Band Councils which respond to local needs and are under local control.
- **Co-operatives and Collectives**: Both are owned by their members who usually reside in the community and share common values. They may also be operated by the members. Co-ops are governed by provincial legislation. There are producer co-ops, worker co-ops and consumer co-ops. Credit unions are also co-ops.
- **Community-owned Enterprises**: Organizations that are owned by the community (sometimes by the municipal Government or Band Council) and operated by a community board rather than being privately-owned. They use regular business practices to provide goods and services, including social services, to the community.
- **Voluntary Services**: Organizations founded and run by volunteers to meet specific community needs such as services to the elderly and disabled, support groups, assistance to immigrants, youth and housing for the poor. A service club, church, school or union may provide the impetus.

### 4.6.2 Invisible Types of Economic Activity in the Whole Economy

In addition to the *visible types of economic activity* in the whole economy there are three types of economic activity that are generally invisible.

- **Barter and Skills Exchanges**: May be organized or carried out informally to allow participants to exchange goods or skills on a cash-less basis. Organized activities include using a form of local currency to equalize transactions.



- **Neighbourly Mutual Aid:** The exchanges made between neighbours, friends and relatives, usually on an unpaid basis, for child care, property maintenance and repairs, and community projects. Sometimes these are facilitated by community centres, churches, service clubs and cultural groups.
- **Household Activities:** Those unpaid activities carried on by and for members of the household, including the care of family members who live elsewhere. It may be the single biggest source of goods (e.g., food) and services (e.g., child care) in the whole economy.

These three types of economic activity are usually "invisible" in the community because they are not often signified by Government statistics as "economic activity".

Given the different types of activities involved in an economy, one finds entrepreneurship in less developed nations, like in Asia & Africa, is inhibited by the social system which denies opportunities for creative faculties. The force of custom, the rigidity of status and the distrust of new ideas and of the exercise of intellectual curiosity, combine to create an atmosphere inimical to experiment and innovation.

In Less Developed Countries, traditional attitudes discourage the full utilization of human resources. People are ranked not according to their capacity to do particular jobs but by gender, caste, clan and kinship. Individualistic spirit is absent. People prefer traditional trades and professions rather than venture in new trades. According to **Hagen**, villagers and elite alike revere the same economic roles and spin trade and business, and there is a feeling of repugnance towards work that soils one's hands in such economies. Thus, the value system minimizes the importance of economic incentives, material rewards, independence and rational calculation. It hinders the development and acceptance of new ideas and objectives. In short, the socio-economic and cultural value system within many developing countries is not favourable to entrepreneurial growth.

However, with the advent of liberalization of market in the mixed economies, like in India the entrepreneurial scenario has improved.

The conditions of market economy should be favourable to boost entrepreneurship. Besides the economic factors, the non-economic factors play a crucial role in conditioning the market forces for entrepreneurship.

#### 4.6.3 Economic Factors

From the economic viewpoint, it can be said that the same factors which promote economic development account for the emergence of entrepreneurship also. Some of these factors are discussed below:

##### Capital

Capital is one of the most important prerequisites to establish an enterprise. Availability of capital facilitates the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital is, therefore, regarded as lubricant to the process of production. Our accumulated experience suggests that with an increase in capital investment, capital-output ratio also tends to increase. This results in increase in profit which ultimately goes to capital formation. This suggests that as capital supply increases, entrepreneurship also increases. France and Russia exemplify how the lack of capital for industrial pursuits impeded entrepreneurship and an adequate supply of capital promoted it.

##### Growth of Population

Rapid growth of population is considered to be an important determinant of growth.



Since economic growth is measured in terms of an increase in per capita income, a part of the increase in national income is utilized to maintain the additional population. In other words, in terms of per capita income, on account of a rise in population, the country experiences a very thin spread of the benefits of growth. This highlights the need for a large and active programme of family limitation so that the benefits of the massive developmental effort are not dissipated. Economic development and population growth are inter-connected. Whereas population hinders economic development, the latter, as it gathers momentum, leads to the creation of more appropriate conditions to control population.

### **Building Human Capital**

An important determinant of economic growth is the building up of human capital by focusing on education and health and thereby increasing the productivity of the economy. The experience of highly performing East Asian economies shows that they could force a lead over other developing economies by making investment in human capital formation.

### **Labour**

The quality rather than quantity of labour is another factor which influences the emergence of entrepreneurship. It is noticed that cheap labour is often less mobile or even immobile. The potential advantage of low-cost labour are negated by the deleterious effects of labour immobility. Adam Smith also considered division of labour as an important element in economic development. According to him, division of labour which itself depends upon the size of the market leads to improvement in the productive capacities of labour due to increase in the dexterity of labour. Notwithstanding, it appears that the labour problem clearly does not prevent entrepreneurship from emerging. For example, the problem of low-cost immobile labour can be circumvented by utilizing labour-intensive methods like in Japan, for example. The disadvantages of high cost labour can be modified by introduction of labour-saving innovation as it was done in the USA. Thus, it appears that labour problems can be solved more easily than capital can be created.

### **Raw Materials**

The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and, therefore, its influence in the emergence of entrepreneurship. In the absence of raw materials, neither can any enterprise be established nor an entrepreneur emerged. Of course, in some cases, technological innovations can compensate for raw material inadequacies. The Japanese case, for example, witnesses that lack of raw material clearly does not prevent entrepreneurship from emerging but influenced the direction in which entrepreneurship took place. In fact, the supply of raw materials is not influenced by itself but becomes influential depending upon other opportunity conditions. The more favourable these conditions are, the more likely is the raw material to have its influence on entrepreneurial emergence.

### **Market**

The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function, if the proof of pudding lies in eating, the proof of all production lies in consumption, i.e., marketing and selling. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market. However, the disadvantage of a competitive market can be cancelled, to some extent, by say, improvement in transportation system facilitating the movement of raw material and finished goods and increasing the demand for producer goods.



**Landes**, holds the opinion that improvement in transportation are more beneficial to heavy industry than to light industry because of the effects on the movement of raw materials. **Wilken**, claims that instances of sudden rather than gradual improvement in market potential provide the clearest evidence of the influence of this factor. He refers to Germany and Japan as the prime examples where rapid improvement in market was followed by rapid entrepreneurial appearance. Thus, it appears that whether or not the market is expanding and the rate at which it is expanding are the most significant characteristics of the market for entrepreneurial emergence.

#### 4.6.4 Non-Economic Factors

The non-economic factors provide the requisite social climate in which the seed of economic development can germinate to full bloom. Therefore, it would be unwise to under-rate the importance of the sociological and psychological factors. Professor Cairn cross emphasizing the non-economic factors, writes, "development is not governed in any country by economic forces alone and the more backward the country, the more this is true. The key to development lies in men's minds, in the institutions in which their thinking finds expression and in the play of opportunity on ideas and institution." As underdeveloped economy is not only required to raise the level of investment in order to initiate growth, but is also required to gradually transform the social, religious and political institutions which act as obstacles to economic progress. Consequently, economic development cannot take place unless men are educated. Hence the **social factors** like legitimacy of entrepreneurship, social mobility, marginality, and security play a supporting role along with the **psychological factors** like need for achievement and withdrawal of status respect.

#### 4.6.5 Business Environment

Beside the economic and non-economic factors, the general environment where the entrepreneur operates has to be taken into consideration in a market economy. Various factors in the environment are directly related in fostering entrepreneurship. These include political, legal, economic, technological, cultural, and international forces.

##### Political Environment

Political environment is concerned with general stability of the country in which an enterprise is expected to perform and the political philosophy of party in power towards business. Political forces define the business climate by the constraints they impose and by the activities they permit. They also affect the way business enterprises protect their inventions and patents, etc. If political parties believe in well-being of the country and society then there will be no problem in maintaining political stability. Political stability ensures effective planning and implementation of economic programmes. Political philosophy of party in power, general political conditions/atmosphere and quality of leadership are the important factors which create conducive political environment for entrepreneurship.

##### Legal Environment

In practice, Government regulates all important components of the economy, Government generally try to control the entry, working, selection of resources and their uses in business situation. On these lines, Government prepares legal environment of the business. However, it is duty of the Government to develop regulatory framework in such a way which creates conducive environment necessary for business activities. Conducive environment encourages entrepreneurial activities in satisfactory way. Important legal environmental factors which play prominent role in developing entrepreneurship are: determining area, regulation of entrepreneurial functions, regulating results of entrepreneurial activities and regulating relationship among various segments of economy.



Economic environment is of multidimensional nature. It includes all those actions which make the economic activities possible in the country. The important factors conducive for entrepreneurship in economic environment are: availability of economic resources, economic conditions, policies, trade and tariff policy, labour arrangement, incentives and subsidies.

### **Technological Environment**

Technological forces constitute the technological environment. These forces include the expertise, procedures, and systems used by enterprises to make profound changes in the transformation process and in goods and services. Based on scientific research and industrial breakthrough, technological forces define new industries and provide enterprises with tools and opportunities to compete more effectively in a market economy. Technological factors like better Utilization of Productive Resources, increasing the competition, risk efficiency, improvement in productivity and improvement in profitability help in enhancing the entrepreneurial growth.

### **Social Environment**

Business is an integral part of the social organization having responsibility to wider circle of individuals like entrepreneurs and workers and consumers etc., who participates in the economic activities. Entrepreneurship in a society is determined by various factors which constitute the social environment like, social structure, social values and conventions, consumer's opinion and labour motive.

### **Cultural Environment**

It has been perceived that the entrepreneurship development is also based on cultural settings. It is believed that various occupations are restricted to particular caste, religion or sex. All these result in considerable immobility and inflexibility in the market economy. In this context, the cultural structure and cultural aspirations of the cultural environment play an important role in promoting entrepreneurship.

### **International Environment**

International business environment deals with the forces which originate outside the home country in which an enterprise is expected to work, since liberalization, globalization have been identified as important developments affecting the working of business enterprises. In the international arena entrepreneurs are being challenged by an increasing number of global competition in the consumer sector. The factors fostering entrepreneurship in the global front include, development of multinational corporation; globalization, GATT/WTO, international capital market, etc.

## **4.6.6 Government Actions**

The Government, by its actions or failure to act, also does influence both the economic and non-economic factors for entrepreneurship. Any interested Government in economic development can help, through its clearly expressed industrial policy, promote entrepreneurship in one way or the other. By creating basic facilities, utilities and services and by providing incentives and concessions, the Government can provide the prospective entrepreneurs a facilitative socio-economic setting. Such conducive setting minimizes the risks which the entrepreneur has to encounter. Thus, the supportive actions of the Government appear as most conducive to the entrepreneurial growth.

So besides setting up any small or medium enterprise it also becomes important for the entrepreneurs to identify the invisible types of economic activity in their society.



This will further help potential entrepreneurs to generate new ideas to start small enterprises.

#### **4.6.7 Identifying Invisible Types of Economic Activity in Community**

- Identify neighbourhoods or groupings of neighbours in your areas where mutual aid is a strong custom.
  - What kind of help do people usually exchange?
  - How systematic or regular is it?
  - Is it often seasonal?
  - Has a method of bartering arisen or do people do it casually?
- Every home is a centre for work, but what are the major patterns of the household division of labour in your area?
  - dual wage earners sharing housework;
  - one male wage earner and homemaker;
  - female outside wage earner/homemaker with male labourer in family enterprise;
  - single parent families;
  - seasonal employment that takes the wage earner away;
  - extended families;
  - home business enterprises (farm and others); or, seasonal employment?



## Environmental problems!

The effect that humanity is having on the environment is becoming ever more important. Through our actions, we are destroying habitats and endangering the lives of future generations.

At this point, there is no denying the fact that our environment is changing. Hundreds of studies have been conducted to demonstrate that this is happening, and it is having an effect on life around us.

However, many may be unaware of the specific issues that have led to these changes. Terms like "climate change" and "genetic modification" are commonplace, but without extra information, it is difficult to see why they actually matter.

To complicate the matter, many of these issues are linked to one another. The key is that they are all important challenges that need to be confronted.

Here, we examine the biggest environmental problems facing our planet today and why they should matter to you.

### 1. Climate change:

Statistics created by NASA state that global temperatures have risen by 1.7 degrees Fahrenheit since 1880, which is directly linked to a reduction in Arctic ice of 13.3% per decade.

The effects of climate change are widespread, as it will cause issues with deforestation,



water supplies, oceans and ecosystems. Each of these have widespread implications of their own, marking climate change as the major environmental issue the planet faces today.

## 2. Polar Ice Caps:

The issue of the melting of polar ice caps is a contentious one. While NASA studies have shown that the amount of ice in Antarctica is actually increasing, these rises only amount to a third of what is being lost in the Arctic.

There is strong evidence to suggest that sea levels are rising, with the Arctic ice caps melting being a major contributor. Over time, this could lead to extensive flooding, contamination of drinking water and major changes in ecosystems.

## 3. Transportation:

An ever-growing population needs transportation, much of which is fueled by the natural resources that emit greenhouse gases, such as petroleum. In 2014, transportation accounted for 26% of all greenhouse gas emissions.

Transportation also contributes to a range of other environmental issues, such as the destruction of natural habitats and increase in air pollution.



#### 4. Natural Resource Use:

Recent studies have shown that humanity uses so many natural resources that we would need almost 1.5 Earths to cover our needs. This is only set to increase as industrialization continues in nations like China and India.

Increased resource use is linked to a number of other environmental issues, such as air pollution and population growth. Over time, the depletion of these resources will lead to an energy crisis, plus the chemicals emitted by many natural resources are strong contributors to climate change.

#### 5. Lowered Biodiversity:

Continued human activities and expansion has led to lowered biodiversity. A lack of biodiversity means that future generations will have to deal with increasing vulnerability of plants to pests, and fewer sources of fresh water.

Some studies have found that lowered biodiversity has as pronounced an impact as climate change and pollution on ecosystems, particularly in areas with higher amounts of species extinction.

#### 6. Air Pollution:

Air pollution is becoming an increasingly dangerous problem, particularly in heavily



populated cities. The WHO has found that 80% of people living in urban areas are exposed to air quality levels deemed unfit by the organization.

It is also directly linked to other environmental issues, such as acid rain and eutrophication. Animals and humans are also at risk of developing a number of health problems due to air pollution.

### 7. Overfishing

It is estimated that 63% of global fish stocks are now considered overfished. This has led to many fishing fleets heading to new waters, which will only serve to deplete fish stocks further.

Overfishing leads to a misbalance of ocean life, severely affecting natural ecosystems in the process. Furthermore, it also has negative effects on coastal communities that rely on fishing to support their economies.

### 8. Urban sprawl

The continued expansion of urban areas into traditionally rural regions is not without its problems. Urban sprawl has been linked to environmental issues like air and water pollution, increases in addition to the creation of heat islands. Satellite images produced by NASA have also shown that urban sprawl continues to fragment forest, which often leads to larger deforestation.



## The Environment (Protection) Act, 1986

This is an Act to protect and improve the environment on all matters connected with it. Our late Prime Minister, Rajiv Gandhi framed this legislation based on the proposals of Stockholm Conference in June, 1972. This legislation came into force in November, 1986. It prevents hazards to human beings, other living creatures, plants and property.

The Environment (Protection) Act, (EPA) 1986 was enacted by the Parliament in the 37th year of the Republic of India. This Act has the following parts:

Chapter I - Preliminary

Chapter II - General Powers of the Central Government

Chapter III - Prevention, Control and Abatement of Environmental Pollution

Chapter IV - Miscellaneous matters

### Salient features of Environment Protection Act:

1. The Environment Protection Act (EPA) is the law of Indian Government to protect and improve the environment.
2. It stresses the importance of environment as it includes water, air, land and their interrelationships with human beings, plants, microorganisms and other living creatures and the property.



3. This Act was implemented on 19th Nov, 1986, the birth anniversary of our late Prime Minister Indira Gandhi to honor her pioneering activity on environmental protection issues.

4. Our former Prime Minister Rajiv Gandhi framed this legislation.

5. The main aim of this Act is to prevent hazards to environment, human beings, other living creatures, plants and property.

6. The EPA provides powers to the Central Government to control environmental pollution.

7. The offenders are punishable with a maximum of 5 years imprisonment with a fine of Rs 5000.

### Aims of EPA :

1. Protection and improvement of environment (water, air and land).
2. Prevention of hazards to all living creatures (human, plants and animals).
3. Maintenance of a harmonious relationship between human beings and their environment.

### Powers of the Central Govt. under EPA :

1. Planning and execution of programs to prevent, control and abate environmental pollution.
2. Specifying standards for the discharge of environmental pollutants to specify standards for the environmental quality.
3. Zonation of areas for industries and residence.



4. Laying down standards for handling hazardous substances to prevent accidents affecting the environments.
5. Examination of manufacturing processes and materials which cause environmental pollution.
6. Inspection of industries, manufacturing processes, machinery and giving directions to control environmental pollution.
7. Establishment and recognition of environmental laboratories and institutes.
8. Carrying out investigation and research in environmental pollution.
9. Coordination of State Government officers related to environment.
10. The offenders are punished with 3 months of imprisonment with a fine of ₹5000.



# Industrial Policy

The role played by the government in the process of developing industries are defined as a set of statements known as industrial policy. The policy also defines the role played by different large and small scale industries and the level of public and private intervention.

The set of objectives for industrial development along with the steps for achieving these objectives is Industrial policy. Therefore, industrial policy mainly defines the roles and activities of the different public and private sectors.

## Objectives of Industrial Policy

Industrial policy is meant for the growth and development of the industries and the process of achieving these, all the other activities are defined by the industrial policy. The growth pattern of the industrial activity is also monitored by industrial policy by framing certain rules and procedures. Modifications and changes can be made to the policy as per the changes in the environment and situations.

The important objectives of the Industrial policy are as follows:

### 1) Rapid industrial development

One of the main objectives of the industrial policy is to increase the industrial development and on these lines, the industrial policy of the Indian government concentrates on increasing the industrial development.



Different means are being identified for making the investment environment favorable for the private sector and resources are being mobilized to make investments in the public sector. This leads to rapid increase in the development of the industries.

## ii) Balanced industrial structure

The present industrial structure seems to be very downgraded and in line of this, the industrial policy is designed to rectify and modify the structure. For instance, before independence India was rich in consumer product industries but there was no development observed in capital goods industries and heavy industries.

In this context, the industrial policy was drafted in such a manner that it maintains balance in the industrial structure and this is done by concentrating more of heavy industries and capital goods sector. Several methods are being identified by the industrial policy for maintaining the balance in the industrial structure.

## iii) Prevention of Concentration of Economic power:

For different public and private sectors, different rules, regulation, activities and responsibilities are being drafted by the industrial policy. By this, industrial policy tries to eradicate the symptoms of dominance of a particular sector and thus prevent the focus of the economic power in the hands of a few.



## iv) Balanced Regional growth:

The regional differences if any in the industrial development, are corrected by the industrial policy. For example, in India, some of the regions are industrially developed like Gujarat and Maharashtra, while some of the regions are industrially backward like Bihar and Orissa. In these situations, industrial policy comes into picture and tries to maintain balance in all the regions with respect to industrial development by amending some programs and policies which attract starting industries in the weak areas.

After independence, in 1948, the first Industrial policy was formed by the Indian government and then modifications were made in the year 1956. Till 1991, the policy was mostly dominated by the public sector enterprises. Later in 1991, many changes and amendments were being made by expanding the outline of the policy to much broader.

## Industrial Policy Resolution, 1956:

In April 1956, the Indian Parliament adopted Industrial Policy Resolution of 1956 (IPR 1956). It is marked as the first comprehensive document statement on industrial development of India. It systematizes 3 different groups of clearly defined industries.



The policy of 1956 regulated to design the basic economic policy for a very long time. The Five-Year plans of India confirmed this fact. With respect to this resolution, the establishment of a socialistic pattern of society was seen through the objective of the social and economic policy in India. It conferred more powers to the governmental authorities. Companies were grouped into categories. These categories were -

(i) **Schedule A** - Those companies which were considered as an exclusive responsibility of the state or the society.

(ii) **Schedule B** - Companies which were marked as progressively state-owned and in which the state would basically establish new companies, but in which private companies would be anticipated only to supplement the effort of the state.

(iii) **Schedule C** - The left companies and their future development would, in general, be neglected and would be entirely dependent to the initiative and enterprise of the private sector.

Even though there was a category of companies left to the private sector that is those companies that are above Schedule C. The sector was monitored by the state by a system of licenses. So to set up a new company or to widen



production, obtaining a license from the government was a pre-requisite to be fulfilled. Launching of new companies in economically backward areas was incentivized through easy licensing and subsidization of important inputs like electricity and water. This step was taken to encounter regional differences that existed in the country. In fact, the license to boost the production was issued by convincing the government that the economy required more of the products and services. Some other salient behavior of the IIR 1956 was fair and non-biased treatment for the private sector, motivating the village and small-scale companies, eradicating regional differences and the requirement for the provision of amenities for labor and attitude to foreign capital. This Industrial Policy of 1956 is also referred to as the Economic Constitution of the country.

### Policy measures

Some of the essential policy measures were declared and procedural simplifications were undertaken to opt for the above stated objectives. Following are some of the policy measures:



## (i) Liberalization of Industrial Licensing Policy:

A list of goods demanding compulsory licensing is reviewed on an ongoing regular basis. Currently, only 6 industries are monitored under compulsory licensing, mainly on account of environmental, safety and strategic considerations that need to be taken care of. In the same way, there are only 3 industries reserved specifically for the public sector. The lists of goods under compulsory licensing and industries reserved for the public sector are included in Appendix II and IV respectively.

## (ii) Introduction of Industrial Entrepreneurs' Memorandum (IEM):

Companies which don't require compulsory licensing are expected to file an Industrial Entrepreneurs' Memorandum (IEM) to the Secretariat for Industrial Assistance (SIA). Industrial approval is not needed for these types of exempted industries. Amendments are also permitted to IEM proposals filed after 1.7.1998.

## (iii) Liberalization of the Locational Policy:

A crucially reformed locational policy in tune with the liberalized licensing policy is in



place. Approval from industries are not required from the Government for locations not within the range of 25 Kms of the periphery of cities having a population of more than one million apart for those industries, where industrial licensing is compulsory. Non-polluting enterprises like electronics, computer software and printing can be located within 25 Kms of the periphery of cities with more than one million population. Other industries are allowed in such locations only if they are located in an industrial area so designated prior to 25.7.1991. Zoning and fallow land use regulations as well as environmental legislations.

### 1. v) Policy for Small Scale Industries.

Reservation of goods that are manufactured exclusively for small scale industries ensures effective measure for protecting this sector. Since 24th December 1999, entrepreneurial undertakings with a maximum investment up to rupees one crore are within the small scale and ancillary sector.

### vi) Non-Resident Indians Scheme.

The general policy and provisions for Foreign Direct Investment (FDI) as available to foreign investors or company with are completely



applicable for NRIs as well. With addition to this, the government has broadened some concessions mostly for NRIs and overseas corporate bodies having more than 60% stake by the NRIs. These include investment by NRI/OCB in the real estate and housing sectors, domestic airlines sector up to 100%. They are also permitted to invest up to 100% equity on non-repatriation basis in all activities except for a small negative list.

#### vi) EHTP vs STP Scheme:

For constructing strong electronics company along with a view to modify export, two schemes viz. Electronic Hardware Technology Park (EHTP) and Software Technology Park (STP) are in function. Under EHTP/STP Scheme, the inputs are permitted to be procured free of duties.

#### vii) Policy for Foreign Direct Investment:

Promotion of FDI forms a vital part of India's economic policies. The role of FDI in boosting economic growth is by way of infusion of capital, technology and modern management activities. The Department has put in place a liberal and transparent foreign investment regime where all the practices are opened to foreign investment on automatic route without any limit on the extent of foreign ownership.



## Business incubation

- Business incubation is a unique and highly flexible combination of business development processes, infrastructure and people designed to nurture new and small businesses by helping them to survive and grow through the difficult and vulnerable early stages of development.
- Business incubation provides a nurturing, instructive and supportive environment for entrepreneurs during the critical stages of starting up a new business.
- The goal of incubators is to increase the chance that a start-up will succeed and shorten the time and reduce the cost of establishing and growing its business.

### Who is a business incubator?

A business incubator in business speak is a company that helps new and start-up companies to develop by providing services such as management training or office space.

### Services provided by Incubator:

- Shared premises
- Business Advice
- Business services
- Networking
- Mentoring
- A Full Time Manager



## Incubatee Needs:

The incubation period for an individual business is normally 1-3 years. The factors crucial to an incubator's success include:

- A solid market
- A sound financial base
- Strong community support
- A policy support perspective to attract government linkage

## Objectives

To provide focused support to entrepreneurs through a supportive environment that helps them

- Establish their business ideas & develop their concepts into market ready products,
- supports the acquisition of business knowledge
- facilitates the raising of necessary finance
- introduces the entrepreneurs to business networks

all of which should substantially reduce the level of failure.

- Allow new entrepreneurs to start their business by reducing the related costs and

risk.

- Increase their chances of survival and



success by building capacity and networks  
→ promotion of new Business sector, especially  
in innovation and ICT  
→ part of major Industrial Restructuring  
→ Introduction of Entrepreneurial culture to  
socially-excluded groups

## Benefits:

### (1) Advisory services:

Incubator staff serve as advisors to all client companies holding regular as well as informal meetings with each client to address strategic and tactical needs.

### (2) Finance & Accounting:

Assistance with budgeting, tax and reporting issues can be provided by appropriate incubator organizations.

### (3) Intellectual Property:

Incubator management, the Mentoring Team and other business service providers will review intellectual property strategy.

### (4) Legal Assistance:

The incubator maintains relationships with a number of law firms that provide some level of pro bono assistance and/or reduced rates for incubator clients.



## (5) Office operations

- Individual services: Business address, mail service, Internet connection, and conference/meeting rooms
- Shared services: Shared office equipment (fax, laser printer, copier) Audio-visual equipment, other miscellaneous equipment.

## (6) Public Relations and Marketing

Incubator Management, the Mentoring Team and other business service providers will review strategies.

## (7) Sales Assistance

Incubator management and advisers will assist clients in developing sales strategies and understanding the sales process. If necessary, referrals will be made to professional service providers who can further assist in developing and implementing effective sales strategies.



## Top 10 Incubators in India

1. Innovation and Entrepreneurship (SINE), IIT Mumbai
2. Technology Business Incubator, IIT Delhi
3. Technopark Technology Business Incubator (T-TBI), Kerala
4. Startup Village, Kerala
5. Indian Angel Network (IAN)
6. Technopark, TBI
7. Center for Innovation, Incubation and Entrepreneurship (CIE) IIM Ahmedabad
8. NSRCEL, IIM Bangalore
9. GSF Accelerator
10. Angel Prime

## Top 10 Incubation Procedure

1. Eligibility
2. Admission Process
3. Intellectual Property
4. Seed loan
5. Infrastructure
6. Common infrastructure
7. Other services
8. Periodic assessment
9. Information Submission



10. Consideration

11. Tenure in BI

12. Exit

13. Conflicts of interests and confidentiality of information

14. Disclaimer

15. Agreements

## 1. Eligibility :

- Members, alumni and R4D partners
- Partner universities
- Govt. agencies associated with research and innovation
- Proposals with social and strategic impact
- Potential for large resource generation, impact value and visibility
- To be registered in Companies Act - 2013.

## 2. Admission process :

- PAQ (Pre Application Questionnaire)
- Business plan
- Details of IP/ Technology
- Screening and Presentation in front of experts
- Decision based on technical, business and financial viability



### 3. Intellectual Property:

- Any grants from public or private source has been used previously.
- ~~Application~~ Applicant's right in IP ownership, w.r.t. whether his expertise has been used in product development.
- Statement from owners/creators that they are the "owners/creators" of IP.

### 4. Seed Loan:

- Based on fund availability
- Only for registered companies
- Based on eligibility criteria
- Disbursements based on milestones
- Preference to companies with strong commitment and contribution from promoters
- Not entitled to give any reason for rejection

### 5. BI Infrastructure:

The infrastructural facilities offered to the incubatee company on an individual basis along with a set of common infrastructure are:

- Office space
- Internet connection
- Fax Machine
- Photocopier



- Scanner
- File server
- Teleconferencing facilities
- Conference room for projection
- Pantry facilities, etc.

## 6. Infrastructure of host/partner institution:

- Access to departmental laboratories and other resources
- Access to institutional resources

## 7. Other services:

Apart from the physical infrastructure, BIP intends to create other supports and services which would include:

- Pool of mentors, experts in technology, legal, financial and related matters
- Organizing events
- Meetings with the visitors
- Pool of information and knowledge
- Management education and training programs

## 8. Periodic Assessment:

→ The performance of incubate company companies are evaluated periodically. The companies will submit the information on a quarterly basis in a prescribed format.



→ The companies will also be subjected to an annual assessment by a committee comprising of external reports.

→ The companies have to submit their annual reports, each year within a period of 2 months from the date of annual closing accounts

### 9. Information Submission:

The incubatee companies has to submit all material changes in or developments taking place in their companies from time to time.

Also the company has to submit all the instructions information regarding the changes.

### 10. Tenure of BI:

Companies will be permitted to stay in BI for a period of 36 months. A nominal monthly charge will be levied to the company for 36 months. Sometimes, the companies can extend their stay for a maximum of another 24 months.

### 11. Consideration:

In lieu of support and services to be provided by incubator, the incubatee companies will be subject to consideration on following accounts to the extent applicable:

→ Monthly rent/facilities charge at discounted



rate for physical infrastructure to be paid to SINE.

→ Considerations in the form of equity and/or revenue sharing of the respective companies for transfer / licensing of / permission to use in favor of the incubatee companies and the facilities provided by BI / SINE. The percentage of equity and revenue sharing will be decided by SINE and is to be given in favor of SINE. SINE may ask for additional equity from the companies to whom SINE

has supplied specialized shipments.  
→ Considerations per IRCC policy for usage of departmental laboratory facilities to be given to IITB.

## 12. Exit (Graduation)

→ Incubatee companies will leave the incubator under the following circumstances:

→ Completion of stay of for eighteen months, unless the stay is extended by SINE.

→ Irresolvable disputes between promoters / founders. SINE will decide the position for point when disputes are deemed to be irresolvable.



→ When the number of employees of the company exceeds 20.

→ Underperformance or unviability of the business proposition: criteria for the same will be decided and applied by SINE on the case to case basis.

→ Raising substantial investments from angel investor / Venture capital fund / any other investor - Rs. 2 crores or more

### 13. Conflicts of interest and confidentiality of information:

→ When a person plays two separate roles in two different positions and he/she uses one position for his/her personal benefit in the other role, a situation leading to conflicts of interest arises. SINE endeavours to draw a line between appropriate and inappropriate interaction among its board members, employees, mentors, consultants, affiliates, incubated companies, their employees, persons connected to them or their promoters, employees and staff, various service providers and suppliers.



#### 14. Disclaimer :

By agreeing to provide various supports and services, SINE does not undertake responsibility for :

- Ensuring success of an incubatee company, its products / process / services or marketability.
- Ensuring quality of support and services provided by SINE and BI to the complete satisfaction of the incubatee companies or their promoters / funders.
- Ensuring quality of services of the consultants engaged by the incubatee companies through BI / SINE / ITTB network. Incubatee companies have to apply their judgments before getting in to a relationship with them.

#### 15. Agreements :

The following agreements are required to be signed by the companies to the extent applicable :

- Service agreement ;
- Between SINE & an incubatee company for admission of the company in BI.



## → Equity agreement:

Between SINE, an incubatee company for admission of the company in BI and its promoters for SINE's equity holding in the incubatee company

## → Transfer of technology Agreement/Technology License Agreement:

Between IITB (IRCC) & an incubatee company for transfer of technology from IITB in favor of incubatee companies.

## → Loan Agreement:

Between SINE & incubatee company on sanction of seed loan to the incubatee company in BI.

## → Usage of Departmental Lab:

Between IITB (IRCC) and an incubatee company for usage of departmental resources of IITB by the incubatee company as per the prevailing policy of IRCC & IITB.



# Converting Business Opportunity into Reality:

All well-established businesses started with a great idea. After all, everyone has problems that need solving either by a product or some kind of service and it is entrepreneurial people like you that see the opportunity to solve these problems.

Unfortunately, a lot of people have genius ideas that never see the light of day, as the process of turning such concepts into reality is definitely a huge challenge.

Despite these challenges inherent in turning a business idea into reality, however, a well thought-out business idea can become a full-time career. There are a lot of success stories, in fact, of very young entrepreneurs making millions of ~~to~~ dollars on business ideas conceptualized in their parents' basement.

Turning your business idea into reality is difficult, yes, ~~but~~ but is ~~doable~~ doable. Take a look at a few steps discussed below to get your entrepreneurial journey going.



## Step - 1: Draft a plan to turn your business

### idea into reality.

This is the most important part of turning your business idea into reality: making a business plan.

It forms the foundation of every business, as it essentially tells you the objectives of your business, what your vision is, what strategies you will take and most specifically, how you are going to get your business off the ground.

With a good business plan, you will have to conduct market researches either online or offline. You will have to define and conduct research on who your target market is, and at the same time, look at your competitor and how you can make your products or services different.

Indeed, with a good business plan,

you will ensure that you don't leave any stone unturned. The objectives you set will assure you of the viability of your business idea. Without a business plan, even the best ideas don't work.



## Step 2: Consider your financing.

while having your office in a guest bedroom in your house or in your basement may be a bit inconvenient, it may be a better alternative early on, as you save a lot of on maintenance expenses that you can pour into your business instead.

Of course, you can always get a loan from the bank, but in times of economic downturn, their interest rates may not be very friendly to upcoming small businesses. You can also get funded by individual investors, but make sure that theirs and your visions align.

At the end of the day, many small businesses start with minimal to no capital. Once you have a running, functioning business, it will be considerably easier to access finance to allow for growth.

Don't be tempted to get a loan just to finance an expensive office in the best area of town and overpriced equipment that you don't need or you may be forfeiting your future as an entrepreneur.



### Step 3: Register your business

In many countries, registering your business is easy and doesn't cost a lot of money, so you should do that as soon as possible. This will give you the freedom to start selling without having to worry about the technical aspects of it, like getting the bank to approve your business bank account.

Registering early also prevents somebody else from taking your business name first before you get around to it.

The same goes for domain names; once you have a good business idea, register the domain name immediately as the cost is almost negligible but not having it will have a major impact on your marketing later on.

### Step 4: Hire technical staff

Take a look at your strengths and weaknesses and how they affect your business. Accept the fact that you can't be good at everything and that you can't be good at everything and that you are better off spending your time



building your business than getting mired in the nitty-gritty of running a company.

For example, keeping track of your finances for tax and accounting purposes take a lot of time, and so does organizing your paperwork. You're better off hiring someone to take care of these things so you can focus on more strategic tasks.

If you want to do something yourself personally, though, consider getting extra training to update your skills. You can get free courses online ~~to~~ in areas like sales and marketing, as well as general business management.

This is especially important if your core skills are technical. No matter how good your product is, you'll need to be able to sell it and manage the cash flow as well, or understand how it's done, so you can be on top of all the crucial tasks your company needs done.

Step 5: Advertise your business prior to launch

Don't advertise only once you have launched. Even before, it is important to let people know about your product. Make sure to leverage the power of social media and advertise your company to



build up excitement over your launch. Continue your marketing efforts afterwards; your business idea is not unique, and you have a lot of competitors.

Even if you are not a salesperson, or you have someone assigned to sales specifically, make it a point to put your business out without being obnoxious about it. Ask your family and friends as well to pass on the word in their own circles and neighborhoods.

The best way to advertise, of course, is through your website. It has a potential reach of millions of people worldwide and you can't afford not to have that reach.

You don't even need to worry about websites costing thousands of dollars to make. There are website builders like Bookmark, that uses artificial intelligence to design a professional looking website in your niche within just a few minutes.