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Entrepreneurship Development

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Introduction

Entrepreneurship refers to all those activities which are to be carried out by a person to establish and to run the business enterprises in accordance with the changing social, political and economic environments. Entrepreneurship includes activities relating to the anticipation of the consumers likes and dislikes, feelings and behaviors, tastes and fashions and the introduction of business ventures to meet out all these expectations of the consumers.

The two major factors determine the entrepreneurship developments are:

1. Risk taking ability of entrepreneurs and
2. Power of achievement of entrepreneurs

The other factors are:

1. The performance of speculative functions to gain edge over others.
2. Considering new factors of production, time, technology and quality for success.
3. Availing new sources of capital
4. Performing functions of employer, master, merchant and undertaker.
5. Supply goods and services which are hitherto unknown to consumers.
6. Find a new market which is hitherto unexploited.
7. Seizing new opportunities for exploitation.
8. Developing the less developed countries and developing nations
9. Decision making under uncertain situations.

Definition of Entrepreneurship

In a changing environment, the entrepreneurship development activities are getting multiplied. Since the dawn of industrial revolution to till date, we encountered certain drastic changes in the economic activities. Thus, it is not an easy task to give a comprehensive definition for the word 'entrepreneurship'. Despite that, relevant definitions of entrepreneurship are listed here.

'Entrepreneurship is the ability and readiness to develop, organize and run a business enterprise, along with any of its uncertainties in order to make a profit. The most prominent example of entrepreneurship is the starting of new businesses'.

'Entrepreneurship refers to the concept of developing and managing a business venture in order to gain profit by taking several risks in the corporate world. Simply put, entrepreneurship is the willingness to start a new business'.

Need and Scope of Entrepreneurship Development

The word 'Entrepreneurship' is very often confused with the word Entrepreneur'. They look alike but carry different meanings.

- Entrepreneurship is nothing but all those activities which are to be undertaken by an entrepreneur.
- The prevailing socio, political and economic activities act as a propelling force for the aspiring personalities to become entrepreneurs.
- Entrepreneurship development is the outcome of the entrepreneurs. In other words, the entrepreneurs give birth to entrepreneurship.
- Certain activities of the entrepreneurs are due to the existing policies and programmes of the

Central as well as the state governments and not only by the entrepreneurs themselves. Under such circumstances, it is not the entrepreneurs who give birth to entrepreneurship. Instead, it is the existing entrepreneurship development programmes that give birth to entrepreneurs that are taking place in the social and political activities rather than changes taking place in the economic activities.

Scope of Entrepreneurship Development

Entrepreneurship development could be made in all walks of the society and in all fields of activities. The scope of entrepreneurship development encompasses the following:

I. To Identify Entrepreneurial Activities

1. The entrepreneurial activities and opportunities could be identified by the planner of the Government. The Government through various economic policies and programmes like

- Globalization,
- Privatization
- Liberalization, ‘
- Free Export and Import of Goods and Services
- Inviting NRI’s capital introduction of innovation in the stock market activities,

And the establishment of SSI(Small Scale Industries) identifies entrepreneurship opportunities. These programmes give ample opportunities for the entrepreneurship development.

2.To liberalise the existing licensing policies and offer incentives and thereby attract multinational companies of various countries to develop new industries in the backward regions.

3. To encourage the researchers of entrepreneurship development to find new opportunities for the business and industrial development.

4. To identify the existing and the emerging economic, social and political crisis and find out a suitable remedial measure to overcome the crisis.

5. To offer training to the first generation entrepreneurs and encourage them to enter into new business ventures.

6. To find out the entrepreneurial activities of the neighbouring countries and the international financial institutions and other associated activities like bilateral agreements, SAARC countries Agreement, Common Wealth Countries agreements and Non- Aligned Nations agreements and the like.

7. To encourage the institutions engaged in the industrial development to find avenues for entrepreneurship development. The institutions informing entrepreneurial opportunities are: The Government’s sponsored institutes. University Departments and entrepreneurship development institutions.

II. Imparting Training to Develop Entrepreneurial Talents

Entrepreneurs can be made by means of allowing them to undergo rigorous training. The level of entrepreneurship development especially in all underdeveloped countries depends upon the extent with which the aspiring men are given training. Through training, they can be able to improve their power of achievement and power of affiliation. Training of this type shall be given to the young pupil even at the school level. The training enables entrepreneurs:

a. To know as how to search the innovative business ideas.
b. To know the various sources available for new business ideas.
c. How to process and find out the best ideas.
d. To know the various input requirements for the proposed business.
e. To find out the location for the proposed business.
f. To know as how to fulfil the various legal formalities.
g. To know as how best to make use of the existing infrastructural facilities.
h. To know the various sources of finance available for the new business venture.
i. To know as how best to overcome the resistance, and
j. To know as how to assess the market and future trend.

III. To Develop Infrastructural Facilities

Entrepreneurship development could be possible through the setting up of both social and economic infrastructural facilities for the aspiring entrepreneurs. The following infrastructural facilities are worth noting:

1. Impart entrepreneurship education to the pupils at the school level so as to enable them to develop the entrepreneurial talents.

2. Establish a separate Department of Entrepreneurship Development or School of Entrepreneurship Development at the College/ University level and allow the academics to' undertake researches on 'Entrepreneurship Development' and its allied activities.

3. Conduct the 'Entrepreneurship Development Programmer's through the setting up of Entrepreneurship Training Institutions at least at the taluk level in all parts of the country.

4. The State Governments shall give special attention to the entrepreneurship development programme. They can in collaboration with the neighbouring states, chalk out a programme of action for developing entrepreneurial activities in a phased manner.

5. The existing financial institutions especially the commercial banks situated in rural areas shall take utmost care in identifying the aspiring entrepreneurs and offer not only the required financial assistance but also the required managerial techniques so as to enable them to establish new business and withstand in the market.

6. Institutions which are engaged in the development of small industries shall frame long range planning in developing entrepreneurial talents. They should monitor the changing industrial and business scenarios and determine the future course of actions to be taken to improve the entrepreneurship development.

7. The role of R & D institutions is not only to innovate but also to inform the entrepreneurs as how best to make use of the innovation and apply in the manufacturing process. These institutions should act as entrepreneur and all its activities constitute entrepreneurship.

8. Entrepreneurship development depends upon the existence of a stable Government so that industrialists and business magnets planning as how best to help the young entrepreneurs to avail these infrastructure facilities.

Definition of Entrepreneur

An entrepreneur is one of the important segments of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. In fact, he/she is one who has the initiative, skill for innovation and looks for high achievements. He is a catalytic agent of change and works for the welfare of people. The entrepreneur is a critical factor in the socio-economic change. He is the key man who envisages new opportunities, new techniques, new lines of production, new products and coordinates all other activities.

The term ‘entrepreneur’ is defined in different manners by different experts. “Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organisation going with his ability to identify them and opportunities which others are not able to identify and is able to fulfil such economic opportunities. Innovation occurs through i) Introduction of a new quality in a product of ii) new product iii) discovery of fresh demand and fresh sources of supply and iv) by change in the organisation and management”.

An entrepreneur is one of the important segments of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. In fact, he/she is one who has the initiative, skill for innovation and who looks for high achievements. He/she is a catalytic agent of change and works for the good of people. An urge to exercise power over other things and objects persists among all human beings. The urge may vary in degree from person to person. This urge is an intrinsic quality of an entrepreneur.

The word "entrepreneur" is derived from the French verb enterprendre. It means "to undertake". In the early 16th century, the men who organised and led military expeditions were referred to as "entrepreneurs". Around 1700 A.D., the term was used for architects and contractors of public works. Quesnay regarded the rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence, skill and wealth.
In many countries, the entrepreneur is often associated with a person who starts his own, new and small business. Business encompasses manufacturing, transport, trade and all other self-employed vocations in the service sector. But not every new small business is entrepreneurial or represents entrepreneurship. The term "entrepreneur" was applied to business initially by the

According to E.E. Haggen, an entrepreneur is an economic man who tries to\maximise his profits by innovations. Innovations involve problem-solving and the entrepreneur gets satisfaction from using his capabilities in attacking problems.

Mr. Peter Drucker has aptly observed that, "Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practised. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation." Systematic innovation, according to him, consists in the purposeful and organised search for changes and in the systematic analysis of 'the opportunities such changes might offer scope for economic and social innovation.
According to Drucker, three conditions have to be fulfilled:
1. Innovation is work. It requires knowledge. It requires ingenuity. It makes great demands on diligence, persistence and commitment.
2. To succeed, innovation must build on their strengths.
3. Innovation always has to be dose to the market, focused on the market, indeed market-driven.
Specially, systematic innovation means monitoring six sources for innovative opportunity.

Functions of an Entrepreneur
An entrepreneur is expected to perform the following functions.

1. Risk Absorption

The entrepreneur assumes all possible risks of business. A business risk also involves the risk due to the possibility of changes in the tastes of consumers, techniques of consumers, techniques of production and new inventions. Such risks are not insurable. If they materialise, the entrepreneur has to bear the loss himself. Thus, Risk-bearing or uncertainty-bearing still remains the most

function of an entrepreneur. An entrepreneur tries to reduce the uncertainties by his initiative, skill and good judgment.

2. Formulate Strategic Business Decisions

The entrepreneur has to decide the nature and type of goods to be produced. He enters the particular industry which offers from he best prospects and produces whatever commodities he thinks will pay him the most employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location techniques of production and does everything that is needed for the development of his business.

3. Execute Managerial Functions

The entrepreneur performs the managerial functions though the managerial functions are different from entrepreneurial functions. He formulates production plans, arranges finance, purchased, raw material, provides, production facilities, organises sales an assumes the task of personnel management. In a large establishment these management functions are delegated to the paid managerial personnel.

4. Adopt Innovation Function

An important function of an entrepreneur is “Innovation”. He conceives the idea for the improvement in the quality of production line. He considers the economic inability and technological feasibility in bringing about improve quality. The introduction of different kinds of Electronic gadgets is an example of such an innovation of new products. Innovation is an ongoing function rather than once for all, or possibly intermittent activity.

Characteristics of Entrepreneur

Entrepreneurs possess the following vital characteristics:

1. ***An especially skilful person:*** The entrepreneur is recognized as a person having a special skill and at the same time a person providing others for motivation. He may be either a single individual or an individual in a group. Whatever he may be, he possesses that special skill which is not generally found in common man.

2. ***An innovator:*** He is rightly known as an innovator who engages himself to innovate new varieties of products, explores new market horizons, and introduces new techniques of production and methods of reconstruction of industries. According to Schumpeter, the main characteristic of an entrepreneur is to innovate something. Through such innovation, the execution and effective use of a creative idea are ensured. Its success brings for commercial achievement and new horizon of economy emerges.

3. Providing completeness to the factors of production: An entrepreneur procures necessary resources from various sources for the purpose of production and by utilizing them he provides completeness to the factors of production. Moreover, he endeavors to make contact with various markets for his products. He is a risk-taker and functions as a coordinator.

4. Decision-making person: The entrepreneur is such a person who is endowed with a power to make a proper decision as regards the establishment of a business, its management, and procurement of different factors, methods of distribution and coordination of various scarce resources. Since he has a strong power of decision-making, he can take decisions on various maters rapidly. His achievement largely depends on the ability of his decision making.

5. ***Creative personality:*** As the term implies, he is known as an employer who makes optimum utilization of economic resources and thus carries on productive activities. He has a quality of creating something new and as such he is a person of creative personality. For this, he is known as a creative innovator. He creates new ideas, nurtures them in the light of his own experience, knowledge and intellect. Through all such activities, his creative personality and mentality are exposed.

6. ***A basic plan-maker:*** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator. For this, he is regarded as a pioneer of economic development.

7. ***A pioneer of economic development:*** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator.

8. ***Dynamic leader:*** He provides proper motivation to his workers by means of leadership so that the workers can give their best efforts to the interest of the organisation.

9. ***Creator of wealth:*** The entrepreneur uses various resources for running his products or services are produced. Hence, the entrepreneur creates his personal wealth and at the same time he helps to increase social wealth, because new wealth is created due to increase in demand for product or services. As such, creation of wealth is one of the basic features of an entrepreneur.

10. ***Self-confident and ambitious:*** One of the important features of an entrepreneur is that he should be self-confident as well as ambitious. Self-confidence is regarded as one of the remarkable characteristic features for his success. This self-confidence leads him to face any situation boldly. Self-confidence relates to harmonize between word and work. Similarly, he should always have in himself, high ambition.

11. ***Risk-bearer:*** It is needless to say that an entrepreneur has to bear the various risks concerning the enterprise. Without risk bearing, his enterprise activities cannot be conducted. The capacity of an entrepreneur to bear the risks is his inherent feature. He has to bear always the risks in case of production of any new product or service. There are various types of risks to be borne by him. These are risks associated with procurement of raw materials and capital and marketing of goods, etc. this risk bearing is the prerequisite to his success. This is the part and parcel of his daily activities.

12. ***Adventurer:*** After thinking over various matters, an entrepreneur undertakes his venture and after evaluating pros and cons of all the matters, he selects the most suitable one. While making selection, he requires to be a bit adventurer. This quality is such an outlook, which leads him to accept the challenge in various adverse situations.

Entrepreneur, Entrepreneurship and Enterprise

Entrepreneurship is the function of seeking investment and production opportunity organizing an enterprise to undertake a new production process, raising capital, arranging labour and raw materials, finding a site introducing a new technique and commodities, discounting new sources for the enterprise.

Entrepreneurship could be defined as ability of an individual or a group of individual to introduce changes or innovate like introduction of a new product or service, opening of a new market and carrying out a new organisations

Entrepreneur is one who combines capital and labour for the purpose of production. The word entrepreneur literally came from French language meaning someone who undertakes an enterprise. The word enterprise is attached to self-propelled, usually self-made businessman who thinks about a venture, dreams it, starts it, works on it and grow with it.

The enterprise is the basic unit of an economic organisations. It produces goods and services worth more than the resources used.. It involves the willingness to assume risks in undertaking an economic activity. It also involves innovation. It always involves risk-taking and decision making. Thus, entrepreneur and enterprise are inter-linked, enterprise being the offshoot of an entrepreneur. Its success is dependent on the entrepreneur.

Types of Entrepreneurs

Entrepreneurs are classified as under different heads as given below. This helps the potential entrepreneurs to choose his own nature and style of entrepreneurship.

a) According to the Type of Business

Entrepreneurs are found in various types of business occupations of varying size. We may broadly classify them as follows:

Business Entrepreneur

Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to materialize their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade.

Industrial Entrepreneur

Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate Entrepreneur

Corporate entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate entrepreneur is a person who demonstrates his innovative skill in organising and managing a corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some statute or Act which gives it a separate legal entity.

Agricultural Entrepreneur

Agricultural entrepreneurs are those entrepreneurs who undertake such agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. According to the use of Technology.

Technical Entrepreneur

A technical entrepreneur is essentially an entrepreneur of "Craftsman type". He develops a new and improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. He does not care much to generate sales by applying various sales promotional techniques. He demonstrates his innovative capabilities in matters of production of goods and rendering services.

Non-technical Entrepreneur

Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

Professional Entrepreneur

Professional entrepreneur is a person who is interested in establishing a business but does not have interest in managing or operating it once it is established.

b) According to Motivation

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in job performance. He is also motivated to influence others by demonstrating his power thus satisfying his ego.

Pure Entrepreneur

A pure entrepreneur is an individual who is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

Induced Entrepreneur

Induced entrepreneur is one who is being induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the entrepreneurs are induced entrepreneurs who enter business due to financial, technical and several other several other provided to them by the state agencies to promote entrepreneurship.

Motivated Entrepreneur

New entrepreneurs are motivated by the desire for self-fulfilment. They come into being because of the possibility of making and marketing some new product for the use of consumers. If the product is developed to a saleable stage, the entrepreneur is further motivated by reward in terms of profit and enlarged customer network.

Spontaneous Entrepreneur

These entrepreneurs start their business out of their natural talents and instinct. They are persons with initiative, boldness and confidence in their ability which motivate them to undertake entrepreneurial activity.

Growth Entrepreneur

Growth entrepreneurs are those who necessarily take up a high growth industry. These entrepreneurs choose an industry which has substantial growth prospects.

Super-Growth Entrepreneur

Super-growth entrepreneur are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

c) According to Stages of Development

First-Generation Entrepreneur

A first generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

Modern Entrepreneur

A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market. They undertake those ventures which suit the current marketing needs.

Classical Entrepreneur

A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self-supporting venture. He is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the firm with or without an element of growth.

Innovating Entrepreneurs

Innovating entrepreneurship is characterized by aggressive assemblage of information and analysis of results, deriving from a novel combination of factors. Men/women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services, by changing their utility, their value, their economic characteristics, into something new, attractive and utilitarian. Therein lies the key to their phenomenal success. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even reorganization of an existing enterprise.

Imitative Entrepreneurs: Imitative entrepreneurship is characterized by readiness to adopt successful innovations by innovating entrepreneurs. They first imitate techniques and technology innovated by others.

Fabian Entrepreneurs

These categories of entrepreneurs are basically running their venture on the basis of conventions and customary practices. They don't want to introduce change and not interested in coping with changes in environment. They have all sorts of inhibitions, shyness and lethargic attitude. They are basically risk avoider and more cautious in their approach.

Drone Entrepreneurs
Entrepreneurs who are reluctant to introduce any changes in their production methods, processes and follow their own traditional style of operations. Though they incur losses and loses their market potential, will not take any effort to overcome the problem. Their products and the firm will get natural death and knockout.

Forced Entrepreneurs
Sometimes, circumstances made many persons to become entrepreneurs. They do not have any plan, forward looking and business aptitude. To mitigate the situational problem, they are forced to plunge into entrepreneurial venture. Most of the may not be successful in this category due to lack of training and exposure.

Intrapreneurship

The term ‘intrapreneur’ emerged in during the seventies. Several senior executives of big corporations left their jobs to start their own small businesses because the top bosses in these corporations were not receptive to innovative ideas. These executives-turned-entrepreneurs achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. These types of entrepreneurs came to be known as ‘intrapreneurs’. This kind of brain drain phenomena is not limited to the US, but has spread all over the world. Companies, as a result, have started devising ways and means to stop this outflow of talent, experience and innovation.

The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas. Otherwise, the entrepreneurial spark will die.
The entrepreneur who starts his own business generally does so because he aspires to run his own show and does not like taking orders from others. It needs managers who listen and respond to new ideas and are willing to risk their future, a system that rewards managers who may fail but who have generated and experimented with ideas.
Intrapreneuring means the entrepreneurial activities that acquire organizational sanctions and commitments of resources for the sole objective of innovative results.
Intrapreneuring aims at boosting the entrepreneurial spirit within the limits of organization, thus creating an environment to develop.
Intrapreneur is a person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation. “Intrapreneurship is Entrepreneurship practiced by people within established organizations”. Intrapreneurship revolves around the restructuring and re-emergence of the firm’s capacity to develop innovative skills and new ideas. Intrapreneurship is not just limited to the germination of new ideas, but includes even the implementation of those ideas.

Characteristics of Intrapreneurs

Following are the characteristics of intrapreneurs:
1. Intrapreneurs bridge the gap between inventors and managers. They take new ideas and turn them into profitable realities.
2. They have a vision and the courage to realize it.
3. They can imagine what business prospects will follow from the way customers respond to their innovations.

4. They have the ability to plan necessary steps for actualization of the idea.
5. They have high need for achievement and they take moderate calculated risks.
6. They are dedicated to their work that they shut out other concerns, including their family life.

Reasons for Promoting Intrapreneurs in Organisation

Following could be the reasons for promoting intrapreneurs in organization:

- Intrapreneurs thrive and vibrate in all organizations (big or small): Several executives with rich experience and expertise in corporations leave their jobs to own small business, because the top management in these corporations were not receptive of their innovative ideas. These executives termed as 'entrepreneurs' achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. Companies, as a result, started devising ways and means to stop this outflow of talent, experience and innovation and therefore nested the development of intrapreneurs.

- Through their expertise and rich experience in the organization, Intrapreneurs understand the needs and wants of the customers.
- They generate innovative ideas from these needs and wants. Intrapreneurs do not just limit their energies to the development of these innovative ideas as they have an insatiable desire to achieve and succeed.
- They are hungry to see their ideas materialize into business enterprise. Venture capitalists with their wide open eyes welcome them with open arms. And hence the organization not only loses rich experience and expertise but also creates competitors for itself.

- Intrapreneurs are the "dreamers who do." In most organizations people are thought to be either dreamers or doers. Both talents are not generally required in one job. But the trouble with telling the doers not to bother about their dreams is that they dream anyway. When they are blocked from implementing dreams of how to help your company they're dreaming dreams of revenge. A mind is meant to imagine and then act. It is a terrible thing to split apart the dreamer and the doer. Intrapreneurs ask questions such as:
- "Who would I need to help me with this?
- How much would it cost?
- What things have to happen first?" and so forth.
- They may ask "Could we release this technology – onto the marketplace in product form aimed at such-and-such a customer need?

Entrepreneur v/s Intrapreneur

Points of difference	**Intrapreneurship**	**Entrepreneurship**
Definition	Intrapreneurship is the entrepreneurship within an existing organization.	Entrepreneurship is the dynamic process of creating incremental wealth.

Core objective	To increase the competitive strength and market sustainability of the organization.	To innovate something new of socio-economic value.
Primary motives	Enhance the rewarding capacity of the organization and autonomy.	Innovation, financial gain tad independence.
Activity	Direct participation, which is more than a delegation of authority.	Direct and total participation in the process of innovation.
Risk	Bears moderate risk.	Bears all types of risk.
Status	Organizational employees expecting freedom at work.	The free and sovereign person doesn't bother with status.
Failure and mistakes	Keep risky projects secret unless it is prepared due to high concern for failure and mistakes.	Recognizes mistakes and failures to take new innovative efforts.
Decisions	Collaborative decisions to execute dreams.	Independent decisions to execute dreams.
Whom serves	Organization and intrapreneur himself.	Customers and entrepreneur himself.
Family heritage	May not have or a little professional post.	Professional or small business family heritage.
Relationship with others	Authority structure delineates the relation.	A basic relationship based on interaction and negotiation.
Time orientation	Self-imposed or organizationally stipulated time limits.	There is no time-bound.
The focus of attention	On Technology and market.	Increasing sales and sustaining competition.
Attitude towards destiny	Follows self-style beyond the given structure.	Adaptive self-style considering Structure as inhabitants.
Attitude towards destiny	Strong self-confidence and hope for achieving goals.	Strong commitment to self-initiated efforts and goals.
Operation	Operates from inside the organization.	Operates from outside the organization.

Entrepreneur vs. Professional Manager

A person can become a **professional manager** by the acquisition of knowledge. Knowledge can be gained through formal education. An owner-manager can achieve success due to his personal and cultural traits.

Many great entrepreneurs are self-made, for they were not handicapped by their lack of formal education but came out as successful entrepreneurs due to their skill and intelligence. One can easily identify such an entrepreneur manager in any profession, may it be agarbatti manufacturing, polishing or grinding, retailing or wholesaling. Fallowing are the major distinctions between professional manager and entrepreneur:

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Features	Professional Manager	Entrepreneur
Primary Motives	Wants promotion and traditional corporate rewards. Power motivated.	Wants freedom, a Goal-oriented, self-reliant, and self-motivated.
Time Orientation	Responds to targets, weekly, monthly, quarterly, annual planning horizons, the next promotion or transfer.	End goals of 5-10-year growth of business in view as guides. Takes action now to move the next step along way.
Skills	Equipped with analytical tools, people-management and political skills.	Knows business intimately. more business acumen than managerial or political skill.
Attention	Primarily on events inside corporation	Primarily on technology and market place
Market Research	Has market studies done to discover needs and guide product conceptualization	Creates needs. Creates products to discover needs and that often can't be tested with market research
Failures & Mistakes	Strives to avoid mistakes	Deals with mistakes and failures as learning experiences
Decisions	Agrees with those in power and delays decision until he/she gets a feel of what the bosses want	Follows private decisions, which are action-oriented
Relationship with Others	Hierarchy as basic relationship	Transactions and deal making as basic relationship
Attitude towards the system	Sees the system as nurturing and protective, seeks position within it	May rapidly advance in a system and sometimes reject the system
Problem solving style	Works out problems within the system	More holistic in nature
Status	Cares about status symbols	Gets the job done

Entrepreneurial Motivation

Entrepreneurship Stimulants ;

A variety of social, economic, political and cultural factors are stimulating entrepreneurial activity and thus generating more robust economic development. These stimulants are as follows:

1. An increasing focus on capital formation. Availability of capital is a stimulant to an entrepreneur to start a new firm and/ or give birth to a new idea.
2. The ability to transform scientific and technical developments through new institutional development is a second stimulant.
3. A third stimulant is the supportive government programmes.
4. Availability of required training and inputs is the fourth stimulant.
5. A collaborative relationship between business and research and their direct attempts to transfer technology to the market place may provide stimulus to a number of entrepreneurs who seek the opportunity to commercialize their ideas.
6. Finally, an endeavor to create an environment conducive to innovation will provide a much-needed stimulant to entrepreneurial activities.

Entrepreneurial behaviour is the result of entrepreneurial motivation refers to the inner urge that ignites and sustain behaviour to satisfy need. Motivation has been derived from the word motive which implies the inner state of mind that activates provokes and directs our behaviour towards the goal.

Theories of Motivation

Need is the starting point of motivation. A satisfied need does not motivate an individual. It is only the unsatisfied need which creates tension and stimulates drives within the individuals for the satisfaction of the need and reduction of tension. Several studies have been undertaken to identify the factors that motivate people to start their own enterprises. P.N Sharma has identified nine motivating factors which are as under:

1. Educational background.
2. Occupational experience.
3. Desire to do work independently.
4. Desire to branch out to manufacturing.
5. Family background.
6. Assistance from government.
7. Assistance from financial institutions.
8. Availability of technology/ raw material.
9. Other factors demand of the particular product, utilization of excess money earned from contractual estate business started manufacturing to facilitate trading/ distribution business since the product was in short supply, and no chance for further promotion

The above nine factors were grouped into two major categories-internal and external. First five motivating factors were termed as internal and the last four factors as external

It is clear from the above that majority of the new entrepreneurs were tempted to enter industry because of three main factors viz.

1. They had strong desire to do something independent in life.

2. They were having technical knowledge or manufacturing experience
3. Availability of governmental and non-governmental assistance.

A Model of Entrepreneurial Motivation is given below:

The entrepreneurial motivation level is primarily impacted by two factors

- **i)** **Personal goals –** referring to the objectives of the individual behind starting an enterprise. Such objectives could include the aspects of being independent, becoming a change agent in society and a strong desire to become a technological pioneer.
- **ii)** **ii) Personal Characteristics** – These include those traits in an individual which affect their ability to become an entrepreneur. Risk taking ability, leadership, decision making capacity, foresight are a few of these important traits.

Entrepreneurial Personality

Research on the personality traits of entrepreneurs took off in the mid-20th century, unifying approaches from economics, psychology, sociology, and business management to answer the questions:

- **Who is an entrepreneur?**
- **What drives them?**
- **What traits define them?**

The first few decades faced many conceptual challenges as researchers struggled to develop a solid theoretical framework and appropriate measurement tools. In the 1980s, this discordance in the literature led some researchers to conclude that there was no correlation between personality and entrepreneurship.

However, since the start of the 21st century and with the notable rise of public and intellectual fascination with start-up culture, the entrepreneurial personality literature has enjoyed a resurgence and convergence toward an increasingly consistent set of theoretical frameworks, with meaningful insights toward innovation policy and business education. The bulk of recent literature seeks to answer two main questions:

(1) Do certain traits predict an individual's likelihood of becoming an entrepreneur?
(2) Do certain traits predict an entrepreneur's likelihood of achieving "successful" outcomes?

These answers are pursued by investigating the prevalence of personality characteristics in entrepreneurs versus other populations, as well as by analysing the correlation of these characteristics with entrepreneurial performance factors such as business survival and growth. Many researchers compare the traits of entrepreneurs to employed workers or the general population to identify characteristics that define entrepreneurs as a group. It may seem a foolish or unnecessary task to compare Steve Jobs or Elon Musk to the average person, and many books describe the special biographies and personalities of these great entrepreneurs. Here, however, the literature has a very different focus. For every Jobs or Musk, we have thousands of entrepreneurs seeking growth-oriented businesses and many more seeking to build a business for themselves as self-employed proprietors. The collective impact of these individuals on our economy is enormous, even if they don't start Apple or SpaceX.

Since various authors highlight the most important entrepreneurial personality characteristics as the(a) **need for achievement,(b) locus of control and (c)risk-taking propensity**, these are the three characteristics further discussed below.

a) Need for Achievement:

In his work on economic development, **McClelland** first identified the need for achievement as a personality trait. McClelland proposed that achievement motivation is the key to entrepreneurial behaviour. The need for achievement is usually referred to as a learned, stable characteristic where satisfaction is acquired by aiming for and accomplishing higher levels of excellence. The need for achievement was originally conceptualized as a fixed personal characteristic. However, recent studies have shown that it can evolve over time, especially by obtaining an advanced education. The theory of the need to achieve claims that individuals who have a strong need to achieve commonly find their way to entrepreneurship and their success rate is higher than that of other entrepreneurs. McClelland identified a theory about the situations that stimulate achievement motivation.

- High achievers typically choose situations that are linked with responsibility, moderate risk-taking, knowledge of results of decisions, and anticipation of possibilities in the future. An entrepreneur might be driven by the possibility of satisfaction in achievement and not financial gain. Conversely, to some entrepreneurs, monetary gain is an achievement while to others it can be public recognition.
- Entrepreneurs with high levels of need for achievement typically try to set difficult goals for themselves and intend to achieve these goals, they are enthusiastic and they seek self-development.
- Also, entrepreneurs with a high level of need for achievement have a strong desire to solve problems by themselves, they like setting and achieving goals and they enjoy receiving feedback on their achievements.
- These individuals are high achievers who like to take responsibility for finding solutions to issues, who like quick feedback on their performance to know if they have improved or not and who like to achieve targets that are challenging but not beyond their capabilities.

- They do not like to succeed by chance. These high achievers like to achieve challenging targets but not targets that are over their capabilities. Some high achievers will set up new business ventures.

b) Locus of Control

Locus of control is another characteristic that is often associated with entrepreneurship. The theory of locus of control was developed by Rotter in the 1960s. The concept emerged from Rotter's 'social learning theory' of what affect does a person's perception of control have on their behaviour. The theory has been abandoned in psychology but it is still considered in entrepreneurship. The theory of locus of control looks from different angles at the individual's understanding of the social environment and the knowledge gained from different situations. The locus of control of an individual can be either **external or internal**. The locus of control is understood as a determinant of the expectation of success. Studies have shown a reasonably important association between internal locus of control and the likelihood of becoming an entrepreneur. The internal locus of control is said to be an important characteristic of entrepreneurs. Entrepreneurs with high levels of internal locus of control usually see themselves as having more power and discretion and being more innovative. Usually owner-managers have a strong internal locus of control. The externals believe that what happens to them is a result of forces beyond their control. On the other hand, the internals believe that the future can be controlled by efforts of their own.

- Individuals with an internal locus of control believe that they themselves are in control of their destiny. On the other hand, individuals with an external locus of control believe that fate has a strong influence over their lives.

- Internal and external locus of control conceptualizes how people see their own actions affecting events surrounding their lives. People with internal locus of control usually believe that events are the results of their own actions and people with external locus of control believe that events are the results of external environmental factors.

- An entrepreneur with strong internal locus of control would believe that they themselves can make things happen and if their business succeeds or fails, it is due to their own actions. Entrepreneurs with high levels of internal locus of control might not be willing to give up the control of their businesses or to seek advice from customers, competitors or other external entities.

- These entrepreneurs want to create a competitive organizational culture that is driven by their own creative and innovative ideas. When believing that an individual has control over their environment and ultimately their fate, that individual has internal locus of control.

- If an individual believes in fate, he/she has external locus of control. This person is usually less likely to take the risk of starting a new business venture. Sometimes internal locus of control can have negative aspects.

- The individual's locus of control changes along the external/internal line. However, researchers have suggested that the external and internal should be studied separately. As the internal and external control should be treated as two independent dimensions, therefore, different types of relationships might exist between the two dimensions.

c) Risk-Taking Propensity

Risk taking is perceived as a characteristic that differentiates entrepreneurs from non-entrepreneurs and managers. Also, according to extensive research, an essential characteristic of an entrepreneur is his/her risk-taking propensity. A risk-taker is an individual who pursues a business idea even when the probability of succeeding is not high. Stereotypic impressions of an entrepreneur assume that an entrepreneur is usually a risk-taker. However, research shows that an entrepreneur takes only calculated risks. Other studies claim that typically entrepreneurs are moderate risk-takers, even though economic theory suggests that entrepreneurs are risk-takers.

- Risk-taking depends on the vision of a situation and/or the entrepreneur's vision of being an expert. Risk-taking is also related to an entrepreneur's age, education, motivation, business experience and the numbers of years in business.

- Entrepreneurs with a high level of risk-taking propensity are adventurous and daring, they look for excitement and stimuli, as well as being optimistic and energetic.

- The risk-taking propensity is related to the need for achievement. The creation of a new business venture is risky and researchers have tried to determine whether entrepreneurs make riskier decisions than other people.

- Human beings do not usually like risk or uncertainty but both owner-managers and entrepreneurs are willing to take risks and to live with uncertainty. Owner-managers and entrepreneurs have to live with the fact that they cannot control many aspects of the market they operate in.

Entrepreneurship as a Career Option

Promoting entrepreneurship as a viable career option and supporting innovation on an educational campus has social and economic relevance.

- **The role of educational campuses** to nurture and develop the entrepreneurial and innovative talent is the foundation of setting up the foundations for the future generation. The trend is for college students to be empowered to come out of their comfort zone.

Educational institutions are expected to come forward and connect the above-mentioned ecosystem with the youth of our society. Universities have to rise to the role of becoming a **Doing University**, which is way beyond being a mere teaching university or a research university. Mad thoughts & free-wheeling spirit resides in all of us. It resides with greater potential & promise in the energetic hearts & minds of our youth today, who, because they are bombarded with the powerful information-and-technology-intensive world of today, are uniquely placed to spawn start-ups with new products & services, provided their energies & efforts are mentored, sharpened, channelized & harnessed into viable innovations.

- **Central Government & State Governments** across the country, through various schemes of organizations like;

- DST : Department of Science & Technology,
- DBT : Department of Biotechnology,
- NIESBUD : National Institute for Entrepreneurship & Small Business Development, Ministry of Skill Development, Entrepreneurship, Youth Affairs & Sports,
- NSDC: National Skill Development Corporation,
- MSME: Ministry of Micro Small Medium Enterprises is aggressively encouraging Entrepreneurship & Skill Development.

- **Start-up incubators**

Indeed, entrepreneurship as a career option is more critical to those who may not fit into standard job profiles for various reasons. The approach and creativity of the education system in innovations in teaching to create training programs that address this need would make the difference. The campus must not only foster an environment that allows this career option, but also provide resources for experimentation. **Start-up incubators** can support students in developing skills and provide resources needed at the early-stage. Setting up a start-up incubator in a campus is one of the first steps on promoting entrepreneurship. Undergraduate students are launching start-ups right after graduation or sometimes while still at college, and that is a good sign. The field of social entrepreneurship is also growing. A desire to make a difference in the world is the heart of social entrepreneurship, and needs as much support and encouragement. In India, social entrepreneurship has a great role to play in bridging the gaps in our social and economic configurations.

The challenge to come up with ideas that will succeed against all odds and creating new products and services that dramatically **improve people's lives** is a great motivator to an entrepreneurial spirit. It is that potential of creating lasting, transformational benefit to society that attracts the youth to this field. Increasingly management institutions, science colleges, engineering colleges need to create a greater awareness of the many issues that affect the world. From environment to pollution, from poverty to literacy, from financial inclusion to health care, awareness of these issues and sensitization if done in the educational campus can trigger creative and innovative ideas for solutions in young minds. Thus instead of taking the typical route, students will find new avenues that will not only give economic growth but also open new doors to making social impact. This new life path impacts students, the campus and the community.

Positive aspects of entrepreneurship as a career

There is no age bar to entrepreneurship. But youth is certainly more suited to take up an entrepreneurial venture because they are technologically precocious, do not fear from change and challenge, and have greater ability to see things differently.

Leaving aside the pull and push factors leading to entrepreneurship, the fundamental decision to take up entrepreneurship as a career option gets guided by a three part process in which an individual weighs the desirability of self-employment with the desirability of working for others, possession of competencies and capabilities to undertake entrepreneurial venture. The fact remains that present environment provides great entrepreneurial opportunities and more and more youngsters are consciously opting for it a as career option.

- Being the boss if his own business, they enjoy unlimited powers. He/she can do things in his own way and he need not take orders from someone else. They can make own decisions and act on them.
- There are numerous opportunities available for self- development.
- Working on one’s own and thus getting rewards yields immense satisfaction and pleasure for more than what he can get in a job.
- Monetary rewards can be more than commensurate with his/her capacity and capabilities.
- They can command deference and respect of his immediate family and friends. It is a kind of intangible reward.
- Instead of depending on others, they generate employment for others.
- They can make significant contribution to the development of the country and be proud of taking part in nation building activities.
- They can be a great achievers realising goals and proving their achievements to the world and can be recognised for his outstanding efforts.

Negative aspects of entrepreneurship as a career

- Though an entrepreneur is his/her own boss, in some respects they are not. It is so because they are constrained by various people like his financiers, laborers, suppliers, customers and so on.
- They may have to face frustration since the scope of operations is limited by available resources.

- They to work long and hard hours beyond typical timings and the venture tends to absorb all energy and time. This may affect their social and family life.
- At times they may have to face disappointments and frustrations since everything in the venture may not always work the way he/she would like it to.
- They have to always work with tension/stress since there is always the risk of failure.

Role of Family and Society in Entrepreneurial Development (Socio-Cultural)

Entrepreneurial activity is a vital source of innovation, employment and economic growth. Researchers who study entrepreneurship have lent great value by continuing to explore the factors that explain how entrepreneur's best create new business and thus, how societies and economies grow and prosper. With the entrepreneurial turn of the 1990s, during which universities invested in building high-quality faculties to teach and research entrepreneurship and governments increasingly viewed entrepreneurship as a solution to many social and economic problems, there has been considerable growth in new research from psychological and economic points of view. In spite of this growth in the literature and the salience of entrepreneurship in public policy, the influence of social and cultural factors on enterprise development remains understudied.

Entrepreneurial variations cross regions are better understood by considering the social environment in which the firm is created, because, in addition to economic activity, entrepreneurship is a social phenomenon. While the economic conditions may explain some of the variation, any convincing explanation must take account of the social and cultural aspects of entrepreneurial activity. The idea that individuals and organizations affect and are affected by their social context is not new. It is a seminal argument in both classic and contemporary sociology, and the argument has been applied to the study of entrepreneurship.

Social factors and entrepreneurial activity: Embeddedness and relational networks

Understanding entrepreneurship as a social phenomenon allows us to draw on the well-developed more general literatures on **social capital and social networks**.

- The concept of social capital is arguably one of the most successful 'exports' from sociology to the other social sciences. Social capital is defined as the tangible and virtual resources that facilitate actors' attainment of goals and that accrue to actors through social structure.
- In general terms, social networks are defined by a set of actors (individuals and organizations) and a set of linkages between those actors. Social networks are the relationships through which one receives opportunities to use financial and human capital – relationships in which ownership is not solely the property of an individual, but is jointly held among the members of a network.
- Social networks are also a set of relationships that can define the perception of a community, whether a business community or a more general notion of community in society.
- As distinct from rational choice perspectives, the social embeddedness perspective emphasizes that, in embedded contexts, entrepreneurial agency, that is the ability to garner entrepreneurial ideas and the resources to develop them, is shaped by implicit norms and social values. Thus, social capital is conceptualized as a set of resources embedded in relationships.
- This idea raises interesting questions revolving around the entrepreneurial applications of social capital, in particular, in relation to some less desirable consequences. For instance, the exploitation of social capital by any one person or entrepreneur, even within contextual rules, if any, implies both winners and losers.
- This view of social capital is closely associated with the emphasis placed by Coleman on community structures as a mechanism of social control, which, in turn, is also linked with the predominant culture in a specific society.
- The underlying idea is that, although entrepreneurs usually hold some of the resources

necessary to create a business (e.g. ideas, knowledge and competence to run the business), generally they also need complementary resources which they obtain through their contacts (e.g. information, financial capital, labour) to produce and deliver their goods or services

 In the entrepreneurship network, three elements of network relations stand out as critical to the entrepreneurial process i) the nature of the content that is exchanged between actors(e.g. social capital and intangible resources, such as emotional support) ii) the governance mechanisms in network relationships (e.g. trust between entrepreneurs and venturing partners) and iii) the network structure created by the crosscutting relationships between actors (e.g. the ability to use cohesion and structural holes to discover and develop entrepreneurial returns)

Cultural factors and entrepreneurial activity

Because societies are endowed by nature with different physical environments, members of society must adopt environmentally relevant patterns of behaviour to achieve success. These environmentally relevant patterns of behaviour lead to the formation of different cultural values in different societies, some of which influence the decision to create new businesses. Thus, culture, as distinct from political, social, technological or economic contexts, has relevance for economic behaviour and entrepreneurship. One of the difficulties in examining the cultural affects and effects in relation to entrepreneurial activity is the lack of a precise and commonly understood definition of culture. Anthropologists suggest that culture is related to the ways in which societies' organize social behaviour and knowledge. Cultural values are defined as the collective programming of the mind which distinguishes the members of one human group from another and their respective responses to their environments. Several studies have stressed the influence of cultural factors on entrepreneurship from different perspectives.

 According to Hayton culture and entrepreneurship can be linked on three broad dimensions. The first focuses on the impact of **national culture** on aggregate measures of entrepreneurship such as national innovative output or new businesses created. The second stream addresses the association between national culture and the characteristics of individual entrepreneurs. The third explores the impact of national culture on corporate entrepreneurship.

 According to Thornton when an individual creates a business in a specific **cultural environment**, this business reflects that cultural environment, for example characteristics such as strategic orientation and growth expectations for the business.

 According to Hofstede, cultural differences across societies can be reduced to four quantifiable dimensions: **uncertainty avoidance, individualism, masculinity and power distance**. The dimension of uncertainty avoidance represents preference for certainty and discomfort with unstructured or ambiguous situations. Individualism stands for a preference for acting in the interest of one's self and immediate family, as distinct from the dimension of collectivism, which stands for acting in the interest of a larger group in exchange for their loyalty and support. Power distance represents the acceptance of inequality in position and authority between people. Masculinity stands for a belief in materialism and decisiveness rather than service and intuition. Entrepreneurship is facilitated by cultures that are high in individualism, low in uncertainty avoidance, low in power-distance and high in masculinity.

 Cultural variables to have an influence on entrepreneurship, cultural variables in many cases have been theorized and modelled as moderating of entrepreneurial outcomes. This suggests that greater attention should be given to the **interactions among cultural dimensions** and the conception of culture that allows for greater complexity in relation to other characteristics of the environment.

- According to other authors, the major domains of life and how they affect entrepreneurial behaviour are conceptualized and measured within the context of distinct **institutional orders** – for example the family, the religions, the market, the professions, the state and the corporation These institutional orders embody competing and conflicting sources of norms, values, legitimacy and justifications of worth that have consequences for supporting or discouraging entrepreneurial behaviour.

Organizations Facilitating Entrepreneurship Development

1. NIESBUD:

The National Institute for Entrepreneurship and Small Business Development is a premier organization of the Ministry of Skill Development and Entrepreneurship , engaged in training, consultancy, research, etc. in order to promote entrepreneurship and Skill Development. The major activities of the Institute include Training of Trainers, Management Development Programmes, Entrepreneurship-cum-Skill Development Programmes, Entrepreneurship Development Programmes and Cluster Intervention. NIESBUD has provided training to 11, 46,209 persons as of March 31, 2018 through 44,035 different training programmes since inception. This includes 4,384 international participants hailing from more than 141 countries throughout the globe.

Objectives

- To standardize and systemize the processes of selection, training, support and sustenance of potential and existing entrepreneurs.
- To support and motivate institutions/organizations in carrying out training and other entrepreneurship development related activities.
- To serve as an apex national level resource institute for accelerating as well as enhancing the process of entrepreneurship development, to measure the impact of the same within different strata of the society.
- To provide vital information and support to trainers, promoters and entrepreneurs by organizing research and documentation activities relevant to entrepreneurship and skill development.
- To create a holistic environment to train the trainers, promoters and consultants in diverse areas of entrepreneurship and skill Development.
- To offer consultancy nationally/internationally for promotion of entrepreneurship and small business development at national and international level.
- To provide national/international forums for interaction and exchange of ideas for policy formulation and its refinement at various levels.
- To share experience and expertise in entrepreneurship development across national frontiers to create awareness on it at national level.
- To interchange international experience and expertise in the field of entrepreneurship development for mapping its development at international levels too.

2. EDII:

Entrepreneurship Development Institute of India (EDII), an autonomous and not-for-profit institute, set up in 1983, is sponsored by apex financial institutions - the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and the State Bank of India (SBI). The Government of Gujarat pledged 23 acres of land on which stands the majestic and sprawling EDII campus. To pursue its mission, EDII has helped set up 12 state-level exclusive Entrepreneurship Development Centres and Institutes. One of the satisfying achievements,

however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and
management schools in several states by including entrepreneurship inputs in their curricula. In view of EDII's expertise in entrepreneurship, the University Grants Commission had also assigned EDII the task of developing curriculum on entrepreneurship and the Gujarat Textbook Board assigned to it the task of developing textbooks on entrepreneurship for 11th and 12th standards. In order to broaden the frontiers of Entrepreneurship Research, EDII has established a Centre for Research in Entrepreneurship Education and Development (CREED), to investigate into a range of issues surrounding small and medium enterprise sector, and establish a network of researchers and trainers by conducting a biennial seminar on entrepreneurship education and research. **Objectives**

- Creating a multiplier effect on opportunities for self-employment
- Augmenting the supply of competent entrepreneurs through training
- Augmenting the supply of entrepreneur trainer-motivators
- Participating in institution building efforts
- Inculcating the spirit of 'Entrepreneurship' in youth
- Promoting micro enterprises at rural level
- Developing new knowledge and insights in entrepreneurial theory and practice through research
- Facilitating corporate excellence through creating intrapreneurs
- Improving managerial capabilities of small scale industries
- Sensitizing the support system to facilitate entrepreneurs establish and manage their enterprises
- Collaborating with organizations to accomplish the above objectives

3. IED:

Institute of Entrepreneurship (IED) was set up in 2005 by a small group of visionaries in order to promote entrepreneurship as a key factor for the social and economic prosperity in societies. Since then, it is considered one of the most pioneers in the field. Its participation in numerous projects gave us the opportunity to produce and collect a large number of innovative tools and products in all aspects of entrepreneurship and lifelong learning, available to be further processed and utilized. Utilizing its experience gained from more than 150 large-scale international and national projects, IED is aiming to establish new collaborations in the field of EU funding programmes to raise innovation in the entrepreneurial sector. The organization's agenda is set all these years towards the development of targeted projects which will have a valuable impact on primary research and sustainable society.

Objectives

- To train the potential entrepreneurs for setting up tiny, rural, small and medium scale enterprises
- To conduct various types of training programme for potential and existing entrepreneurs, educated unemployed youth, low income group, science and technology graduates, village artisans and other persons.
- To conduct training programmes for employment generation.
- To carry out research studies, evaluations, assessments in the field of entrepreneurship and industrial development as well as social sector.
- To conduct workshops, conferences and seminars for MSME

 To assess training needs of different departments in industrial development sector and develop the capacities of their officials at different level.

 To disseminate information regarding promotion and development of entrepreneurship

4. CED:

The Centre for Entrepreneurship Development (CED) was set up in the year 2017 in Delhi, India, a pioneering institute in the field of Entrepreneurship Development, CED provides seamless service for promoting entrepreneurship movement with belief that entrepreneurs need not necessarily be born, but they can be trained and developed through well-conceived and well-directed intervention. CED is associated with State Level Entrepreneurship Development Organizations, NGOs Voluntary Organizations, Educational Institutions, Financial Institutions and Business Associations. CED acts as a liaison between Government and Entrepreneurs by providing necessary information and consultancy services.

Objectives

 To Stimulate and augment the entrepreneurial spirits and skills among women and youth to create new small and medium enterprises in the private sector.

 To Enhance Entrepreneurial values among women and youth and facilitate their choosing Entrepreneurship as a preferred career.

 To facilitate introduction of entrepreneurship courses in academic system.

 To promote the development of competent entrepreneurship in strategic industries through research studies and consultancy services.

 To Network with national and international agencies, NGOs and Government organizations for developing & promoting entrepreneurship, facilitating technology transfer, product development, partnering and market accessibility.

 To be a centre of learning for trainers – motivators on entrepreneurship development.

 To impart training on Capacity building \ enhancement of entrepreneurship development to Organizations and NGOs.

 To create a conducive business environment for emergence, sustenance and growth of the enterprises in general and Micro, Small & Medium Enterprises (MSMEs) in particular.

 To Support through active research and consultancy the prospective and existing Businesses, enabling them strategic planning and managing growth.

 To provide support and facilitation services to prospective and existing entrepreneurs in business related activities.

 To become a resource centre to offer capacity building initiatives in developing countries and neighbouring countries in the area of Entrepreneurship Development, Women empowerment and micro finance development and small business management.

 To build capacities of country level agencies for institutionalization of Entrepreneurship.

 To Integrate/Converge and internalize various approaches in Entrepreneurship Development in different regions to facilitate a visible impact.

5. NSIC

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote aid and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small–scale enterprises. National Small Industries Corporation (NSIC), is an ISO 9001-2015 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote, aid and foster the growth of micro, small and medium enterprises in the country. NSIC operates through countrywide network of offices and Technical Centres in the Country. In addition, NSIC has set up Training cum Incubation Centre managed by professional manpower.

Functions

- NSIC acts as a facilitator and has devised a number of schemes to support enterprises in their marketing efforts, both domestic and foreign markets.
- NSIC applies the tenders on behalf of single MSE/Consortia of MSEs for securing orders for them. These orders are then distributed amongst MSEs in tune with their production capacity.
- NSIC, realizing the needs of MSMEs, is offering Infomediary Services which is a one-stop, one-window bouquet of aids that will provide information on business & technology and also exhibit the core competence of Indian MSMEs.
- Collect and disseminate both domestic as well as international marketing intelligence for the benefit of MSMEs. This cell, in addition to spreading awareness about various programmes / schemes for MSMEs, will specifically maintain database and disseminate information.
- To showcase the competencies of Indian SSIs and to capture market opportunities, NSIC participates in select International and National Exhibitions and Trade Fairs every year.
- Bulk and departmental buyers such as the Railways, Defence, Communication departments and large companies are invited to participate in buyer-seller meets to enrich small

enterprises knowledge regarding terms and conditions, quality standards, etc required by the buyer.

- NSIC's Raw Material Assistance Scheme aims at helping Small Enterprises by way of financing the purchase of Raw Material (both indigenous & imported).
- NSIC is entering into strategic alliances with commercial banks to facilitate long term / working capital financing of the small enterprises across the country..
- NSIC offers small enterprises the following support services through its Technical Services Centres and Extension Centres:
- NSIC has established Software Technology cum Business Parks at New Delhi and Chennai for providing the space to small and medium enterprises in software development

6. SIDO

Small Industries Development Organization (SIDO) is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries Service Institute) 31 extension centres of SISI and 7 centres related to production and process development.

Activities

- To coordinate various programmes and policies of various state governments pertaining to small industries.

- To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions.
- Implement and coordinate in the development of industrial estates.
- Develop import substitutions for components and products based on the data available for various volumes-wise and value-wise imports.
- To give essential support and guidance for the development of ancillary units.
- To provide guidance to SSI units in terms of costing market competition and to encourage them to participate in the government stores and purchase tenders.
- To recommend the central government for reserving certain items to produce at SSI level only.
- To provide training, development and consultancy services to SSI to develop their competitive strength.
- To provide marketing assistance to various SSI units. To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.
- To help them get updated in various information related to the small-scale industries activities

7. KVIC

The Khadi and Village Industries Commission (KVIC) is a statutory body formed in April 1957 (as per an RTI) by the Government of India , under the Act of Parliament, 'Khadi and Village Industries Commission Act of 1956'. It is an apex organisation under the Ministry of Micro, Small and Medium Enterprises , with regard to khadi and village industries within India, which seeks to - "plan, promote, facilitate, organise and assist in the establishment and development of khadi and village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary." In April 1957, it took over the work of former All India Khadi and Village Industries Board. Its head office is in Mumbai , whereas its six zonal offices in Delhi , Bhopal , Bangalore , Kolkata , Mumbai and Guwahati . Other than its zonal offices, it has offices in 28 states for the implementation of its various programmes

Functions

- Building up of a reserve of raw materials and implementation for supply to producers
- Formation of common service facilities for processing of raw materials that include semi-finished goods
- Promoting the sale and marketing of Khadi and Village Industries products, as well as handicrafts
- Promoting research in the village industries sector related production techniques and equipment
- Providing financial assistance to individuals and institutions for the development and operation of Khadi and Village industries

Objectives

- To promote Khadi in rural areas
- To provide employment
- To produce saleable articles
- To create self-reliance amongst the poor
- To build up strong rural community

Sickness in Small Industries

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, MSME are classified in two Classes: i) Manufacturing Enterprises ii) Service Enterprises

Classification of MSME Enterprises (w.e.f. 01.07.2020):

As per revised definition, an enterprise that shall be classified as a Micro, Small or Medium Enterprise on the basis of the following criteria, namely:

S No.	Enterprises	Investment in and Turnover	Limit
(i)	Micro Enterprises	Investment in plant and machinery or equipment	Does not exceed **One** Crore rupees(<Rs. 1 Crore)
		And	
		Turnover	Does not exceed **Five** Crore rupees(<Rs. 5 Crore)
(ii)	Small Enterprise	Investment in plant and machinery or equipment	Does not exceed **Ten** Crore rupees(<Rs. 10 Crore)
		And	
		Turnover	Does not exceed **Fifty** Crore rupees(<Rs. 50 Crore)
(iii)	Medium Enterprise	Investment in plant and machinery or equipment	Does not exceed **Fifty** Crore rupees(<Rs. 50 Crore)
		And	
		Turnover	Does not exceed **Two Hundred and Fifty** Crore rupees(<Rs. 250 Crore)

Sickness in SSI

According to RBI a small scale industrial unit is considered "sick" when:

(a) If any of the borrowal accounts of the unit remains substandard for more than six months, i.e., principal or interest

(b)There is erosion in the net worth due to accumulated losses to the extent of 50 percent of its net worth during the previous accounting year

(c)The unit has been in commercial production for at least two years

(d) Continuous decline in gross output compared to the previous two financial years

Industrial Sickness in India: Meaning, Causes and Suggested Remedies

One of the adverse trends observable in the corporate private sector of India is the growing incidence of sickness. It is causing considerable concern to planners and policymakers. It is also putting a severe strain on the economic system, particularly on the banks.

There are various criteria of sickness. According to the criteria accepted by the Reserve Bank of India **"a sick unit is one which has reported cash loss for the year of its operation and in the judgment of the financing bank is likely to incur cash loss for the current year as also in the following year."** or

Industrial sickness can be defined as **a steady imbalance in the debt-equity ratio and distortion in the financial position of the unit**. A sick unit is one which is unable to support itself through the operation of internal resources.

Causes:

Industrial sickness has become a major problem of the India's corporate private sector. Of late, it has assumed serious proportions. A close look reveals that there are, at least, five major causes of industrial sickness, viz., promotional, managerial, technical, financial and political.

An industrial unit may become sick at its nascent stage or after working for quite some time. For instance, two major traditional industries of India, viz., cotton textiles and sugar, have fallen sick largely due to short-sighted financial and depreciation policies. Heavy capital cost escalation arising out of price inflation accentuates the problem. The historical method of cost depreciation is highly inadequate when assets are to be replaced at current cost during inflation.

Moreover, since the depreciation funds are often used to meet working capital needs, it does not become readily available for replacement of worn-out plant and equipment. The end result is that the industrial unit is constrained to operate with old and obsolete equipment, its profitability is eroded and, sooner or later, the unit is driven out of the market by the forces of competition.

The causes of industrial sickness may be divided into two broad categories:

1. External
2. Internal

1. **External causes which have been identified so far include:**

(a) Delay in land acquisition and building construction
(b) Delay in obtaining financial assistance from public financial institutions
(c) Delayed supply of machinery by the manufacturers
(d) Problems related to recruitment of technical and managerial staff
(e) Delay on the part of the Government in sanctioning licences, permits, etc.
(f) Shortages of basic inputs like power and coal. Other causes include
(g) Cost over-runs due to factors beyond the control of management
(h) Lack of demand for products or shift of demand to products of rival firms due to delays in project implementation
(i) Unsatisfactory performance by collaborators—financial and technical
(j) Changes in the policy of the Government relating to movement of goods from one place to another within the country

2. Internal causes which have been identified so far include:

a) Large changes in the scale of operation and optimum product mix in the long run and, last but not the least
b) Lack of experience of the promoters in a specific "line of activity".
c) Differences among various persons associated with the promotion and management of the enterprise
d) Mechanical defects and breakdown
e) Inability to purchase raw materials at an economic price and at the right time
f) Failure to make controls effective in time, in case of deficiencies in workings
g) Deteriorating labour-management relations and the consequent fall in capacity utilisation
h) Faulty financial planning and lack of balance in the financial (capital) structure.

Government Policy:

A number of measures have been taken to tackle the problem of industrial sickness. The importance of detection of sickness at the incipient stage has been emphasized by the RBI. The policy framework in respect of measures to deal with the problem of industrial sickness has been laid down in the guidelines issued on October 1981 (which were subsequently modified in February 1982) for guidance of administrative ministries of the Central Government, State Governments and financial institutions.

The salient features of these guidelines are the following:

(a) The administrative ministries in the Government will have specific responsibility for prevention and remedial action in relation to sickness in industrial sector within their respective charges. They will have a central role in monitoring sickness and coordinating action for revival and rehabilitation of sick units. In suitable cases, they will also establish standing committees for major industrial sectors where sickness is widespread;

(b) The financial institutions will strengthen the monitoring system so that it is possible to take timely corrective action to prevent incipient sickness. They will obtain periodical returns from the assisted units and from the Directors nominated by them on the Boards of such units. These will be analysed by the Industrial Development Bank of India and results of such analyses conveyed to the financial institutions concerned and the Government.

(c) The financial institutions and banks will initiate necessary corrective action for sick or incipient sick unit based on a diagnostic study. In case of growing sickness, the financial institutions will also consider taking of management responsibility where they are confident of restoring a unit to health. The Ministry of Finance will have to issue suitable guidelines for management;

(d) Where the banks and financial institutions are unable to prevent sickness or ensure revival of a sick unit, they will deal with their outstanding dues to the unit in accordance with the normal banking procedures. However, before doing so, they will report the matter to the Government which will decide whether the unit should be nationalised or whether any other alternative- including workers' participation in management— can revive the undertaking.

(e) Where it is decided to nationalise the undertaking, its management may be taken over under the provisions of the Industries (Development and Regulation) Act, 1951, for a period of six months to enable the Government to take necessary steps for nationalisation.

(f) Finally the industrial undertakings presently being managed under the provisions of the Industries (Development and Regulation) Act, 1951, will also be dealt with in accordance with the above principles.

Concessions:

The Government has also provided certain concessions to assist revival of sick units without direct intervention. For example, the Government has amended the Income-tax Act in 1977 by addition of Section 72A by which tax benefit can be given to healthy units when they take over the sick units by amalgamation, with a view to reviving them.

The tax benefit is in the form of carry forward of the accumulated business losses and un-provided depreciation of the sick companies by the healthy companies after amalgamation. A scheme for provisions of margin money to sick units in the small-scale sector at soft terms to enable them to obtain necessary funds from banks and financial institutions to implement their revival scheme has been introduced from January 1, 1982.

Moreover, financial assistance in the form of long-term equity up to Rs. 15 lakh to units with a project cost not exceeding Rs. 10 lakhs at a nominal service charge of 1% is available to potentially viable sick SSI from the National Equity Fund.

Establishment of BIFR:

The Central Government has set up a Board for Industrial and Financial Re-construction (BIFR) with effect from 12 January 1987 in pursuance of enactment of the Sick Industrial Companies (Special

Provision) Act, 1985. This is a major step for intervening at an early stage and detecting, preventing, as well as taking ameliorative, remedial and such other measures which to be taken with respect to sick and potentially viable companies.
The role of the Board for Industrial and Financial Reconstruction (BIFR) needs a re-look in the face of a steep rise in the number of industries turning sick. BIFR was constituted to facilitate the revival of industries deemed sick. When an industry turns sick, BIFR acts as an operating agency (generally the lead financial institution having the largest loan exposure among the creditors) to devise a revival strategy proposal.
Progress in the right disposal of sick company cases registered with BIFR has been slow on account of the conflicting interests between the companies and the creditors (banks and financial institutions, government bodies/agencies) and certain lacunae in the SIC A Act. The rehabilitation schemes met with 40-45% failure, as a result of which many of the cases had to be reopened.
The rate of registration/sickness increased substantially during 1997-98 due to (a) the recessionary trends prevalent in industry, (b) poor financial market conditions, and (c) the tough stance taken by banks/financial institutions (FIs) towards defaulters/potentially sick companies under their non-performing assets (NPA) accounts for rescheduling of repayments, etc.
The problem appears even more acute if we take note of potentially sick BIFR companies, as also the NPAs of FIs and banks. In fact, the NPAs of banks and others have continued to rise.
Upto 1997-98 the outstanding bank credit against sick companies has reached an abnormal' proportion of over Rs. 23,658 crores, in March' 2000. Over 15 lakh workers have been affected by companies turning sick.

IRBI (IIBI):
The Industrial Reconstruction Bank of India (IRBI) set up in 1985 has initiated various steps for checking the growth of industrial sickness and helping in industrial revival. From April 1997 the name of IRBI has been changed to Industrial Investment Bank of India (IIBI). By March 2000, cumulative financial assistance sanctioned and disbursed by it stood at Rs. 10.090 crores and Rs. 7,353 crores, respectively.
A significant measure taken during 1986 was the setting up of Small Industries Development Fund (SIDF) in the IDBI. This is meant to provide special financial assistance to the small-scale sector. The Fund would be used for providing refinancing assistance not only for development, expansion and modernisation, but also for the rehabilitation of the small-scale sick industries.

Modernisation Fund:
The Government has set up two funds, namely the Textile Modernization Fund and the Jute Modernization Fund, for modernization of the textiles and jute sector. Under these two funds, assistance is provided not only to the healthy units for modernization at 11.5% rate of interest; but also' to sick but potentially viable units. Special loans are given to the weak units for meeting a part of the promoters' contribution.

Goswami Committee Report:
The Committee on Industrial Sickness and Corporate Restructuring under chairpersonship of Dr. Omkar Goswami submitted its report in July 1993.
The main recommendations of the Committee with respect to sick companies are:
(a) For early detection of sickness the definition of sickness should be changed to:-
(i) Default of 180 days or more on repayment to term lending institutions, and
(ii) Irregularities in cash credits or working capital for 180 days or more.
(b) Amendment of the Urban Land (Ceiling & Regulation) Act, 1976 to improve generation of internal resources of sick companies.
(c) Empower the BIFR for speedier restructuring, winding-up and sale of assets of companies; and

(d) A sick company's own reference of BIFR should be voluntary, not mandatory.

SICA Amendment Act, 1994:

The modifications brought in the Sick Industrial Companies (Special Provisions) Act, 1985 by the 1994 Amendment Act pertain to the changes in the definition of SICA, expansion of the term operating agency, clarification that an enquiry as to sickness shall be deemed to have commenced on receipt of a reference by the BIFR complete in all respects, scope for reverse merger, **"deemed consent"** after the lapse of 120 days, **"single window concept"** for release of funds by banks/finan-cial institutions to the sick company, monitoring implementation of sanctioned revival schemes by BIFR, holding on operations by financial institutions/banks/State Governments, empowering the Central Government, State Government, banks, institutions, etc., to report cases of potential sick-ness, etc.

In the definition of sickness the period for the registration of an industrial company as sick has been reduced from seven to five years. Furthermore, the condition of incurring cash losses during the preceding two years has been waived. This means that an industrial company would be considered a sick industrial company once its net worth is completely eroded and has been registered for not less than five years.

Suggested Remedies:

Some of the effective measures which may be taken for revival of sick units are technical help, professional counselling and improved management. Also, the role of professionals and experienced management becomes more important in times of sickness.

In addition to technical and professional consultants, no sick industry will ever be able to recuperate without sufficient, timely and soft finance. Bankers are the key to the problem. The role of the bankers needs to be redefined and a new direction needs to be given to support aid and lift sick in-dustrial units from the situations that befall them. It is also the level of service and support in terms of financial advice, assistance in related matters of insurance, release of hypothecated assets and timely finance.

The Sick Industrial Companies (Special Provisions) Bill, 1997, passed by Lok Sabha, introduced encouraging changes. It suggested that a time-bound procedure was to be adopted within which the scheme has to be sanctioned and BIFR would play the role of a mediator and not a court.

Technical obsolescence and financial mismanagement are also important factors that lead to industrial sickness. As per the new provisions, an opportunity will be given to get an unanimous consent to a scheme from all concerned, failing which secured creditors will attempt to form a scheme and, if all this fails, the undertaking would be sold off. Only if it is not possible to do that, the BIFR may order winding up of the company.

ENTREPRENEURSHIP DEVELOPMENT - Module II

Entrepreneurial Environment

Entrepreneurial venture of any sort/nature is being influenced by complex and varying mixture of financial, institutional, cultural and personality factors. Economic system and other conditions in the environment determine the success of commercial venture. Environment refers to the totality of all factors which are external and beyond the control of the business enterprise. It determines how entrepreneurship control and manage the unit. The entrepreneurial performance of an enterprise is influenced by the value system of the society, the rules and regulations made by the government, the monetary policies of the capital market, foreign investments etc. If environment changes there will be a change in the entrepreneurial performance also. Thus, the healthy environment promotes the entrepreneurship in a larger scale by facilitating the business operations thereby contributing to the growth of the unit.

Environmental Factors

It is true that the entrepreneurs must have come from diverse economic, social and geographical backgrounds which interlace influence entrepreneurial spirits. This will enhance the entrepreneurial performance. The various factors which influences the entrepreneurship may be categorized into two, i.e. **Internal and External environment** factors.

A) Internal Factors

The internal environmental factors are mainly the environment in which entrepreneurs are born and brought up and work. Internal factors are those which will stimulate the entrepreneurs from within to take up entrepreneurial venture. Some of them are:

i. Strong desire of entrepreneurs to do something independently in life.
ii. Technical know-how or manufacturing experiences acquired by them.
iii. Business experience in the same or related line.
iv. Family background including size, type and economic status of family.
v. Occupational origins of the entrepreneurs.

Factors are the main springs of action in entrepreneurs. In order to satisfy their strong desire to do something independently in life, highly motivated persons take a plunge in to industrial activity' regardless of any other considerations. But, many a time it is the: compulsion rather than the ambition that leads the man to success. Various other internal environmental factors that facilitate the emergence of entrepreneurship are:

i. Success stories of entrepreneurs
ii. Previous experience in manufacturing
iii. Previous employment in industry
iv. Property inherited
v. Property acquired
vi. Encouragement of family members
vii. Encouragement of friends and relatives
viii. Acquired or inherited technical and professional skill

B) External Environment

The success of entrepreneurship in a region at any point of time depends on the very many external environmental factors. These factors influence the entrepreneurial operations and ultimately determine the effectiveness of entrepreneurial performance also. These environmental factors can be grouped into:

i) Economic Environment

The different economic environmental factors which influence/ inhibit the entrepreneurship are: Structure of the economy, Industrial Policy, Agricultural" Policy, Growth pattern of National income, G.D.P., Savings and capital formation in the country. Besides that, Balance of trade and balance of payments, trade and tariff policy etc.

ii) Legal Environment

Entrepreneur should know what the prevailing legal environment is by knowing the latest position in legal enactments relating to various aspects of entrepreneurial venture. Such as formation of the unit, collaboration, foreign exchange, industrial dispute, labour management, social security benefits, consumer protection etc.

iii) Political Environment

The working political system in a country influences the entrepreneurial growth by designing and implementing various policy matters pertaining to promotion of entrepreneurship. Hence entrepreneurs and industrialists should have representatives on various government bodies at all levels of policy formulation and planning.

iv) Socio-Cultural Environment

In the modem days a suitable entrepreneurial culture must be created by developing healthy work environment and modem attitudes towards work giving social recognition etc. These factors will give psychological stimulus which in turn promotes innovation, inspiration, ethics and values which are very essential for a successful entrepreneurs.

The external environmental factors are:

- Financial assistance from institutional sources.
- Accommodation in industrial estates.
- Provision of consultancy to services on technical
- Market and financial aspects.
- Provision of subsides of different kinds.
- Arranging the institutional support for marketing the products/ services.
- Attitude of the Government to help new units.
- Encouraging the co-ordination between larger and smaller firms.
- Providing necessary infrastructural facilities continuously.

External environment determine the entrepreneurship in many occasions. Hence presence of conducive business environmental climate is imperative for entrepreneurship growth. External environment facilitates various functional areas of business enterprise thereby promote entrepreneurship. The various factors that impede the growth entrepreneurship arose mainly due to external environment. Some of them are:

- Changes in governmental policy
- Political instability or hostile government attitude
- Improper co-ordination among different government agencies. Undue delay and corruption in

giving concurrences for various purposes

- Poor-infrastructural facilities such as supply of power, materials, finance etc.
- Rise in cost of inputs.
- Unfavourable market fluctuations etc.

Identification of Business Opportunity

In general sense, the term opportunity implies a good chance or a favourable situation to do something offered by circumstances. In the same vein, business opportunity means a good or favourable change available to run a specific business in a given environment at a given point of time.

The term 'opportunity' also covers a product or project. Hence, the identification of an opportunity or a product or project is identical and, therefore, all these three terms are used as synonyms. The Government of India's "Look East Policy" through North East is an example of 'opportunity' to do business in items like tea, handicrafts, herbals, turmeric, etc.

Opportunity identification and selection are like comer stones of business enterprise. Better the former, better is the latter. In a sense, identification and selection of a suitable business opportunity serves as the trite saying 'well begun is half done.' But, it is like better said than done. Why? Because if we ask any intending entrepreneur what project or product he/she will select and start as an enterprise, the obvious answer he/she

would give is one that having a good market and is profitable. But the question is how without knowing the product could one know its market?
Whose market will one find out without actually having the product? Whose profitability will one find out without actually selling the product? There are other problems, besides. While trying to identify the suitable product or project, the intending entrepreneur passes through certain processes.
The processes at times create a situation, or say, dilemma resembling 'Hen or Egg' controversy. That is, at one point, the intending entrepreneur may find one product or project as an opportunity and may enchant and like it, but at the other moment may dislike and turn down it and may think for and find other product or project as an opportunity for him/her. This process of dilemma goes on for some intending entrepreneurs rendering them into the problem of what product or project to start. Then, how to overcome this problem of product identification and selection?
One way to overcome this dilemmatic situation is to know how the existing entrepreneurs identified the opportunity and set up their enterprises. An investigation into the historical experiences of Indian small enterprises in this regard reveals some interesting factors. **To mention the important ones, the entrepreneurs selected their products or projects based on:**
a. Their own or partners' past experience in that business line;
b. The Government's promotional schemes and facilities offered to run some specific business enterprises;
c. The high profitability of products;
d. Which indicate increasing demand for them in the market?
e. The availability of inputs like raw materials, labour, etc. at cheaper rates;
f. The expansion or diversification plans of their own or any other ongoing business known to them;
g. The products reserved for small-scale units or certain locations.
Now, having gained some idea on how the existing entrepreneurs selected products/projects, the intending entrepreneur can find a way out of the tangle of which opportunity/product/project to select to finally pursue as one's business enterprise. One of the ways employed by most of the intending entrepreneurs to select a suitable product/project is to firstly generate ideas about a few products/ projects. Accordingly, what follows next is a discussion idea generation about products.
Sources of Ideas:
In a sense, opportunity identification and selection are akin to, what is termed in marketing terminology, 'new product development.' Thus, product or opportunity identification and selection process starts with the generation of ideas, or say, ideas about some opportunities or products are generated in the first instance.
The ideas about opportunities or products that the entrepreneur can consider for selecting the most promising one to be pursued by him/her as an enterprise, can be generated or discovered from various sources- both internal and external.
These may include:
(i) Knowledge of potential customer needs,
(ii) Watching emerging trends in demands for certain products,
(iii) Scope for producing substitute product,
(iv) Going through certain professional magazines catering to specific interests like electronics, computers, etc.
(v) Success stories of known entrepreneurs or friends or relatives,
(vi) Making visits to trade fairs and exhibitions displaying new products and services,
(vii) Meeting with the Government agencies,
(viii) Ideas given by the knowledgeable persons,
(ix) Knowledge about the Government policy, concessions and incentives, list of items reserved for exclusive manufacture in small-scale sector,
(x) A new product introduced by the competitor, and
(xi) One's market insights through observation.

In nutshell, a prospective entrepreneur can get ideas for establishing his/ her enterprise from various sources. These may include consumers, existing products and services presently on offer, distribution channels, the government officials, and research and development.

A brief mention about each of these follows in turn:

Consumer Needs:

No business enterprise can be thought of without consumers. Consumers demand for products and services to satisfy their wants. Also, consumers' wants in terms of preferences, tastes and liking keep on changing. Hence, an entrepreneur needs to know what the consumers actually want so that he/she can offer the product or service accordingly. Consumers' wants can be known through their feedback about the products and services they have been using and would want to use in future.

Existing Products and Services:

One way to have an enterprise idea may be to monitor the existing products and services already available in the market and make a competitive analysis of them to identify their shortcomings and then, based on it, decide what and how a better product and service can be offered to the consumers. Many enterprises are established mainly to offer better products and services over the existing ones.

Distribution Channels:

Distribution channels called, market intermediaries, also serves as a very effective source for new ideas for entrepreneurs. The reason is that they ultimately deal with the ultimate consumers and, hence, better know the consumers' wants. As such, the channel members such as wholesalers and retailers can provide ideas for new product development and modification in the existing product. For example, an entrepreneur came to know from a salesman in a departmental store that the reason his hosiery was not selling was its dark shade while most of the young customers want hosiery with light shade. The entrepreneur paid heed to this feedback and accordingly changed the shade of his hosiery to light shade. Entrepreneur found his hosiery enjoying increasing demand just within a month.

Government:

At times, the Government can also be a source of new product ideas in various ways. For example, government from time to time issues regulations on product production and consumption. Many a times, these regulations become excellent sources for new ideas for enterprise formation. For example, government's regulations on ban on polythene bags have given new idea to manufacture jute bags for marketing convenience of the sellers and buyers. A prospective entrepreneur can also get enterprise idea from the publications of patents available for license or sale. Besides, there are some governmental agencies that assist entrepreneurs in obtaining specific product information. Such information can also become basis for enterprise formation.

Research and Development:

The last but no means the least source of new ideas is research and development (R&D) activity. R&D can be carried out in-house or outside the organization. R&D activity suggests what and how a new or modified product can be produced to meet the customers' requirements. Available evidences indicate that many new product development, or say, new enterprise establishments have been the outcome of R&D activity. For example, one research scientist in a Fortune 500 company developed a new plastic resin that became the basis of a new product, a plastic moulded modular cup pallet. Most of the product diversifications have stemmed from the organization's R&D activity.

Methods of Generating Ideas:

As seen above, there could be variety of sources available to generate ideas for enterprise formation. But, even after generating ideas to convert these into enterprise is still a problem for the prospective entrepreneur. The reason is not difficult to seek.

This involves a process including first generating the ideas and then scrutinizing of the ideas generated to come up with an idea to serve as the basis for a new enterprise formation. The entrepreneur can use several methods to generate new ideas. However, the most commonly used methods of generating ideas are: focus groups, brainstorming, and problem inventory analysis.

These are discussed as follows:

Focus Groups:

A group called 'focus group' consisting of 6-12 members belonging to various socio-economic backgrounds are formed to focus on some particular matter like new product idea. The focus group is facilitated by a moderator to have an open in-depth discussion. The mode of the discussion of the group can be in either a directive or a non-directive manner. The comment from other members is supplied with an objective to stimulate group discussion and conceptualize and develop new product idea to meet the market requirement. While focusing on particular matter, the focus group not only generates new ideas, but screens the ideas also to come up with the most excellent idea to be pursued as a venture.

Brainstorming:

Brainstorming technique was originally adopted by Alex Osborn in 1938 in an American Company for encouraging creative thinking in groups of six to eight people. According to Osborn, brainstorming means using the brain to storm the issue/problem. Brainstorming ultimately boils down to generate a number of ideas to be considered for the dealing with the issue/problem. There are two principles that underlie brainstorming. One is differed judgment, by which all ideas are encouraged without criticism and evaluation. The second principle is that quantity breeds quality. The brainstorming session to be effective needs to work like a fun, free from any type of compulsions and pressures.

Problem Inventory Analysis:

Problem Inventory analysis though seems similar to focus group method, yet it is somewhat different from the latter in the sense that it not only generates the ideas, but also identifies the problems the product faces. The procedure involves two steps: One, providing consumers a list of specific problems in a general product category. Two identifying and discussing the products in the category that, suffer from the specific problems. This method is found relatively more effective for the reason that it is easier to relate known products to a set of suggested problems and then arrive at a new product idea. However, experiences available suggest that problem inventory analysis method should better be used for generating and identifying new ideas for screening and evaluation. The results derived from product inventory analysis need to be carefully screened and evaluated as they may not actually reflect a genuine business opportunity. For example, General Foods' introduction of a compact cereal box in response to the problem that the available boxes did not fit well on the shelf was not successful, as the problem of package size had little effect on actual purchasing behaviour. Therefore, to ensure the better if not the best results, problem inventory analysis should be used primarily to generate product ideas for evaluation.

Opportunity/Product Identification:

After going through above process, one might have been able to generate some ideas that can be considered to be pursued as ones business enterprise.

Imagine that someone have generated the five ideas as opportunities as a result of above analysis:

1. Nut and bolt manufacturing (industry)
2. Lakhani Shoes (industry)
3. Photocopying unit (service-based industry)
4. Electro-type writer servicing (service-based industry).
4. Polythene bags for textile industry (ancillary industry)

An entrepreneur cannot start all above five types of enterprises due to small in size in terms of capital, capability, and other resources. Hence, he/she needs to finally select one idea which he/she thinks the most suitable to be pursued as an enterprise. How does the entrepreneur select the most suitable project out of the alternatives available? This is done through a selection process discussed subsequently. Having gone through idea generation, also expressed as 'opportunity scanning' and opportunity identification, we can distinguish between an idea and opportunity. We are giving below the two situations that will help you understand and draw the line of difference between an 'idea' and an 'opportunity'.

Situation I: Having completed their Master of Business Administration (MBA), Chinmoy and Chandan met after about six months. The two were conversing with each other about who is doing what. Chinmoy is running his business of travel agency and Chandan is still searching for a job. Chinmoy suggests Chandan to start some business. Observe and read the market scenario and produce what the consumers actually want.

Situation II: On completion of his engineering degree, Dillip got a job in Odisha State Transport Corporation. He was the in-charge of the purchase department. Having worked in the purchase department for over ten years, he had gained good idea about which components have more demand and who are the buyers of these parts in bulk. He, therefore, thought good prospects of manufacturing of some of the components having good demand in bulk.

Now, it is clear that, in the above mentioned two satiations, situation I is at the 'idea stage' and situation II at the 'opportunity stage'. At the idea stage, there is simply an idea about what to do. But at the opportunity stage, idea has actually been germinated about what to start/do. The understanding of such a difference between an 'idea' and 'opportunity' is very important for the intending entrepreneurs who are seriously trying to identify an 'opportunity' to be pursued as an enterprise.

Business Incubation

Business incubation is a public and/or private, entrepreneurial, economic and social development process designed to nurture businesses from idea generation to start-up companies and, through a comprehensive business support program, help them establish and accelerate their growth and success. The business incubator is a physical space or facility that accommodates a business incubation process. This definition is the simplest, most generic and inclusive one, the result of a long process of discussion between some 30 business incubation associations and should be considered as the reference even though some national business incubation associations, such as the National Business Incubation Association (NBIA) of the United States of America, may have their own business incubation definition, such as:

"Business incubators nurture the development of entrepreneurial companies, helping them survive and grow during the start-up period, when they are most vulnerable. Their programs provide client companies with business support services and resources tailored to young firms. The most common goals of incubation programs are creating jobs in a community, enhancing a community's entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry and diversifying local economies".

Business incubation is applicable at the "early-stage entrepreneurial activity" stage of enterprise development, as represented in the below figure. At this stage, the entrepreneur has transformed their idea into a business. Incubation is a continuous relationship between the incubator and the early-stage entrepreneur with graduation as the target and occurring when the early-stage company has reached sufficient maturity. Through the incubation process, the support provided by the incubator evolves along with the development needs of the business (e.g. the business has developed prototypes, pilot products, has started selling and so on)

The Components of Business Incubation

Incubators are different from business centers in that business centres only offer rental space, access to office equipment (computers, photocopiers, etc.) and meeting rooms. Incubators, on the other hand, typically offer a full range of business support to their clients, helping them through the challenging formative years and allowing them to develop their businesses and focus on bringing products and services to market.

The most common forms of support include:

• Infrastructure, such as office space;
• Business services, such as administration and information services;
• Financing, such as providing the incubator's client businesses with information and support that will allow them to access appropriate sources of finance; and
• "People Connectivity", which includes mentoring and coaching services, and access to networks.

Infrastructure: Most incubators offer "easy in, easy out" conditions; monthly rental terms that allow flexibility for clients when joining or exiting. Some incubators, particularly sector specific incubators, offer technical facilities, such as laboratories and equipment that can be very helpful, especially to a technology based start-up.

Business services: Incubators provide access to administration and communication services such as Internet, telecommunications, photocopy, fax, binding, reception, mail, document receipt and dispatch, and secretarial assistance. These support services help clients to concentrate on their core business rather than on the support infrastructure.

Financing: Incubators support businesses in accessing various sources of finance. Depending on the growth stage of the business, the incubator may link its client with government grant schemes, banks, or venture capitalists. Hence, the type of financing may vary from seed grants, to credit, to equity. Some incubators may make their own sources of financing available for their clients as well, for example some incubators manage their own seed fund to invest in their client businesses.

"People Connectivity": Incubators facilitate advisory relationships between the start-up company management team and an experienced individual from the incubator management team or an external expert from the relevant sector or industry (the mentor). In this way, incubators help to build the individual entrepreneurial and business skills of each client. Personal skills, such as financial, marketing and management skills, as well as overall good business judgment, are critical to any business' success. Incubators, therefore, work to improve these skills in their clients.

As far as businesses in their early development phases are concerned, very common challenges efficiently tackled by business incubation are:

1. Lack of business knowledge and experience. The incubator informs and guides the start-up entrepreneurs through the process and steps of setting-up a business by providing them with information, examples, tools, and relevant contacts to successfully carry out these required activities. Examples of support could include the registration of the business or help in finding an appropriate business partner.
2. Unrealistic expectations regarding the time required to start, secure and grow a business. Besides the advice provided by the incubator staff, the incubator offers networking opportunities between entrepreneurs (within the incubator and externally) who, even though they may operate in different sectors, go through the same doubts and difficulties. Sharing experiences about these challenges can help with overcoming the problem of unrealistic expectations, for example regarding the time needed to reach breakeven, for generating the first income from sales, and for acquiring additional finance.
3. Lack of management awareness and experience. Management needs to evolve as a business develops (there are differences in managing a business as a single entrepreneur /a small start-up team /or a small, growing business with numerous employees). The incubator provides information and support at different stages of the incubatee's development, for example in attracting, recruiting and retaining the required staff for the success of the business.

4. Lack of social capital (contacts and networks). Incubators offer access to relevant contacts and networks, which are important to ensure the businesses' growth and success.

When looking at how to grow their business, entrepreneurs will most likely face some or even all of the following challenges at a certain point in the early stage of their development:
• Lack of Demand
• Poor Access to Customers
• Competition
• Too few Products or Services
• Lack of Skilled Staff
• Lack of Finance /Capital
• Low Business Skills
• Low Technical Skills
• Lack of Space
• Lack of Time
• Difficulties reconciling Business Activities with Family Arrangements
• Work Related Health Problems/ Stress
• Tax and Compliance Issues
• Government regulations or restrictions

In response to these challenges, the business incubator provides:
• Business mentoring, coaching and counselling for capacity building
• Business management advice including human resources management
• Business training workshops such as how to close a deal
• Business planning advice to secure the success and sustainability of the business
• Networking opportunities including access to technical advisors with regard to product development
• Market research and marketing advice to identify the most appropriate market segment and pitch for the product
• Help in finding new markets to access market opportunities
• Help with sales by accessing professional business advisors
• Help with raising finance to access an adequate source of finance
• Financial management advice to secure the smooth financial management of the business
• ICT and office facilities such as office space, fax and photocopying machines, Internet and e-mail access, meeting room, and car parking.

Setting up a Small Scale Industry/Unit (SSI/U)
As soon as a person decides to become an entrepreneur and to start a MSME, he is required to take a number of steps and formalities one after the other. They are as follows:

1) Scanning of Business Environment: it is essential on the part of the entrepreneur to study and understand the prevailing business environment. Entrepreneur should scan the business opportunities and threats in the new environment. To study the administrative framework, procedure, rules and regulations and other formalities implemented by the government. The potential entrepreneur must assess his own deficiencies, which he can compensate through training.

2) Selection of the Product: The very success of one's venture will depend on the rationality of his decision in this regard. The economic viability of the product can be ascertained by considering certain demand aspects such as volume of demand in the domestic market, volume of demand in the export market, volume of potential demand, a degree of substitution of an existing product etc. The prospective entrepreneur has to identify the product based on market research or market survey.

3) Selection of Form of Ownership: He has to select sole proprietorship or family ownership or partnership or private limited company as the form of the ownership.

4) Selection of Location and Site: Location is selected after considering certain factors such as nearness to market, sources of material and labour, modern infrastructure facilities etc. The entrepreneur has to choose a suitable plot for the factory. He may purchase land directly or choose from an industrial area developed by State Development Corporations like SIDCO, or Directorate of Industries. In order to stimulate industrial growth, the government of Odisha is providing infrastructural assistance by way of (1) Developing areas. (2).Development Plots. (3).Industrial estates, and (4).Mini industrial units.

5) Designing Capital Structure: Apart from the own capital, he may secure finance from friends and relatives, term loans from banks and financial institutions.

6) Acquiring Manufacturing Know-How or Technology: Many institutions of government, research laboratories, research and development divisions of big industries and certain consultancy agencies provide the manufacturing know-how.

7) Preparation of Project Report: The report usually covers important items like sources of finance, availability of machinery and technical know-how, sources of raw material and labour, market potential and overall profitability.

8) Registration as a Small Scale Industry: Registration with Department of industries and Commerce is only optional. There is no statutory obligation, but small scale industries can avail various facilities, incentives and concessions offered by the state as well as central government only if they registered as SSI. The registration would be done in two stages. Provisional Registration: It will be valid for one year with possible three extensions of six months each. It helps entrepreneur to take necessary steps to bring the units into existence. The provisional registration may enable the party to:(1) Apply to NSIC/SIDO and other institutions for procuring machines on Hire Purchase basis.(2) Apply for power connection.(3) Apply to local Bodies for permission to construct the shed to establish a unit.(4) Apply for financial assistance to SFC/Banks or other financial institutions on the basis of project report.(5) Obtain sales tax, excise registration etc. whenever required.(6) Apply for a shed in an industrial estate/ development site in an industrial area/ material for construction of shed as the case may be.

9) Obtaining Statutory Licence: Any person should obtain the following licences and certificates before starting the venture :(A) Licence from Local Bodies For (1) Construction of the building. (2) Installation of plant and machinery. (B) Licence from the Directorate of Factories and Boilers For :(1) Approval of factory building. (2) Registration under section 6, 7 and 85 of the Factory Act. (C)No Objection Certificate from State Pollution Control Board.

10) Apply for Power Connection: There are 2 categories of power, the Low Tension (LT) and High Tension (HT). A consumer can avail LT only if the connected load is 75 HP and below. If connected load is between 75 HP and 130 HP, the consumer has the option to avail either LT supply or HT supply.

11) Arrangement of Finance: Entrepreneur needs to acquire assists of 2 kinds namely Fixed assets and current assets. Long term finance is needed to acquire fixed assets like land, building, plant and machinery and for security deposits. Short term funds are required for acquiring current assets. Current assets are essential for the day to day working of the industry. Long term funds includes owner's capital, subsidy from central/ state govt., personal borrowings from friends and relatives and long term loans from financial institution like OSFC.

12) Registration under the Sales Tax Act: In the GST Regime, businesses whose turnover exceeds Rs. 40 lakhs (Rs 10 lakhs for NE and hill states) is required to register as a normal taxable person. This process of registration is called GST registration. For certain businesses, registration under GST is mandatory. If the organization carries on business without registering under GST, it will be an offence under GST and heavy penalties will apply. Small businesses having an annual turnover less than Rs. 1.5 crore** (Rs. 75 Lakhs for

NE States) can opt for Composition scheme. **CBIC (Central Board of Indirect Taxes and Customs) has notified the increased in the threshold turnover for opting into the Composition Scheme from Rs 1 crore to Rs 1.5 crores. The notification was effective from 1st April 2019.

13) Installation of Machinery: Machinery should preferably be installed as per the plant layout.

14) Recruitment of Manpower: The number and type of workers is to be decided. After this, the required workers should be recruited.

15) Procurement of Raw Material: The raw materials may be procured indigenously or may have to be imported by the entrepreneur. The next step is to start production, which is taken up in two stages-Trial production and Commercial production having successfully test marketed the product, commercial marketing can be undertaken.

16) Application for Permanent Registration: For this, application form has to be made to the GM of DIC through IEO/ Taluk Industries Officer. The GM should inform the entrepreneur of the date and time of inspection of the unit. On being satisfied a registration certificate may be issued by the Directorate of Industries within one month of the receipt of the application. The period of the certificate whether provisional or permanent will be for a period of 2 years. Renewal certificate would be affected by the GM (DIC) within a period of 3 months from the date of expiry of certificate.

Location Strategy for a SSU

Being in the right location is a key ingredient in a business's success. If a company selects the wrong location, it may have adequate access to customers, workers, transportation, materials, and so on. Consequently, location often plays a significant role in a company's profit and overall success. A location strategy is a plan for obtaining the optimal location for a company by identifying company needs and objectives, and searching for locations with offerings that are compatible with these needs and objectives. Generally, this means the firm will attempt to maximize opportunity while minimizing costs and risks.

A company's location strategy should conform with, and be part of, its overall corporate strategy. Hence, if a company strives to become a global leader in telecommunications equipment, for example, it must consider establishing plants and warehouses in regions that are consistent with its strategy and that are optimally located to serve its global customers. A company's executives and managers often develop location strategies, but they may select consultants (or economic development groups) to undertake the task of developing a location strategy, or at least to assist in the process, especially if they have little experience in selecting locations.

Formulating a location strategy typically involves the following factors:

1. Facilities. Facilities planning involves determining what kind of space a company will need given its short-term and long-term goals.
2. Feasibility. Feasibility analysis is an assessment of the different operating costs and other factors associated with different locations.
3. Logistics. Logistics evaluation is the appraisal of the transportation options and costs for the prospective manufacturing and warehousing facilities.
4. Labour. Labour analysis determines whether prospective locations can meet a company's labour needs given its short-term and long-term goals.
5. Community and site. Community and site evaluation involves examining whether a company and a prospective community and site will be compatible in the long-term.
6. Trade zones. Companies may want to consider the benefits offered by free-trade zones, which are closed facilities monitored by customs services where goods can be brought without the usual customs requirements. The United States has about 170 free-trade zones and other countries have them as well.

7. Political risk. Companies considering expanding into other countries must take political risk into consideration when developing a location strategy. Since some countries have unstable political environments, companies must be prepared for upheaval and turmoil if they plan long-term operations in such countries.

8. Governmental regulation. Companies also may face government barriers and heavy restrictions and regulation if they intend to expand into other countries. Therefore, companies must examine governmental—as well as cultural—obstacles in other countries when developing location strategies.

9. Environmental regulation. Companies should consider the various environmental regulations that might affect their operations in different locations. Environmental regulation also may have an impact on the relationship between a company and the community around a prospective location.

10. Incentives. Incentive negotiation is the process by which a company and a community negotiate property and any benefits the company will receive, such as tax breaks. Incentives may place a significant role in a company's selection of a site.

Depending on the type of business, companies also may have to examine other aspects of prospective locations and communities. Based on these considerations, companies are able to choose a site that will best serve their needs and help them achieve their goals.

Company Requirements

The initial part of developing a location strategy is determining what a company will require of its locations. These needs then serve as some of the primary criteria a company uses to evaluate different options. Some of the basic requirements a company must consider are:

- Size. A company must determine what size property or facility it needs.
- Traffic. If it is in the service business, a company must obtain statistics on the amount of traffic or the number of pedestrians that pass by a prospective location each day.
- Population. Whether a service or manufacturing operation, a company must examine the population of prospective locations to ensure that there is a sufficient number of potential customers (if a service business) or a sufficient number of skilled or trainable workers. In addition, manufacturers also benefit from being close to their customers, because proximity to customers reduces shipment time and increases company responsiveness to customers.
- Total costs. Companies must determine the maximum total costs they are willing to pay for a new location. Total costs include distribution, land, labor, taxes, utilities, and construction costs. More obscure costs also should be considered, such as transportation costs to ship materials and supplies, and the loss of customer responsiveness if moving further away from the customer base.
- Infrastructure. Companies must consider what their infrastructure requirements will be, including what modes of transportation they will need and what kinds of telecommunications services and equipment they will need.
- Labour. Companies must establish their labour criteria and determine what kind of labour pool they will need, including the desired education and skilled levels.

- Suppliers. Companies must consider the kinds of suppliers they will need near their locations. In addition, having suppliers nearby can help companies reduce their production costs.

Besides these basic requirements, companies must take into consideration their unique requirements of prospective locations. These requirements may correspond to their overall corporate strategy and corporate goals and to their particular industries.

Location Selection Techniques

MANUFACTURING Unit

Several techniques exist that can be used as part of a location strategy to determine the merits of prospective sites. Location strategists often divide assessment of prospective locations into macro analysis and micro analysis. Macro analysis encompasses the evaluation of different regions and communities, whereas micro analysis includes the evaluation of particular sites. The main macro analysis techniques are factor-rating systems, linear programming, and centre of gravity.

a) Factor-rating systems are among the most commonly used techniques for choosing a location, because they analyse diverse factors in an easily comprehensible manner. Factor-rating systems simply consist of a weighted list of the factors a company considers the most important and a range of values for each factor (see Table 1). A company can rate each site with a value from the range based on the costs and benefits offered by the alternative locations, and multiply this value by the appropriate weight. These numbers are then summed to get an overall "factor rating." Then a company can compare the overall ratings of alternative sites. This technique enables a company to choose a location systematically based on the best rating.

b) Linear programming provides a method for evaluating the cost of prospective locations within a production/distribution network. This technique uses a matrix of production facilities and warehouses that shows the unit shipping costs from a manufacturing location designated by a variable, such as *X*, to prospective destinations, such as warehouses designated by other variables— *E*, *F*, and *G* —and the total amount of goods the prospective manufacturer, *X*, could produce. Other prospective manufacturing locations and the same information for each are also included in the matrix. After computing the total costs for each

prospective location, a company can determine which one has lower total costs in terms of the entire production/distribution network.

c) The centre of gravity method is useful for identifying an individual location by considering existing locations, the distances between them, and the volume of products to be shipped. Companies use this method mostly for locating distribution warehouses. To use this technique, companies plot their existing locations on a grid with a coordinate system (the particular coordinate system used does not matter). The idea behind this technique is to identify the relative distances between locations. After the existing locations are placed on the grid, the centre of gravity is determined by calculating the *X* and *Y* coordinates that would have the lowest transportation costs.

SERVICES Unit

Since service businesses generally must maintain a number of sites to remain close to customers, the location selected should be close to the targeted segment of the market. The market also can influence the number of new locations, as well as their size and features.

A simple technique for determining service locations is to establish a set of minimum criteria for opening new outlets. These criteria should be developed so that the locations selected have strong chances of success. A company could assess the potential of prospective locations based on primary criteria such as:

- The population of the community should more than 100,000.
- The annual per capita income should be more than $35,000.

After selecting locations that satisfy these criteria, a company might further evaluate the potential locations based on a set of criteria that considers the location's industrialization, person/car ratio, labour availability, population density, and infrastructure.

Trends in Location Strategy

Globalization and technology have been the biggest drivers of change in the location decision process over the last thirty years. Location activity has been very high in recent decades as a result of technology improvements, economic growth, international expansion and globalization, and corporate restructuring, mergers and acquisitions.

The top five location factors for global companies are costs, infrastructure, labour characteristics, government and political issues, and economy. Key sub-factors are the availability and quality of the labour force, the quality and reliability of modes of transportation, the quality and reliability of utilities, wage rates, worker motivation, telecommunication systems, record of government stability, and industrial relations laws. Other sub-factors—protection of patents, availability of management resources and specific skills, and system and integration costs—are of increasing importance.
Whereas wages and the industrial relations environment are significant factors in multinational location decisions, by far the main determinant is the host country market size. Furthermore, global economic considerations have become paramount in location strategy as companies contemplate the advantages afforded by various locations in terms of positioning in international markets and against competitors.
When companies seek new sites they generally strive to keep operating and start-up costs low, and so they often choose locations in collaboration with economic development groups to achieve these goals. Companies also now expect to move into new facilities more quickly than in the past, so they
tend to focus more on leasing facilities than purchasing land and building new facilities. Also, by leasing facilities, companies can relocate every few years if the market requires it.
Technology, especially communications technology, has not only been a driver of change, but has facilitated the site selection process. Managers can obtain initial information on alternative locations via the Internet and promotional software. Site selections agencies increasingly use geographical infoErmation system (GIS) technology, and e-mail has become a dominant mode of communication in location research and negotiation.
Location databases have enabled companies to do initial screening themselves, hence reducing their need to rely on economic developers to providing only very specific information and details on locations—such as commuting patterns and workforce characteristics.
Telecommunications technology has created the "virtual office" of employees working from remote locations. The growth of the virtual office has impacted location strategy in that some companies no longer need as much workspace because many employees work from remote sites. When these employees need to work at the office, they can call and reserve office space for themselves. The decrease in facility size can lead to millions of dollars’ worth of savings each year, while increasing productivity.

Environmental Pollution & Environmental Protection Act

Pollution is the process of making land, water, air or other parts of the environment dirty and not safe or suitable to use. This can be done through the introduction of a contaminant into a natural environment, but the contaminant doesn't need to be tangible. Things as simple as light, sound and temperature can be considered pollutants when introduced artificially into an environment.
Toxic pollution affects more than 200 million people worldwide, according to Pure Earth, a non-profit environmental organization. In some of the world's worst polluted places, babies are born with birth defects, children have lost 30 to 40 IQ points, and life expectancy may be as low as 45 years because of cancers and other diseases. Read on to find out more about specific types of pollution.

Land pollution

Land can become polluted by household garbage and by industrial waste. In 2014, Americans produced about 258 million tons of solid waste, according to the U.S. Environmental Protection Agency. A little over half of the waste — 136 million tons— was gathered in landfills. Only about 34% was recycled or composted.
Organic material was the largest component of the garbage generated, the EPA said. Paper and paperboard accounted for more than 26%; food was 15% and yard trimmings were 13%. Plastics comprised about 13% of the solid waste, while rubber, leather and textiles made up 9.5% and metals 9%. Wood contributed to 6.2% of the garbage; glass was 4.4% and other miscellaneous materials made up about 3%.
Commercial or industrial waste is a significant portion of solid waste. According to the University of Utah, industries use 4 million pounds of materials in order to provide the average American family with needed products for one year. Much of it is classified as non-hazardous, such as construction material (wood, concrete, bricks, glass, etc.) and medical waste (bandages, surgical

gloves, surgical instruments, discarded needles, etc.). Hazardous waste is any liquid, solid or sludge waste that contain properties that are dangerous of potentially harmful to human health or the environment. Industries generate hazardous waste from mining, petroleum refining, pesticide manufacturing and other chemical production. Households generate hazardous waste as well, including paints and solvents, motor oil, fluorescent lights, aerosol cans and ammunition.

Water pollution

Water pollution happens when chemicals or dangerous foreign substances are introduced to water, including chemicals, sewage, pesticides and fertilizers from agricultural runoff, or metals like lead or mercury. According to the Environmental Protection Agency (EPA), 44% of assessed stream miles, 64% of lakes and 30% of bay and estuarine areas are not clean enough for fishing and swimming. The EPA also states that the United States' most common contaminants are bacteria, mercury, phosphorus and nitrogen. These come from the most common sources of contaminates, that include agricultural runoff, air deposition, water diversions and channelization of streams.

Water pollution isn't just a problem for the United States. According to United Nations, 783 million people do not have access to clean water and around 2.5 billion do not have access to adequate sanitation. Adequate sanitation helps to keep sewage and other contaminants from entering the water supply.

According to National Oceanic and Atmospheric Administration (NOAA), 80% of pollution in marine environment comes from the land through sources like runoff. Water pollution can also severely affect marine life. For example, sewage causes pathogens to grow, while organic and inorganic compounds in water can change the composition of the precious resource. According to the EPA, low levels of dissolved oxygen in the water are also considered a pollutant. Dissolved is caused by the decomposition of organic materials, such as sewage introduced into the water.

Warming water can also be harmful. The artificial warming of water is called thermal pollution. It can happen when a factory or power plant that is using water to cool its operations ends up discharging hot water. This makes the water hold less oxygen, which can kill fish and wildlife. The sudden change of temperature in the body of water can also kill fish. According to the University of Georgia, it is estimated that around half of the water withdrawn from water systems in the United States each year is used for cooling electric power plants.

Nutrient pollution, also called eutrophication, is another type of water pollution. It is when nutrients, such as nitrogen, are added into bodies of water. The nutrient works like fertilizer and makes algae grow at excessive rates, according to NOAA. The algae blocks light from other plants. The plants die and their decomposition leads to less oxygen in the water. Less oxygen in the water kills aquatic animals.

Air pollution

The air we breathe has a very exact chemical composition; 99% of it is made up of nitrogen, oxygen, water vapour and inert gases. Air pollution occurs when things that aren't normally there are added to the air. A common type of air pollution happens when people release particles into the air from burning fuels. This pollution looks like soot, containing millions of tiny particles, floating in the air.

Another common type of air pollution is dangerous gases, such as sulphur dioxide, carbon monoxide, nitrogen oxides and chemical vapours. These can take part in further chemical reactions
once they are in the atmosphere, creating acid rain and smog. Other sources of air pollution can come from within buildings, such as second-hand smoke.

Finally, air pollution can take the form of greenhouse gases, such as carbon dioxide or sulphur dioxide, which are warming the planet through the greenhouse effect. According to the EPA, the greenhouse effect is when gases absorb the infrared radiation that is released from the Earth, preventing the heat from escaping. This is a natural process that keeps our atmosphere warm. If too many gases are introduced into the atmosphere, though, more heat is trapped and this can make the planet artificially warm, according to Columbia University.

Air pollution kills more than 2 million people each year, according to a study published in the journal of Environmental Research Letters. The effects of air pollution on human health can vary widely depending on the pollutant, according to Hugh Sealy, professor and director of the environmental and occupational health track at the Department of Public Health and Preventive Medicine, St. George's University, St. George's, Grenada. If the pollutant is highly toxic, the effects on health can be widespread and severe. For example, the release of methyl isocyanate gas at Union Carbide plant in Bhopal in 1984 killed over 2,000 people, and over 200,000 suffered respiratory problems. An irritant (e.g. particulates less than 10 micrometers) may cause respiratory illnesses, cardiovascular disease and increases in asthma. "The very young, the old and those with vulnerable immune systems are most at risk from air pollution. The air pollutant may be carcinogenic (e.g. some volatile organic compounds) or biologically active (e.g. some viruses) or radioactive (e.g. radon). Other air pollutants like carbon dioxide have an indirect impact on human health through climate change," Sealy told Live Science.

Noise pollution

Even though humans can't see or smell noise pollution, it still affects the environment. Noise pollution happens when the sound coming from planes, industry or other sources reaches harmful levels. Research has shown that there are direct links between noise and health, including stress-related illnesses, high blood pressure, speech interference, hearing loss. For example, a study bythe WHO Noise Environmental Burden on Disease working group found that noise pollution may contribute to hundreds of thousands of deaths per year by increasing the rates of coronary heart disease. Under the Clean Air Act, the EPA can regulate machine and plane noise.

Underwater noise pollution coming from ships has been shown to upset whales' navigation systems and kill other species that depend on the natural underwater world. Noise also makes wild species communicate louder, which can shorten their lifespan.

Light pollution

Most people can't imagine living without the modern convenience of electric lights. For the natural world, though, lights have changed the way that days and nights work. Some consequences of light pollution are:

- Some birds sing at unnatural hours in the presence of artificial light.
- Scientists have determined that long artificial days can affect migration schedules, as they allow for longer feeding times.
- Streetlights can confuse newly hatched sea turtles that rely on starlight reflecting off the waves to guide them from the beach to the ocean. They often head in the wrong direction.
- Light pollution, called sky glow, also makes it difficult for astronomers, both professional and amateur, to properly see the stars.

- Plant's flowering and developmental patterns can be entirely disrupted by artificial light.
- According to a study by the American Geophysical Union, light pollution could also be making smog worse by destroying nitrate radicals that helps the dispersion of smog.

Environment Protection Act, 1986

The Environment (Protection) Act was enacted in the year 1986. It was enacted with the main objective to provide the protection and improvement of environment and for matters connected therewith. The Act is one of the most comprehensive legislations with a pretext to protection and improvement of the environment.

The Constitution of India also provides for the protection of the environment. Article 48A of the Constitution specifies that the State shall endeavour to protect and improve the environment and to safeguard the forests and wildlife of the country. Article 51 A further provides that every citizen shall protect the environment.

Premises of the Act

It is now generally accepted that environment is threatened by a wide variety of human activities ranging from the instinctive drive to reproduce its kind to the restless urge of improving the standards of living, development of technological solutions to this end, the vast amount of waste, both natural and chemical, that these advances produce.

Paradoxically, this urge to grow and develop, which was initially uncontrolled is now widely perceived to be threatening as it results in the depletion of both living and non-living natural resources and life support systems. The air, water, land, living creatures as well as the environment, in general, is becoming polluted at an alarming rate that needs to be controlled and curbed as soon as possible. The 1986 Act was enacted in this spirit.

From time to time various legislations have been enacted in India for this purpose. However, all legislations prior to the 1986 Act have been specific relating to precise aspects of environmental pollution. However, the 1986 Act was general legislation enacted under Article 253 (Legislation for giving effect to international agreements.

Notwithstanding anything in the foregoing provisions of this Chapter, Parliament has the power to make any law for the whole or any part of the territory of India for implementing any treaty, agreement or convention with any other country or countries or any decision made at any international conference, association or other bodies) of the Constitution, pursuant to the international obligations of India.

India was a signatory to the **Stockholm Conference of 1972** where the world community had resolved to protect and enhance the environment.

The United Nations conference on the human environment, held in Stockholm in June 1972, proclaimed that "Man is both creator and moulder of his environment, which gives him physical sustenance and affords him the opportunity for intellectual, moral, social and spiritual growth.

In the long and tortuous evolution of the human race on this planet, a stage has reached when through the rapid acceleration of science and technology man has acquired the power to transform his environment in countless ways and on an unprecedented scale. Both aspects of man's
environment, the natural and man-made are essential to his well being and to the enjoyment of basic human rights even the right to life itself".

While several legislations such as **The Water (Prevention and Control of Pollution) Act, 1974** and **The Air (Prevention and Control of Pollution) Act, 1981** were enacted after the Conference, the need for general legislation had become increasingly evident. The EPA was enacted so as to overcome this deficiency.

Objectives

As mentioned earlier, the main objective of the Act was to provide the protection and improvement of environment and for matters connected therewith. Other objectives of the implementation of the EPA are:

- To implement the decisions made at the UN Conference on Human Environment held at Stockholm in June 1972.
- To enact a general law on the areas of environmental protection which were left uncovered by existing laws. The existing laws were more specific in nature and concentrated on a more specific type of pollution and specific categories of hazardous substances rather than on general problems that chiefly caused major environmental hazards.
- To co-ordinate activities of the various regulatory agencies under the existing laws
- To provide for the creation of an authority or authorities for environmental protection
- To provide deterrent punishment to those who endanger the human environment, safety and health

Scope and Applicability

The Environment (Protection) Act is applicable to the whole of India including Jammu & Kashmir. It came into force on November 19, 1986.

Definitions

Section 2 of the EPA deals with definitions. Some important definitions provided in the Section are:

- Section 2 (a) "**Environment**" includes water, air, and land and the interrelationship that exists among and between water, air and land and human beings, other living creatures, plants, micro-organism and property. This definition is not exhaustive but an inclusive one.

 Section 2 (b) "**Environmental Pollutant**" means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be injurious to environment.

 Section 2 (c) "**Environmental Pollution**" means the presence in the environment of any environmental pollutant. This implies an imbalance in the environment. The materials or substances when after mixing in air, water or land alters their properties in such manner, that the very use of all or any of the air-water and land by man and any other living organism becomes lethal and dangerous for health.

 Section 2 (e) "**Hazardous Substance**" means any substance or preparation which, by reasons of its chemical or Physico-chemical properties or handling, is liable to cause harm to human beings, other living creatures, plants, micro-organism, property or environment.

Powers of Central Government to take measures to Protect and Improve Environment

According to the provisions of the Act, the Central Government shall have the power to take all such measures as it deems necessary or expedient for the purpose of protecting and improving the quality of the environment and preventing controlling and abating environmental pollution.

Such measures may include measures with respect to all or any of the following matters, namely:

a. co-ordination of actions by the State Governments, officers and other authorities- (a) under this Act, or the rules made thereunder, or (b) under any other law for the time being in force which is relatable to the objects of this Act;

b. planning and execution of a nation-wide programme for the prevention, control and abatement of environmental pollution;

c. laying down standards for the quality of the environment in its various aspects;

d. laying down standards for emission or discharge of environmental pollutants from various sources whatsoever: Provided that different standards for emission or discharge may be laid down under this clause from different sources having regard to the quality or composition of the emission or discharge of environmental pollutants from such sources;

e. restriction of areas in which any industries, operations or processes or class of industries, operations or processes shall not be carried out or shall be carried out subject to certain safeguards;

f. laying down procedures and safeguards for the prevention of accidents which may cause environmental pollution and remedial measures for such accidents;

g. laying down procedures and safeguards for the handling of hazardous substances;

h. examination of such manufacturing processes, materials and substances as are likely to cause environmental pollution;

i. carrying out and sponsoring investigations and research relating to problems of environmental pollution;

j. inspection of any premises, plant, equipment, machinery, manufacturing or other processes, materials or substances and giving, by order, of such directions to such authorities, officers or persons as it may consider necessary to take steps for the prevention, control and abatement of environmental pollution;

k. establishment or recognition of environmental laboratories and institutes to carry out the functions entrusted to such environmental laboratories and institutes under this Act;

l. collection and dissemination of information in respect of matters relating to environmental pollution;

m. preparation of manuals, codes or guides relating to the prevention, control and abatement of environmental pollution;

n. such other matters as the Central Government deems necessary or expedient for the purpose of securing the effective implementation of the provisions of this Act.

The Central Government may, if it considers it necessary or expedient so to do for the purpose of this Act, by order, published in the Official Gazette, constitute an authority or authorities by such name or names as may be specified in the order for the purpose of exercising and performing such of the powers and functions (including the power to issue directions under section (5) of the Central Government under this Act.

And for taking measures with respect to such of the matters referred to in sub-section (2) as may be mentioned in the order and subject to the supervision and control of the Central Government and the provisions of such order, such authority or authorities may exercise any powers or perform the functions or take the measures so mentioned in the order as if such authority or authorities had been empowered by this Act to exercise those powers or perform those functions or take such measures.

As considerable adverse environmental impact has been caused due to the degradation of the environment with excessive soil erosion and water and air pollution due to certain development activities therefore it is necessary to protect the environment.

This can be achieved only by careful assessment of a project proposed to be located in any area, on the basis of an environmental impact assessment and environmental management plan for the prevention, elimination or mitigation of the adverse impacts, right from the inception stage of the project.

The Central Government has passed certain notifications laying that the expansion or modernization of any existing industry or new projects listed shall not be undertaken in any part of India unless it gets environmental clearance by the Central Government or the State Government.

Prevention, Control and Abetment of Environment Pollution

Chapter III of the EPA deals with the prevention, Control and abetment of Environmental Pollution. Some important provisions of this chapter provide that, No person carrying on any industry, operation or process shall discharge or emit or permit to be discharged or emitted any environmental pollutant in excess of such standards as may be prescribed.

No person shall handle or cause to be handled any hazardous substance except in accordance with such procedure and after complying with such safeguards as may be prescribed.

Where the discharge of any environmental pollutant in excess of the prescribed standards occurs or is apprehended to occur due to an accident or other unforeseen act or event, the person responsible for such discharge and the person in charge of the place at which the discharge occurs shall be bound to prevent or mitigate the environmental pollution, and shall also:

a. intimate the fact of such occurrence or apprehension of such occurrence; and

b. be bound, if called upon, to render all assistance. On receipt of such information, the authorities or agencies shall cause such remedial measures to be taken as are necessary to prevent or mitigate environmental pollution.

The expenses incurred by any authority or agency may be recovered from the person concerned as arrears of land revenue or of public demand.

Penalties

Section 15 provides for Penalties for contravention of the provisions of the Act as well as the Rules, Orders and Directions. Whoever fails to comply with or contravenes any of the provisions, rules, orders or directions of this Act shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to one lakh rupees, or with both.

In case the failure or contravention continues, with additional fine which may extend to five thousand rupees for every day during which such failure or contravention continues.

If the failure or contravention continues beyond a period of one year after the date of conviction, the offender shall be punishable with imprisonment for a term which, may extend to seven years.

Industrial Policies & Regulations

Meaning

- Government action to influence the ownership & structure of the industry and its performance. It takes the form of paying subsidies or providing finance in other ways, or of regulation.

▪ It includes procedures, principles (i.e., the philosophy of a given economy), policies, rules and regulations, incentives and punishments, the tariff policy, the labour policy, government's attitude towards foreign capital, etc.

Objectives

The main objectives of the Industrial Policy of the Government in India are:

▪ to maintain a sustained growth in productivity;
▪ to enhance gainful employment;
▪ to achieve optimal utilisation of human resources;
▪ to attain international competitiveness; and
▪ to transform India into a major partner and player in the global arena.

Industrial Policies in India

▪ **Industrial Policy Resolution of 1948-** It defined the broad contours of the policy **delineating the role of the State in industrial development** both as an entrepreneur and authority.

○ It made clear that India is going to have a **Mixed Economic Model.**

○ **It classified industries into four broad areas:**

 Strategic Industries (Public Sector): It included three industries in which Central Government had monopoly. These included Arms and ammunition, Atomic energy and Rail transport.

 Basic/Key Industries (Public-cum-Private Sector): 6 industries viz. coal, iron & steel, aircraft manufacturing, ship-building, manufacture of telephone, telegraph & wireless apparatus, and mineral oil were designated as "Key Industries" or "Basic Industries".

 These industries were to be set-up by the Central Government.

 However, the existing private sector enterprises were allowed to continue.

 Important Industries (Controlled Private Sector): It included 18 industries including heavy chemicals, sugar, cotton textile & woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc.

 These industries continue to remain under private sector however, the central government, in consultation with the state government, had general control over them.

 Other Industries (Private and Cooperative Sector): All other industries which were not included in the above mentioned three categories were left open for the private sector.

○ The **Industries (Development and Regulation) Act** was passed in 1951 to implement the Industrial Policy Resolution, 1948.

▪ **Industrial Policy Statement of 1956 :** Government revised its first Industrial Policy (i.e.the policy of 1948) through the Industrial Policy of 1956.

○ It was regarded as the **"Economic Constitution of India" or "The Bible of State Capitalism".**

○ The 1956 Policy emphasised the need to expand the public sector, to build up a large and growing cooperative sector and to encourage the separation of ownership and management in private industries and, above all, prevent the rise of private monopolies.

○ It provided the basic framework for the government's policy in regard to industries till June 1991.

○ IPR, 1956 classified industries into three categories

 Schedule A consisting of 17 industries was the exclusive responsibility of the State. Out of these 17 industries, four industries, namely arms and ammunition, atomic energy, railways and air transport had Central Government monopolies; new units in the remaining industries were developed by the State Governments.

 Schedule B, consisting of 12 industries, was open to both the private and public sectors; however, such industries were progressively State-owned.

 Schedule C- All the other industries not included in these two Schedules constituted the third category which was left open to the private sector. However, the State reserved the right to undertake any type of industrial production.

○ The IPR 1956, stressed the **importance of cottage and small scale industries** for expanding employment opportunities and for wider decentralisation of economic power and activity

○ The Resolution also called for **efforts to maintain industrial peace;** a fair share of the proceeds of production was to be given to the toiling mass in keeping with the avowed objectives of democratic socialism.

○ **Criticism:** The IPR 1956 came in for sharp criticism from the private sector since this Resolution **reduced the scope for the expansion of the private sector significantly.**

 The sector was **kept under state control through a system of licenses.**

Industrial Licenses

- In order to open new industry or to expand production, obtaining a license from the government was a prerequisite.
- Opening new industries in economically backward areas was incentivised through easy licensing and subsidization of critical inputs like electricity and water. This was done to counter regional disparities that existed in the country.
- Licenses to increase production were issued only if the government was convinced that the economy required more of the goods.
- **Industrial Policy Statement, 1977-** In December 1977, the Janata Government announced its New Industrial Policy through a statement in the Parliament.

○ The main thrust of this policy was the effective **promotion of cottage and small industries** widely dispersed in rural areas and small towns.

○ In this policy the **small sector was classified into three groups—**cottage and household sector, tiny sector and small scale industries.

○ The 1977 Industrial Policy prescribed **different areas for large scale industrial sector-** Basic industries,Capital goods industries, High technology industries and Other industries outside the list of reserved items for the small scale sector.

○ The 1977 Industrial Policy restricted the scope of large business houses so that no unit of the same business group acquired a dominant and monopolistic position in the market.

○ It put emphasis on reducing the occurrence of labour unrest. The Government **encouraged the worker's participation in management** from shop floor level to board level.

○ **Criticism:** The industrial Policy 1977, was subjected to serious criticism as there was an absence of effective measures to curb the dominant position of large scale units and the policy **did not envisage any socioeconomic transformation of the economy** for curbing the role of big business houses and multinationals.

- **Industrial Policy of 1980** sought to promote the **concept of economic federation,** to raise the efficiency of the public sector and to reverse the trend of industrial production of the past three years and reaffirmed its faith in the **Monopolies and Restrictive Trade Practices (MRTP) Act** and the **Foreign Exchange Regulation Act (FERA).**

New Industrial Policy during Economic Reforms of 1991

The long-awaited liberalised industrial policy was announced by the Government of India in 1991 in the midst of severe economic instability in the country. The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy

- **De-reservation of Public sector:** Sectors that were earlier exclusively reserved for public sector were reduced. However, pre-eminent place of public sector in 5 core areas like arms and ammunition, atomic energy, mineral oils, rail transport and mining was continued.

○ **Presently, only two sectors- Atomic Energy and Railway operations-** are reserved exclusively for the public sector.

▪ **De-licensing:** Abolition of Industrial Licensing for all projects except for a short list of industries.

○ There are only 4 industries at present related to security, strategic and environmental concerns, where an industrial license is currently required-

 Electronic aerospace and defence equipment
 Specified hazardous chemicals
 Industrial explosives
 Cigars and cigarettes of tobacco and manufactured tobacco substitutes

▪ **Disinvestment of Public Sector:** Government stakes in Public Sector Enterprises were reduced to enhance their efficiency and competitiveness.

▪ **Liberalisation of Foreign Investment:** This was the first Industrial policy in which foreign companies were allowed to have majority stake in India. In 47 high priority industries, upto 51% FDI was allowed. For export trading houses, FDI up to 74% was allowed.

○ Today, there are numerous sectors in the economy where government allows 100% FDI.

▪ **Foreign Technology Agreement:** Automatic approvals for technology related agreements.

▪ **MRTP Act** was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. MRTP Act was replaced by the Competition Act 2002.

Outcomes of New Industrial Policies

▪ The 1991 policy **made 'Licence, Permit and Quota Raj' a thing of the past.** It attempted to liberalise the economy by **removing bureaucratic hurdles** in industrial growth.

▪ Limited role of Public sector reduced the burden of the Government.

▪ The policy provided **easier entry of multinational companies,** privatisation, removal of asset limit on MRTP companies, liberal licensing.

○ All this resulted in increased competition that led to lower prices in many goods such as electronics prices. This brought domestic as well as foreign investment in almost every sector opened to private sector.

▪ The policy was followed by special efforts to increase exports. Concepts like Export Oriented Units, Export Processing Zones, Agri-Export Zones, Special Economic Zones and lately National Investment and Manufacturing Zones emerged. All these have benefitted the export sector of the country.

Limitations of Industrial Policies in India

▪ **Stagnation of Manufacturing Sector:** Industrial policies in India have failed to push manufacturing sector whose contribution to GDP is stagnated at about 16% since 1991.

▪ **Distortions in industrial pattern owing to selective inflow of investments:** In the current phase of investment following liberalisation, while substantial investments have been flowing into a few industries, there is concern over the slow pace of investments in many basic and strategic industries such as engineering, power, machine tools, etc.

▪ **Displacement of labour:** Restructuring and modernisation of industries as a sequel to the new industrial policy led to displacement of labour.

▪ **Absence of incentives for raising efficiency:** Focussing attention on internal liberalisation without adequate emphasis on trade policy reforms resulted in **'consumption-led growth' rather than 'investment' or 'export-led growth'.**

▪ **Vaguely defined industrial location policy:** The New Industrial Policy, while emphasised the detrimental effects of damage to the environment, failed to define a proper industrial location policy, which could ensure a pollution free development of industrial climate.

Way Forward

- Industrial policies in India have taken a shift from predominantly **Socialistic pattern in 1956 to Capitalistic since 1991.**
- India now has a much liberalised industrial policy regime focusing on increased foreign investment and lesser regulations.
- India ranked 77th on World Bank's Doing Business Report 2018. Reforms related to **insolvency resolution (Bankruptcy and Insolvency Act, 2017) and the Goods and Services Taxes (GST)** are impressive and will result in **long-term gains for the industrial sector.**
- Campaigns such as **Make in India** and **Start up India** have helped to enhance the business ecosystem in the country.
- However, electricity shortages and high prices, credit constraints, high unit labour costs due to labour regulations, political interference and other regulatory burdens continue to remain challenges for firm growth of the industrial sector in India.
- There is a **need for a new Industrial Policy** to boost the manufacturing sector in the country. Government in December 2018 also felt the need to introduce a new Industrial Policy that would be a road map for all business enterprises in the country.

The Big Idea

Entrepreneurs and established companies alike continually search for the next "big idea" to turbo-charge their marketing. But what makes an idea "big" and separates it from its "not-so-big" peers? Before we go there, let's start with a definition. This one from British brand consultancy Millward Brown is a good place to begin: ". . . a big idea is the driving, unifying force behind a brand's marketing efforts." That's a good starting place, but there is much more.

In three decades of working with emerging and established companies, 10 qualities are highlighted that define big ideas and differentiate them from "not so big ideas." Use the following list to evaluate ideas on their merit. While an idea can certainly be "big" for your brand without possessing all 10 of the criteria, every big idea I've been associated with absolutely met the first three. The more criteria your idea fits, the better it will be, and the more likely it may be a truly big idea.

1. Transformation

Can the idea change attitudes, beliefs and behaviours? Open up new ways of seeing and thinking? Alter the course of customers, markets and companies and be a "game changer" on a grand scale? If yes, then it's a big idea and the transformation it causes should affect the market (customers, prospects, competitors, influencers) and also your company and its people.

2. "Ownability"

How tightly can the idea be linked to your brand and *only* your brand? The idea behind ownability is: "only from us . . . only for you." For instance, you can't own the idea: "We have the best people." Every competitor probably says the same thing. But an idea like, "Our aerospace company was founded by the first two human beings to land on the moon," is hard to copy.

3. Simplicity.

When marketers remove the excess and simplify, intuitiveness, clarity and the "I get it" factor emerge. A lack of simplicity goes against human nature. Today *all* audiences have more choices than ever, so don't risk confusing them and turning them away. Truly creative ideas never confuse. They clarify, reveal and eliminate. Any suspicion that an idea may confuse demands testing.

4. Originality

Humans are hard-wired to focus on the novel, unique and original. Indeed, we are programmed to habitually and automatically ignore the familiar and direct a laser-like focus to newness and originality as we go about our ordinary routines. That's why a pedestrian in the street, an accident or even a new billboard along your commute will capture your attention without conscious thought. Brand marketers questing for big ideas should always be on the lookout for ways to harness this powerful universal truth.

5. Surprise

A cousin of originality, surprise is unexpected but not absurd. Surprise, as it relates to a brand, could mean hyper-elevating your level of customer service in a tired "the customer is always wrong" industry so that the customer feels appreciated and cared for. Good surprises make people feel special.

6. Magnetism

Magnetic ideas have an allure or an attraction that pulls people toward them. They're easier to stumble upon than to engineer through any specific process. Be attuned to customers' reactions. What do they gravitate to in your office? What words or phrases catch their attention? What topics are generating discussion in online communities such as LinkedIn groups?

7. Infectiousness

Big ideas grab you to the point where you can't forget. Maybe it's a song, taste, smell or novel solution, but infectious ideas stick in our consciousness and never leave. Infectious ideas can exist in even the most arcane and complex industries.

8. Contagiousness

A brand can infect, and that's good. But an idea becomes even more powerful when it spreads to others. Whether you call it "viral" or "buzz-worthy," big ideas compel people to tell others.

9. Egocentricity

People have an innate interest and fascination with themselves. You can empower a brand simply by appealing to the self-interest of people. American novelist John Steinbeck may have captured this idea best when he wrote in *The Winter of Our Discontent:* "For the most part, people are not curious, except about themselves."

10. Likability

In advertising communications, one factor contributes to effectiveness more than any other: likability. A study that included approximately 300,000 observations of nearly 3,000 print campaigns to identify the factors that account for an ad being effective, based on recognition and attribution. No brand names were mentioned. The four factors that most affected the ad's effectiveness were: likability, originality, informative and suited to the environment. Eighty percent of the variation in recognition and more than half of the variance in attribution could be linked to ad-liking.

Researchers have developed an excellent criteria checklist for evaluating big-ideas that are particularly well-suited to the entrepreneur. Ask yourself the following questions when evaluating a big-idea for a business or a product

- Have you considered all the advantages or benefits of the idea? Is there a real need for it?
- Have you pinpointed the exact problems or difficulties your idea is expected to solve?
- Is your idea an original, new concept, or is it a new combination or adaptation?
- What immediate or short-range gains or results can be anticipated? Are the projected returns adequate? Are the risk factors acceptable?
- What long-range benefits can be anticipated?

 Have you checked the idea for faults or limitations?

 Are there any problems the idea might create? What are the changes involved?

 How simple or complex will the idea's execution or implementation be?

 Could you work out several variations of the idea? Could you offer alternative ideas?

 Does your idea have a natural sales appeal? Is the market ready for it? Can customers afford it? Will they buy it? Is there a timing factor?

 What, if anything, is your competition doing in this area? Can your company be competitive?

 Have you considered the possibility of user resistance or difficulties?

 Does your idea fill a real need, or does the need have to be created through promotional and advertising efforts?

 How soon could the idea be put into operation?

Preparation of Business Plan

A business plan is a formal statement of a set of business goals, which are believed to be attainable, and the plan for reaching those goals. It may also contain background information about the organisation or team attempting to reach those goals. Business plans may also target changes in perception and branding by the customer, client, tax-payer, or larger community. When the existing business is to assume a major change or when planning a new venture a 3 to 5 year business plan is required, since investors will look for their annual return in the 3 to 5 year time.

The objectives of a business plan are to:

o Give directions to the vision formulated by entrepreneur.
o Objectively evaluate the prospects of business.
o Monitor the progress after implementing the plan.
o Persuade others to join the business.
o Seek loans from financial institutions.
o Visualize the concept in terms of market availability, organizational, operational and financial feasibility.

- o Guide the entrepreneur in the actual implementation of the plan.
- o Identify the strengths and weakness of the plan.
- o Identify challenges in terms of opportunities and threats from the external markets.
- o Clarify ideas and identify gaps in management information about their business, competitors and the market.
- o Identify the resources that would be required to implement the plan.
- o Document ownership arrangements, future prospects and projected growths of the business venture.

Generally, a business plan has the following components:

1. Title Page and Contents

A business plan should be presented in a binder with a cover listing the name of the business, the name(s) of the principal(s), address, phone number, e-mail and website addresses, and the date. You don't have to spend a lot of money on a fancy binder or cover. Your readers want a plan that looks professional, is easy to read and is well-put-together.
Include the same information on the title page. If you have a logo, you can use it, too. A table of contents follows the executive summary or statement of purpose, so that readers can quickly find the information or financial data they need.

2. Executive Summary

The executive summary, or statement of purpose, succinctly encapsulates your reason for writing the business plan. It tells the reader what you want and why, right up front. Are you looking for a $10,000 loan to remodel and refurbish your factory? A loan of $25,000 to expand your product line or buy new equipment? How will you repay your loan, and over what term? Would you like to find a partner to whom you'd sell 25 percent of the business? What's in it for him or her? The questions that pertain to your situation should be addressed here clearly and succinctly.
The summary or statement should be no more than half a page in length and should touch on the following key elements:

- Business concept describes the business, its product, the market it serves and the business' competitive advantage.
- Financial features include financial highlights, such as sales and profits.
- Financial requirements state how much capital is needed for start-up or expansion, how it will be used and what collateral is available.
- Current business position furnishes relevant information about the company, its legal form of operation, when it was founded, the principal owners and key personnel.
- Major achievements points out anything noteworthy, such as patents, prototypes, important contracts regarding product development, or results from test marketing that have been conducted.

3. **Description of the Business**

The business description usually begins with a short explanation of the industry. When describing the industry, discuss what's going on now as well as the outlook for the future. Do the necessary research so you can provide information on all the various markets within the industry, including references to new products or developments that could benefit or hinder your business. Base your observations on reliable data and be

sure to footnote and cite your sources of information when necessary. Remember that bankers and investors want to know hard facts--they won't risk money on assumptions or conjecture.
When describing your business, say which sector it falls into (wholesale, retail, food service, manufacturing, hospitality and so on), and whether the business is new or established. Then say whether the business is a sole proprietorship, partnership, C or Sub chapter S corporation. Next, list the business' principals and state what they bring to the business. Continue with information on who the business' customers are, how big the market is, and how the product or service is distributed and marketed.

4. **Description of the Product or Service**

The business description can be a few paragraphs to a few pages in length, depending on the complexity of your plan. If your plan isn't too complicated, keep your business description short, describing the industry in one paragraph, the product in another, and the business and its success factors in two or three more paragraphs.
When you describe your product or service, make sure your reader has a clear idea of what you're talking about. Explain how people use your product or service and talk about what makes your product or service different from others available in the market. Be specific about what sets your business apart from those of your competitors.
Then explain how your business will gain a competitive edge and why your business will be profitable. Describe the factors you think will make it successful. If your business plan will be used as a financing proposal, explain why the additional equity or debt will make your business more profitable. Give hard facts, such as "new equipment will create an income stream of $10,000 per year" and briefly describe how.
Other information to address here is a description of the experience of the other key people in the business. Whoever reads your business plan will want to know what suppliers or experts you've spoken to about your business and their response to your idea. They may even ask you to clarify your choice of location or reasons for selling this particular product.

5. Market Analysis

A thorough market analysis will help you define your prospects as well as help you establish pricing, distribution, and promotional strategies that will allow your company to be successful vis-à-vis your competition, both in the short and long term.
Begin your market analysis by defining the market in terms of size, demographics, structure, growth prospects, trends, and sales potential. Next, determine how often your product or service will be purchased by your target market. Then figure out the potential annual purchase. Then figure out what percentage of this annual sum you either have or can attain. Keep in mind that no one gets 100 percent market share, and that a something as small as 25 percent is considered a dominant share. Your market share will be a benchmark that tells you how well you're doing in light of your market-planning projections.
You'll also have to describe your positioning strategy. How you differentiate your product or service from that of your competitors and then determine which market niche to fill is called "positioning." Positioning helps establish your product or service's identity within the eyes of the purchaser. A positioning statement for a business plan doesn't have to be long or elaborate, but it does need to point out who your target market is, how you'll reach them, what they're really buying from you, who your competitors are, and what your USP (unique selling proposition) is.
How you price your product or service is perhaps your most important marketing decision. It's also one of the most difficult to make for most small business owners, because there are no instant formulas. Many methods of establishing prices are available to you, but these are among the most common.
 Cost-plus pricing is used mainly by manufacturers to assure that all costs, both fixed and variable, are covered and the desired profit percentage is attained.

- Demand pricing is used by companies that sell their products through a variety of sources at differing prices based on demand.
- Competitive pricing is used by companies that are entering a market where there's already an established price and it's difficult to differentiate one product from another.
- Mark-up pricing is used mainly by retailers and is calculated by adding your desired profit to the cost of the product.

You'll also have to determine distribution, which includes the entire process of moving the product from the factory to the end user. Make sure to analyze your competitors' distribution channels before deciding whether to use the same type of channel or an alternative that may provide you with a strategic advantage.
Finally, your promotion strategy should include all the ways you communicate with your markets to make them aware of your products or services. To be successful, your promotion strategy should address advertising, packaging, public relations, sales promotions and personal sales.

6. Competitive Analysis

The purpose of the competitive analysis is to determine:

- The strengths and weaknesses of the competitors within your market.
- Strategies that will provide you with a distinct advantage.
- Barriers that can be developed to prevent competition from entering your market.
- Any weaknesses that can be exploited in the product development cycle.

The first step in a competitor analysis is to identify both direct and indirect competition for your business, both now and in the future. Once you've grouped your competitors, start analyzing their marketing strategies and identifying their vulnerable areas by examining their strengths and weaknesses. This will help you determine your distinct competitive advantage.
Whoever reads your business plan should be very clear on who your target market is, what your market niche is, exactly how you'll stand apart from your competitors, and why you'll be successful doing so.

7. Operations and Management

The operations and management component of your plan is designed to describe how the business functions on a continuing basis. The operations plan highlights the logistics of the organization, such as the responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operations of the business.

8. Financial Components of Your Business Plan

After defining the product, market and operations, the next area to turn your attention to are the three financial statements that form the backbone of your business plan: the income statement, cash flow statement, and balance sheet.
The income statement is a simple and straightforward report on the business' cash-generating ability. It is a scorecard on the financial performance of your business that reflects when sales are made and when expenses are incurred. It draws information from the various financial models developed earlier such as revenue, expenses, capital (in the form of depreciation), and cost of goods. By combining these elements, the income statement illustrates just how much your company makes or loses during the year by subtracting cost of goods and expenses from revenue to arrive at a net result, which is either a profit or loss. In addition to the income

statements, include a note analyzing the results. The analysis should be very short, emphasizing the key points of the income statement. Your CPA can help you craft this.
The cash flow statement is one of the most critical information tools for your business, since it shows how much cash you'll need to meet obligations, when you'll require it and where it will come from. The result is the profit or loss at the end of each month and year. The cash flow statement carries both profits and losses over to the next month to also show the cumulative amount. Running a loss on your cash flow statement is a major red flag that indicates not having enough cash to meet expenses-something that demands immediate attention and action.

The cash flow statement should be prepared on a monthly basis during the first year, on a quarterly basis for the second year, and annually for the third year. The following 17 items are listed in the order they need to appear on your cash flow statement. As with the income statement, you'll need to analyze the cash flow statement in a short summary in the business plan. Once again, the analysis doesn't have to be long and should cover highlights only. Ask your CPA for help.
The last financial statement you'll need is a balance sheet. Unlike the previous financial statements, the balance sheet is generated annually for the business plan and is, more or less, a summary of all the preceding financial information broken down into three areas: assets, liabilities and equity.
Balance sheets are used to calculate the net worth of a business or individual by measuring assets against liabilities. If your business plan is for an existing business, the balance sheet from your last reporting period should be included. If the business plan is for a new business, try to project what your assets and liabilities will be over the course of the business plan to determine what equity you may accumulate in the business. To obtain financing for a new business, you'll need to include a personal financial statement or balance sheet.

In the business plan, you'll need to create an analysis for the balance sheet just as you need to do for the income and cash flow statements. The analysis of the balance sheet should be kept short and cover key points.

9. Supporting Documents

In this section, include any other documents that are of interest to your reader, such as your resume; contracts with suppliers, customers, or clients, letters of reference, letters of intent, copy of your lease and any other legal documents, tax returns for the previous three years, and anything else relevant to your business plan.

Marketing Management for Start-up's – An Overview

Companies use market demand analysis to understand how much customer demand exists for a merchandise or service. This analysis helps management determine if they can successfully enter a market and generate enough profits to advance their business operations. While several methods of demand analysis may be used, they usually contain a review of the basic components of an economic market which are:

a. Market identification
b. Business cycle
c. Product niche
d. Growth potential
e. Competition

a) Market Identification

The first step of market analysis is to define and identify the specific market to target with new merchandise or services. Companies will use market surveys or customer feedback to determine their satisfaction with current merchandises and services. Comments indicating dissatisfaction will lead businesses to develop new merchandise or services to meet this customer demand. While companies will usually identify markets close to their current merchandise line, new industries may be tested for business expansion possibilities.

b) Business Cycle

Once a potential market is identified, companies will assess what stage of the business cycle the market is in. Three stages exist in the business cycle: emerging, plateau and declining. Markets in the emerging stage indicate higher customer demand and low supply of current merchandise or services. The plateau stage is the break-even level of the market, where the supply of goods meets current market demand. Declining stages indicate lagging customer demand for the goods or services supplied by businesses.

c) Product Niche

Once markets and business cycles are reviewed, companies will develop a merchandise that meets a specific niche in the market. Merchandise must be differentiated from others in the market so they meet a specific need of customer demand, creating higher demand for their merchandise or service. Many companies will conduct tests in sample markets to determine which of their potential
merchandise styles is most preferred by customers. Companies will also develop their goods so that competitors cannot easily duplicate their merchandise.

d) Growth Potential

While every market has an initial level of customer demand, specialized merchandise or goods can create a sense of usefulness, which will increase demand. Examples of specialized merchandise are iPods or iPhones, which entered the personal electronics market and increased demand through their perceived usefulness by customers. This type of demand quickly increases the demand for current markets, allowing companies to increase profits through new customer demand.

e) Competition

An important factor of market analysis is determining the number of competitors and their current market share. Markets in the emerging stage of the business cycle tend to have fewer competitors, meaning a higher profit margin may be earned by companies. Once a market becomes saturated with competing companies and merchandises, fewer profits are achieved and companies will begin to lose money. As markets enter the declining business cycle, companies will conduct a new market analysis to find more profitable markets.

Market planning

A marketing plan usually has the following components

1. **Current market situation**

- Where is your organization now?
- Who are your customer groups? What are their needs and requirements? How large and diverse are they?
- What kinds of merchandise and services do you currently provide?
- How do you reach your customer groupings?
- Do you have any competition?
- What factor/s in your environment has an effect on your organization?

2. **Opportunity and issue analysis** (S.W.O.T. analysis). This identifies key issues and opportunities for your organization and it comprises an analysis of your internal operations

- Strengths
- Weaknesses
- Opportunities

- Threats

3. **Objectives**. Having identified the key issues affecting your organization you can make some decisions about future objectives. These guides the development of strategies and action plans.

- Objectives should meet certain criteria e.g. financial, and marketing which will be customer focused.
- They should be clearly stated, measurable and listed in order of importance
- They should be attainable and consistent with your organization's culture.

4. **Marketing strategy**. This is the game plan that needs to be implemented to achieve the objectives. It addresses the following:

- Whom are you now targeting?
- What do you want your position to be in terms of new merchandise /service delivery?
- Do you want to change your organization profile and will you need to brand your organization?
- Will you change the way you promote and advertise yourself?
- Will there be any changes in how you reach your customer groupings?
- Any changes in staff?
- Is there a need for more research?

5. **Action program.** This describes:

- What will be done
- When will it be done?
- Who will do it?
- How much will it cost?

6. **Budget and controls**.

- The Budget is essentially a cash flow statement and profit/loss statement to support the marketing plan
- Control mechanisms and procedures should be established to monitor the progress of the plan to determine if anything needs changing. It would include a contingency plan in case something adverse should happen.

Market Strategy

Small Businesses can gain a competitive advantage over larger competitors by tailoring their products or services to meet the demands of the individual customer. This tailoring can be done through the means of the product/service offered, price, promotion, and distribution. The above are known as the marketing mix. Another advantage is that small businesses offer a more personalized interaction with the customer. First of all, a marketing strategy that you should take advantage of both offline and online is networking. This is probably the single most important strategy you can look into. As a small business, you will find that one of your first and most important hurdles is simply getting people to know that you exist. If people don’t know you’ve started a small business and that you have amazing widgets or services to sell, they’re not going to ask to buy those widgets or hire you for those services, regardless of how wonderful and amazing they might be. So your first job as a small business entrepreneur will be to get the word out. Beyond online and offline networking, another avenue for marketing in both venues is promoting your business through ads. In the real world, this can be done through print and flyer ads, stationary, vehicle tags, and window displays, while on the internet, you can pursue things like pay per click marketing.

A set of strategies found quite commonly in smaller businesses are growth strategies. One way to look at strategies to grow your business is through the way you will use products and markets or customers, such strategies are as given below

- ***Current product/current market***: Market penetration is a strategy of increasing your share of existing markets. You might achieve this by raising customers' awareness of your products and services or finding new customers.
- ***Current product/new market***: Market development is a strategy of finding and entering new markets with your current product or service range. The new market could be a new region, a new country or a new segment of the market.
- ***New product/current market***: Product development is a strategy for enhancing benefits you deliver to customers by improving your existing products and services or developing new ones.
- ***New product/new market***: Diversification is a strategy that usually carries high costs and high risks. It often requires firms to adopt new ways of doing business and so has consequences far beyond simply offering new products/services in a new market. It is therefore usually a strategy to be adopted when other options are not feasible.

Accounting Practices for Small Business

While the bad financial behaviour of large corporations are often told as anecdotal warnings to small businesses, small business owners often practice creative accounting in order to reduce tax bills and attract investors. Privately owned small businesses have a distinct advantage over large, publicly traded corporations - there is no necessity for financial transparency, except to major private shareholders. However, small business owners should remember that even the smallest form of creative accounting - such as not printing receipts to understate earnings - can have a massive negative impact on your company if the tax authorities decide to audit your company, and can cause even worse problems if your company is found guilty of tax evasion and fraud. Here are some suggestions for accounting practices for a small business:

1. Determine your accounting method.

There are accounting two methods: cash and accrual. Accrual accounting is a method in which a business puts transactions on the books as soon as the transaction is made. Cash accounting — the more common of the two methods, when a business records transactions once payments have been received or made. Each method has advantages and disadvantages. Cash accounting is more straightforward and better for cash flow management, but provides less long-term clarity than accrual accounting. Accrual accounting can provide a clearer picture of your financial state because it simultaneously records expenses related to an item — and the revenue the item brought in. Accrual accounting can be deceiving, though, and it's more complex to manage. In general, the larger and more complex the business, the more useful accrual accounting is, because its snapshots provide business owners with better management decision-making tools.

2. Track all expenses.

If you're just starting out in business you might be able to keep track of your expenses and accounts payable on a simple spreadsheet. As your business grows, you'll likely need more complex and accurate accounting methods, or you might choose to use software, such as QuickBooks. You should include the following line items on your spreadsheet: supplier/biller's name, account number, expense type, date invoice was received and amount owed. In addition, it's important to keep all receipts, credit card statements and incoming bills in your accounting system to ensure you're properly managing cash flow.

3. Maintain accurate records.

Your business can easily fail if you aren't keeping accurate, up-to-date accounting records. These records help guide tax filings and decision-making, and are key documents for lenders or investors deciding whether they should invest in a business. It is recommended a journal to record each transaction and a ledger containing the totals from the journal, which you should organized into different accounts. Whether you store your information in journals and ledgers or via electronic records, it is suggested to maintain the following for a small business: daily and monthly summary of cash receipts, check disbursements journal, business checkbook, depreciation worksheet and employee compensation records. It's best to record transactions on a daily basis for the most accurate accounting.

4. Keep business finances separate.

It can be very easy to mingle business finances with personal bookkeeping, especially for a very small business that's just starting out. Business owners, however, should resist the temptation to do that if they want a clear picture of their business finances. Keeping your personal and business finances separate will make it easier to track cash flow, maintain accurate records for tax filing, forecast long-term financial performance for your business and ultimately allow you to provide evidence of that performance for a lender or investor. For some business structures, such as LLCs or corporations, mingling business and personal finances could result in the kind of personal liability you were seeking to avoid by choosing such structures.

5. Perform monthly accounting reviews.

As a small business owner, it's important to make time for monthly reviews — by you or your accountant — of your accounts payable and receivable, and to check your invoices to determine what has been sent or needs to be sent. According to experts, you should balance your books at least once a month. In fact, the more frequently you or your accountant handles these small business accounting tasks, the less arduous they become.

6. Limit accounts receivable.

No company intends to adopt weak accounts receivable policies, but unfortunately, such policies happen frequently. Companies don't follow up with customers when accounts are past due, they override credit and end up with bad debt or they fail to keep accurate billing records. The cost of such failures can be high. There are some strategies for limiting issues with accounts receivable, including: finding ways to take delivery upon payment of your services, setting clear and consistent credit policies, requiring a portion of payment upfront and making sure your billing is accurate.

7. Automate when possible.

Business owners should stay on top of the numbers, but that doesn't mean they should spend all their time on mundane bookkeeping task, such as payroll and invoice processing. Software programs, such as like QuickBooks Payroll and Gusto, can be major time savers by automating some of those processes for you.

8. Backup financial records.

Whether businesses store records on the cloud, as a hard copy ledger or on a paper spreadsheet, it is crucial to back the information up to protect against obvious physical threats, but also against cyberattacks, such as ransomware.

9. Consider hiring professional help.

As your business grows, at some point it will be time to hire a bookkeeper or consult with a CA or both. You will likely benefit from doing this in more ways than simply saving time. A professional accountant can serve as an adviser and consultant when it comes to determining the best financial practices for your business.

Working Capital Management

Ask the owner of a small business about financial management and you will likely hear about the joys and tribulations of managing cash, accounts receivable, inventories, and accounts payable. Working-capital management—managing short-term assets (current assets) and short-term sources of financing (current liabilities)—is extremely important to most small companies.1 In fact, financial discipline is of utmost

importance for the successful running of the business. Good business opportunities can be irreparably damaged by ineffective management of a firm's short-term assets and liabilities.
A firm's **working-capital cycle** is the flow of resources through the company's accounts as part of its day-to-day operations. The steps in a firm's working capital cycle are as follows:
Step 1: Purchase or produce inventory for sale, which increases accounts payable—assuming the purchase is a credit purchase—and increases inventories in hand.
Step 2: Either sell the inventory for cash, which increases cash, or sell the inventory on credit, which increases accounts receivable.
Step 3: Pay the accounts payable, which decreases accounts payable and decreases cash. Or pay operating expenses and taxes, which decreases cash.
Step 4: Collect the accounts receivable when due, which decreases accounts receivable and increases cash.
Step 5: Begin the cycle again.

Depending on the industry, the working-capital cycle may be long or short. For example, it is only a few days in the grocery business; it is longer, most likely months, in an automobile dealership. Whatever the industry, however, management should be working continuously to shorten the cycle. Depending on the industry, the working-capital cycle may be long or short. For example, it is only a few days in the grocery business; it is longer, most likely months, in an automobile dealership. Whatever the industry, however, management should be working continuously to shorten the cycle.

Timing and Size of Working-Capital Investments

The owners of small business companies need to understand the working-capital cycle, in terms of both the timing of investments and the size of the investment required (for example, the amounts necessary to maintain inventories and accounts receivable). The owner's failure to understand these relationships results in many financial problems of small companies. It has been noticed that too many entrepreneurs wait until a problem arises to deal with working capital. The figure below shows the chronological sequence of a hypothetical working-capital cycle. The time line reflects the order in which events unfold, beginning with an investment in inventory and ending with collection of accounts receivable. The key dates in the exhibit are as follows:
Day a: Inventory is ordered in anticipation of future sales.
Day b: Inventory is received.
Day c: Inventory is sold on credit.
Day d: Accounts payable come due and are paid.
Day e: Accounts receivables are collected.
The investing and financing implications of the working-capital cycle reflected in **the figure below** are as follows: Money is invested in inventory from day b to day c. The supplier provides financing for the inventories from day b to day d. Money is invested in accounts receivable from day c to day e. financing of the firm's investment in accounts receivable must be provided from day d to day e. This time span, called the cash conversion period, represents the number of days required to complete the working-capital cycle, which ends with the conversion of accounts receivable into cash. During this period, the firm no longer has the benefit of supplier financing (accounts payable). The longer this period lasts, the greater the potential cash flow problems for the firm.

Examples of working-capital management

The figure below offers two examples of working-capital management by firms with contrasting working-capital cycles: **Pokey, Inc**., and **Quick Turn Company**. On August 15, both firms buy inventory that they receive on August 31, but the similarity ends there. Pokey, Inc., must pay its supplier for the inventory on September 30, before eventually reselling it on October 15. It collects from its customers on November 30. As you can see, Pokey, Inc., must pay for the inventory two months prior to collecting from its customers. Its cash conversion period—the time required to convert the paid-for inventories and accounts receivable into cash—is 60 days. The firm's managers, must find a way to finance this investment in inventories and accounts receivable, or else they will experience cash flow problems. Furthermore, although increased sales should produce higher profits, they will compound the cash flow problem because the company will have to finance the investment in inventory until the accounts receivable are collected 60 days later. Now consider Quick Turn Company's working-capital cycle, shown in the bottom portion of the figure. Compared to Pokey, Quick Turn Company has an enviable working-capital position. By the time Quick Turn must pay for its inventory purchases (October 31), it has sold its product (September 30) and collected from its customers (October 31). Thus, there is no cash conversion period because the supplier is essentially financing Quick Turn's working-capital needs.

Incentives and Subsidies available to Entrepreneurs in India

In India Entrepreneurs are offered a number of incentives because they fulfil two main objectives of economic development. Firstly, they facilitate decentralization of industries. They assist in the dispersal of industries over the entire geographical area of the country. Secondly, they facilitate the transformation of a traditional technique into modern technique characterized by improved skills, high production and higher standard of living.

INCENTIVES

It is the financial and promotional assistance provided by the government to the industries for boosting up industrial development in all regions particularly in backward areas. Incentives include concession, subsidies and bounties. 'Subsidy' denotes a single lump-sum which is given by a government to an entrepreneur to cover the cost. It is granted to an industry which is considered essential in the national interest. The term Bounty denotes bonus or financial aid which is given by a government to an industry to help it compete with other units in home market or in a foreign market. Bounty offers benefits on a particular industry; while a subsidy is given in the interest of the nation. The object of incentives is to motivate an entrepreneur to start new ventures in the larger interest of the nation and the society.

NEED FOR INCENTIVES AND SUBSIDIES

The need for incentives and subsidies arises for the following reasons:

1) **To Remove Regional Disparities in Development**: Industries may be concentrated and overcrowded in some regions, in order to correct this regional balance, incentives are provided to entrepreneurs. They will start new ventures in such backward areas. Thus the backward areas
become developed and regional imbalances are corrected.
2**) To Provide Competitive Strength, Survival and Growth**: several other incentives are provided for the survival and growth of industries. For example, reservation of products, price preference etc. will improve the competitive strength. Other concessions like concessional finance, tax relief etc., contribute their survival and growth.
3) **To Generate More Employment and Remove Unemployment**: Market adjustments and external economies play a significant role in the economic development of a country. Subsidies cause movement of

entrepreneurs from developed areas to developing or backward areas. In short, incentives and subsidies serve as a catalyst to start a dynamic process of development.

4) **To Promote Entrepreneurship**: Industrial estates, availability of power, concessional finance, capital investment subsidy, transport subsidy etc, are few examples of subsidies which are aimed at encouraging entrepreneurs to take up new ventures.

Tax benefits available to Small-Scale Industries in India are as follows:

Tax Holiday:

Under section 80J of the Income Tax Act 1961, new industrial undertakings, including small-scale industries, are exempted from the payment of income- tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production.

A small-scale industry has to satisfy the following two conditions to avail of this tax exemption facility:

1. The unit should not have been formed by the splitting or reconstruction of an existing unit.
2. The unit should employ 10 or more workers in a manufacturing process with the power or at least 20 workers without power.

Depreciation:

Under Section 32 of the Income Tax Act, 1961, a small-scale industry is entitled to a deduction on depreciation account on block of assets at the prescribed rate. Small enterprise is allowed subject to a maximum of Rs. 20 lakh deduction for depreciation on plant and machinery on the diminishing balance method.

In case of an asset acquired before the accounting period, depreciation is calculated on its written down value. For plant and machinery that are used in manufacturing in double or triple shift, an additional allowance called 'Extra Shift Allowance' is also available.

A small-scale industry should satisfy the following conditions before it becomes eligible for deduction in depreciation:

1. The assets must be owned by the assesse.
2. The assets must actually be used for the purpose of the assesse's business or profession.
3. Depreciations allowance or deduction is allowed only on fixed assets, i.e. building machinery, plant and furniture.

Rehabilitation Allowance:

A rehabilitation allowance is granted to small-scale industries under Section 33-B of the Income Tax Act, 1961 whose business is discontinued on account of the following reasons:

1. Flood, typhoon, hurricane, cyclone, earthquake, or other natural upheavals;
2. Riot or civil disturbance;
3. Accidental fire or explosion; and
4. Action by an enemy or action taken in combating an enemy.

The rehabilitation allowance should be used for business purposes within three years of unit's re-establishment, reconstruction, or revival .The rehabilitation allowance is allowed to the unit equivalent of 60 per cent of the amount of the deduction allowable to the unit.

Investment Allowance:

The Investment allowance was introduced way back in 1976 to replace the initial depreciation allowance. The investment allowance under Section 31 A of the Income Tax Act, 1961 is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed.

Although the investment allowance has been made available for the articles or things except certain items of low priority, yet as per the Eleventh Schedule to the Income Tax Act 1961, a special dispensation has been provided for the plant and machinery installed in small-scale industries. In comparison with other industries, small-scale industries are at an advantage in claiming a deduction of investment allowance. A small-scale industry can avail of investment allowance provided it has put to use machinery or plant either in the year of installation or in the immediate following year failing which the benefit will be forfeited.

Expenditure on Scientific Research:

Under Section 35 of the Income Tax Act, 1961, the following deductions in respect of expenditure on scientific research are allowed:

1. Any revenue expenditure incurred on scientific research related to the business of the assessee in the previous year.
2. Any sum paid to a scientific research association or a university, college, institution or to a public company which has its object, the undertaking of a scientific research.
3. Any capital expenditure incurred on scientific research related to the business of the assessee subject to the provision of Section 35(2) of the Income Tax Act, 1961.

In case of any unabsorbed capital expenditure incurred on scientific research, the provision of the Income Tax Act allow to carry it forward for adjustment against the profits earned by the business in the subsequent years for an indefinite time period.

Amortization of Certain Preliminary Expenses:

The Indian companies and resident persons, under Section 35D of the Income Tax Act 1961, are allowed to write off the preliminary and developmental expenses incurred by them in connection with the setting up of a new industrial unit or expansion of an existing industrial unit.

The examples of preliminary expenses are:

a. Expenses incurred in connection with the preparation of a feasibility report necessary for their business;
b. Engineering expenses related to the business; and
c. Legal charges, if any, for drafting agreements.

The writing off of the preliminary expenses is allowed against subject to a maximum of ten annual instalments beginning with the previous year in which the new unit commences its production or expansion of an existing unit is completed. The aggregate amount of expenditure allowed be deducted is limited to 2.5 per cent of the total cost of the project.

A small-scale unit established in a backward area, under Section 80-HH, is allowed a deduction of 20 per cent on its profits and gains provided the unit satisfies the following conditions: a. The unit began its production after 31st December 1970 in any backward area of the country;
b. It is a newly established unit in a backward area. It is neither split nor reconstituted out of a business already in existence in any backward area;
c. It has not been formed by the transfer to a new business plant or machinery which was previously used for any purpose in any backward area; and
d. It employs 10 or more workers in a manufacturing process with power or 20 or more workers without power.

Tax Concession to Small-Scale Industries in Rural Areas:

The Finance (No.2) Act of 1977 inserted a new Section 80-HHA in the Income Tax Act, 1961. The tax payers, under this Section 80-HHA, are entitled to a deduction of 20 % of the profits and gains derived by running small-scale industries in the rural areas.

The deduction is allowed for a period of 10 years from the year of commencement of manufacturing activity after 30th September 1977. For this purpose, the expression rural area means any area as defined under the

Explanation to Section 35 CC (I) of the Income Tax Act, 1961. However, this tax deduction benefit is not allowed to the small-scale units engaged in mining activity.

The small-scale industry can avail of this tax deduction only after fulfilling the following conditions:

1. The small-scale unit is not formed by splitting or reconstruction of a business already in existence.
2. 'It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.
3. The accounts of the unit are audited by a chartered accountant.
4. It employs 10 or more workers in manufacturing process carried on without the aid of power.
5. The unit does not claim a simultaneous deduction under Section 80-HH of the Income Tax Act, 1961.

Tax Concessions to Small-Scale Industries in Backward Areas:

The Planning Commission of India, in 1970-71, declared 247 districts out of 435 districts as backward areas with a view to provide them special incentives and concessions to establish
industries in these backward areas. The newly established small-scale industries in these areas specified in the Eighth Schedule to the Income Tax Act, 1961 are entitled to a deduction of 20% of their profits and gains from their gross total income. This deduction is allowed for a period of 10 years beginning with the year of commencement of manufacture or production. However, if a small-scale industry has already been established in a non-backward area and later shifted to backward area, the unit will be allowed this deduction on the profits earned from the undertaking after shifting in the backward area for a period of 10 years. A small-scale industry established in backward area but engaged in mining activity is not entitled to such deduction benefit.

The unit has to satisfy the following conditions to be eligible to avail of this tax benefit:

1. It is established on or after 31th December, 1970.
2. It employs at least 10 workers in a manufacturing process carried on with the aid of power or at least 20 workers manufacturing process carried on without the aid of power.

Expenditure on Acquisition of Patents and Copyrights:

Under Section 35-A of the Income Tax Act, 1961, any expenditure of capital nature incurred in acquiring a patent and copyright by a small-scale industry is deductible from its income. But the expenditure should be incurred after 28th February 1966. The expenditure can be deducted in 14 equal instalments beginning with the previous year in which the expenditure was incurred in acquiring patents and copyrights for the unit.

Profits from Business of Publication of Books:

Under Section 80-1A of the Income Tax Act, 1961 which has replaced Section 80-1 w.e.f. the assessment year 1991-92, 20% of the profits earned by a small- scale industry from the business of publication of books is deductible from its gross total income. The deduction benefit is available for total period of five years beginning with the assessment year 1992-93.

In addition, deductions are also available in respect of:

1. Royalties from any company in India (Under Section 80 M)
2. Royalties from any certain foreign companies (Under Section 800)
3. Inter-corporate Dividends (Under Section 80 M)
4. Income of Co-operative Societies (Under Section SOP)
5. Carry forward and set -off business losses (Under Section 72)

HRM and Labour Laws in Small Businesses

Many small businesses operate with no employees. One person handles the whole business with perhaps occasional help from family or friends. Making the leap to hiring someone to help is a big one because all of a sudden you need to worry about payroll, benefits, unemployment insurance, and what seems like a myriad of other details. And, this does not even take into consideration the host of problems that can arise from personality conflicts and loss-of-control of all the processes in running your business.

People are the real assets of an organization. If treated well, they can take organizations to commanding heights. Two plus two could be four or even ten. Organizations are, generally, driven by a set of predetermined goals. They employ physical, financial and human resources in order to achieve the goals. These goals have no meaning unless people understand the underlying philosophy, translate them into concrete action plans and put their heart while realizing the targets. Organizations, thus, depend on people for their survival and growth. In a similar way, people need organizations.

Importance of HRM

At the Enterprise Level
(a) Good human resource practices can help in attracting and retaining the best people in the organization. Planning alerts the company to the types of people it will need in the short, medium and long run.
(b) It helps in training people for challenging roles, developing right attitudes towards the job and the company, promoting team spirit among employees and developing loyalty and commitment through appropriate reward schemes.

At the Individual Level
Effective management of human resources help employees, thus:
(a) It promotes team work and team spirit among employees.
(b) It offers excellent growth opportunities to people who have the potential to rise.
(c) It allows people to work with diligence and commitment.

At the Society Level
Society, as a whole, is the major beneficiary of good human resource practices.
(a) Employment opportunities multiply.
(b) Scarce talents are put to best use. Companies that pay and treat people well always race ahead of others and deliver excellent results.

Overview of HRM in small businesses

 A small business’s human resource management needs are not of the same size or complexity of those of a large firm. Nonetheless, even a business that carries only two or three employees faces important personnel management issues. Indeed, the stakes are very high in the world of small business when it comes to employee recruitment and management.

 No business wants an employee who is lazy or incompetent or dishonest. But a small business with a work force of half a dozen people will be hurt far more badly by such an employee than will a company with a work force that numbers in the hundreds (or thousands). Nonetheless, “most small business employers have no formal training in how to make hiring decisions.

 Small businesses also need to match the talents of prospective employees with the company’s needs. Efforts to manage this can be accomplished in a much more effective fashion if the small business owner devotes energy to defining the job and actively taking part in the recruitment process. But the human resource management task does not end with the creation of a detailed job description and the selection of a suitable employee.

 Small business consultants strongly urge even the most modest of business enterprises to implement and document policies regarding human resource issues. “Few small enterprises can afford even a fledgling personnel department during the first few years of business operation,”

 To hold problems to a minimum, specific personnel policies should be established as early as possible. These become useful guides in all areas: recruitment and selection, compensation plan and employee benefits, training, promotions and terminations, and the like.” Depending on the nature of the business enterprise (and the owner’s own comfort zone), the owner can even involve his employees in this endeavour.

Common HR Challenges in Start-ups

There are a lot of HR challenges for start-up companies including recruitment, establishing policies, getting management buy-in, hiring employees, firing poor performers, and much more. While many of these challenges occur whether your company is a start-up or not, it’s important to understand the unique challenge each of these presents to a new company and why they matter. A few common HR challenges in start-up companies include:

 Employee Morale: Because start-ups are often so invested in kicking off their business right, and focused on the output, they fail to notice or invest time in employee performance. When employees don’t feel valued or recognized for their efforts, engagement drops and they’re soon looking for another job. Therefore, it’s important to pay attention to the people and build values and goals around them.

 Getting Management Buy-In: HR is often considered an unnecessary expense, and start-ups often think they’re too small to worry about HR compliance. Some companies want HR to stay out of processes and focus on hiring. In each of these cases, HR has the responsibility to define themselves in the role they play and the value they bring to the company.

 Establishing Company Policies and Processes: A common HR mistake in start-up companies is having the “too small to matter” mindset. They believe issues can be handled when they arise, but don’t need to be laid out beforehand. But failing to outline policies and procedures fails and asking for signed compliance to give employees a place to turn when they need a standard for business conduct, without outlining policies and procedures, creates confusion.

 Establishing Company Culture: A lot of new companies allow their company culture to form on its own. However, this is a poor decision because it may develop a culture you don’t want in your company. A poor company culture can be toxic to the success of your entire organization.

 Hiring Employees: Start-ups often hire people in their personal network, which leads to informal hiring processes and minimal on boarding. However, as you grow and bring on new employees this can look very unprofessional, as it fails to provide direction to new workers. Company culture and values get overlooked and your business may gain a poor reputation for your hiring practices if you fail to on-board correctly.

 Training Employees: When you’re just kicking off your start-up, you might run low on resources and forego employee training. While it takes time and resources to train employees, failure to do so may be even more expensive. IBM conducted a study and found that employees are 12 times more likely to quit a job if they aren’t getting the training and development they need. Considering that the cost of hiring a new employee to replace an old one can be up to 30 percent of the position’s salary, this is not a cost to be taken lightly.

 Providing Feedback to Employees: Failure to provide feedback, even in a start-up, will quickly lead your business into trouble. Receiving and conveying both positive and negative feedback allows employees to see what they are doing well and where they need to improve. This improves their effectiveness and reduces the need to fire underperforming employees in the future.

 Employee Retention: One of the major challenges is that start-up employees tend to have very poor work-life balance. So, after developing new skills at a rapid pace as the start-up ramps up, some employees then use those skills to get a new positions at an organization with better lifestyle options. Another challenge for start-up is keeping employees aligned with your company vision.

Labour Laws

Labour law seeks to regulate the relations between an employer or a class of employers and their employees. The access of this law is the widest, in that it touches the lives of far more people, indeed millions of men and women as compared to any other branch of law and this is the aspect which makes it the most fascinating of all branches of law and the study of this subject is of enormous dimension and of ever changing facets.

Some of the labour laws in India are:

- Workmen’s Compensation Act of 1923

The Workmen’s Compensation Act compensates a workman for any injury suffered during the course of his employment or to his dependents in the case of his death. The Act provides for the rate at which compensation shall be paid to an employee. This is one of many social security laws in India.

- Trade Unions Act of 1926

This Act enacted the rules and protections granted to Trade Unions in India. This law was amended in 2001.

- Payment of Wages Act of 1936

The Payment of Wages Act regulates by when wages shall be distributed to employees by the employers. The law also provides the tax withholdings the employer must deduct and pay to the central or state government before distributing the wages.

- Industrial Employment (Standing Orders) Act of 1946

This Act requires employers in industrial establishments to define and post the conditions of employment by issuing so-called standing orders. These standing orders must be approved by the government and duly certified. These orders aim to remove flexibility from the employer in terms of job, hours, timing, leave grant, productivity measures and other matters. The standing orders mandate that the employer classify its employees, state the shifts, payment of wages, rules for vacation, rules for sick leave, holidays, rules for termination amongst others.

- Industrial Disputes Act of 1947

The Industrial Disputes act 1947 regulates how employers may address industrial disputes such as lockouts, layoffs, retrenchment etc. It controls the lawful processes for reconciliation, adjudication of labour disputes. The Act also regulates what rules and conditions employers must comply before the termination or layoff of a workman who has been in continuous service for more than one year with the employer. The employer is required to give notice of termination to the employee with a copy of the notice to appropriate government office seeking government’s permission, explain valid reasons for termination, and wait for one month before the employment can be lawfully terminated.

- Minimum Wages Act of 1948

The Minimum Wages Act prescribes minimum wages in all enterprises, and in some cases those working at home per the schedule of the Act. Central and State Governments can and do revise minimum wages at their discretion. The minimum wage is further classified by nature of work, location and numerous other factors at the discretion of the government.

- Industries (Regulation and Development) Act of 1951

This law declared numerous key manufacturing industries under its so-called First Schedule. It placed many industries under common central government regulations in addition to whatever laws state government enact. It also reserved over 600 products that can only be manufactured in small scale enterprises, thereby regulating who can enter in these businesses, and above all placing a limit on the number of employees per company for the listed products. The list included all key technology and industrial products in early 1950s, including products ranging from certain iron and steel products, fuel derivatives, motors, certain machinery, machine tools, to ceramics and scientific equipment.

- Employees Provident Fund and Miscellaneous Provisions Act of 1952

This Act seeks to ensure the financial security of the employees in an establishment by providing for a system of compulsory savings. The Act provides for establishments of a contributory Provident Fund in which employees' contribution shall be at least equal to the contribution payable by the employer. Minimum contribution by the employees shall be 10-12% of the wages. This amount is payable to the employee after retirement and could also be withdrawn partly for certain specified purposes.

- Maternity Benefit Act of 1961

The Maternity Benefit Act regulates the employment of the women and maternity benefits mandated by law. Any woman employee who worked in any establishment for a period of at least 80 days during the 12 months immediately preceding the date of her expected delivery, is entitled to receive maternity benefits under the Act. The employer is required to pay maternity benefits, medical allowance, maternity leave and nursing breaks.

- Payment of Bonus Act of 1965

This Act, applies to an enterprise employing 20 or more persons. The Act requires employer to pay a bonus to persons on the basis of profits or on the basis of production or productivity. The Act was modified to require companies to pay a minimum bonus, even if the employer suffers losses during the accounting year. This minimum is currently 8.33 percent of the salary.

- Payment of Gratuity Act of 1972

This law applies to all establishments employing 10 or more workers. Gratuity is payable to the employee if he or she resigns or retires. The Indian government mandates that this payment be at the rate of 15 days salary of the employee for each completed year of service subject to a maximum of 1000000.

ENTREPRENEURSHIP DEVELOPMENT – MODULE III

Start-up - Introduction

As per the revised notification G.S.R. (General Statutory Rules) 364(E) published on 11th April 2018, an entity shall be considered as a Startup:

- If it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India.
- Up to ten years from the date of its incorporation/ registration; ten years from the date of its incorporation/registration.
- If it's turnover for any of the financial years since incorporation/ registration has not exceeded Rupees 100 crores.
- If it's working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.
- Provided that any such entity formed by splitting up or reconstruction of a business already in existence shall not be considered a 'Startup'.

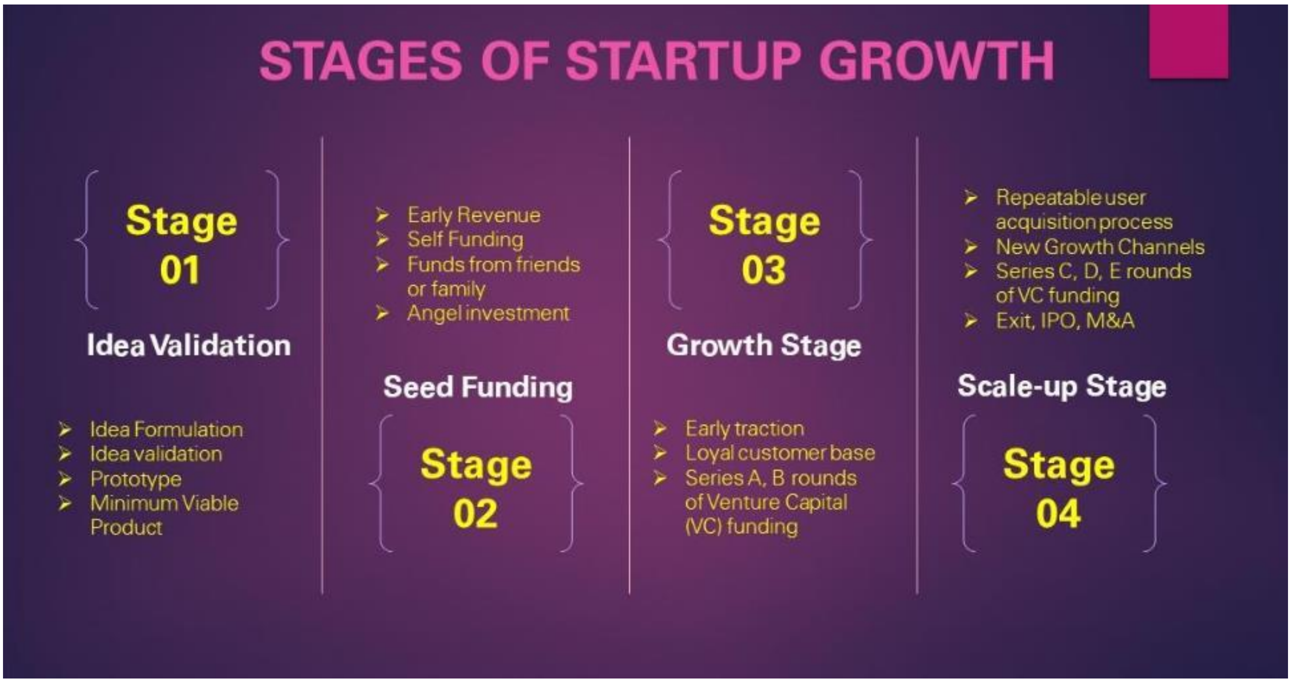
The term startup refers to a company in the first stage of its operations. Startups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is a demand. These companies generally start with high costs and limited revenue which is why they look for capital from a variety of sources such as venture capitalists.

- A startup is a company that's in the initial business stage.
- Until the business gets off the ground, a startup is often financed by its founders and it also attracts outside investment.
- There are many different ways to fund startups including family and friends, venture capitalists, crowdfunding, and credit.
- Startups also have to consider where they'll do business and their legal structure.

Lifecycle of a Startup

Globally, startups are seen as nation builders as they create positive contribution to the nation's economy and create jobs. Startups are normally identified as a newly emerged, fast-growing business that aims to meet a marketplace need by developing a viable business model around innovative product, service, process or a platform. With their success they also create a sense that indigenous innovations and technologies can bring fruitful economic benefits in the long run. The Startup landscape is growing rapidly in our country. In order to sustain the growth and encourage Startups, it is important for enablers to understand the lifecycle of a Startup.

Startup Growth Stages: An entrepreneur treads multiple stages of business lifecycle of a Startup from birth (an idea) through its maturity. Each new phase brings forth new challenges that the entrepreneur must learn to navigate. The following section presents the Startup lifecycle along with the key requirements at each stage.



 Concept or idea stage: The entrepreneur discovers a problem or identifies an opportunity that has a business potential. Mentorship support for entrepreneur is critical at this stage to ensure the business related activities are defined well and subsequent business plan is generated. At this stage, there is not much requirement of funding and typically founders tend to self-finance or bootstrap.

 Pre-seed or validation stage: Entrepreneur builds a probable solution in the form of “a proof of concept” or “prototype” with relevant assumptions. These assumptions are then validated with initial small sample of target audience for the product or service related feedback and response. The funding requirements are generally met by self-financing (boot strapping), raising money from investors or Government grants for research or prototype development. Access to incubator and mentors at this stage helps in identifying and approaching early customers, building minimum viable product and identifying product-market fit.

 Seed or early traction stage: Based on the feedback from early customers and mentors’ insights, demand for product or service is identified. The customer retention rate confirms the early traction of the company and its product. Startup acquires more customers by actively seeking funds from crowd funding agencies, angel investors or networks, incubators and seed grants from Government. The financing support at this stage supports the Startup in escaping the “valley of death “for a period of time spanning from when a Startup firm receives an initial capital contribution to when it begins generating revenues.

 Growth or scaling stage: In this stage, most of the processes are defined and the business is firmly established. Entrepreneurs build a repeatable user or customer acquisition process, identifies channels of market growth and look for opportunities to expand the business to different geographies or markets. The expansion is backed by scale up funding support from institutional investors such as Venture Capitalists (VCs) and acceleration programs.

 Maturity or Exit, IPO, M&A stage: Many investors, promoters and founders look at opportunity to exit and realize profits either through partial or full sale of the business entity. The next set of investors may be identified as another entity in the same space looking to acquire the business and gain market share, or in some cases, Startup may issue a public offer or entirely sell the business. Bank funds, private equity funds and IPO investors play a major role in financing such large deals for Startups.

Startup Ecosystem

A startup ecosystem is formed by people, startups in their various stages and various types of organizations in a location (physical and/or virtual), interacting as a system to create new startup companies. These organizations can be further divided into categories: universities, funding organizations, support organizations (like incubators, accelerators, co-working spaces etc.), research organizations, service provider organizations (like legal, financial services etc.) and large corporations. Different\ organizations typically focus on specific parts of the ecosystem function and/or startups at their specific development stage(s).

Composition of the Startup ecosystem

- Ideas, inventions and researching
- Startups at various stages
- Entrepreneurs
- Startup team members
- Angel investors
- Startup mentors
- Startup advisors
- Entrepreneurial minded people
- Third people from other organizations with startup activities

List of organizations and/or organized activities with startup activities

- Universities
- Advisory & mentoring organizations
- Startup incubators
- Startup accelerators
- Co-working spaces

- Service providers (consulting, accounting, legal, etc.)
- Event organizers
- Startup competitions
- Investor networks
- Venture capital companies
- Crowdfunding portals
- Other funding providers (loans, grants etc.)
- Startup blogs & other business media
- Other facilitators

Benefits of Startup Ecosystems

 Creating jobs and attracting a talent pool: Mature startups have the potential to create many jobs in the future as they grow. About 2 million jobs globally were created by startups alone in 2015. Any country investing in creating a thriving startup ecosystem is supporting the future employment of millions of people locally and even globally. Apart from startups creating jobs, there are other supporting businesses that are created by successful startup ecosystem, such as co-working spaces, accelerators, investment firms, and general service providers of all sorts who cater those startups and their employees. All this creates a spike of jobs and greatly benefits the local economy. Additionally, startups create a talent pool. Most startup employees are fresher's or younger than average. Working in startups, they get trained and become versatile in many skills. Essentially, startups are becoming training workshops, and local economies benefit from this creation of a talented work pool. Likewise, to support a thriving community of startups and to create a local talent pool, educational institutions tend to develop locally. An example for this would be several highly ranked colleges boasted of by the United States.

 Attracting Multinational Corporations (MNCs) and large companies: Having a thriving startup ecosystem benefits the local economy by attracting global companies and large conglomerates. This helps for 2 reasons: 1. Such corporations feel that a successful startup ecosystem is a profitable economy to invest in. This helps to create more jobs, more new services, and products and also generates healthy competition. 2. Corporations additionally feel that such flourishing ecosystems can be their next headquarters since they are aware local talent exists. A great example of this is Google setting up its headquarters in Tel Aviv since Israel is a bustling startup ecosystem.

 Tech revolution and local development: Economies, where tech startups have developed in the past, have seen tech revolutions and advancements which benefit both the city and country. Cities that have pioneered in tech-driven startup economies have seen tremendous development in areas such as transportation, clean energy, and other innovative industries. Technology has a positive impact on the quality of life, and nearby startups can make sure that the first to receive their innovative initiatives will be the local population.

 Talent retention and attracting global talent: With the globalization of the world, mobility has greatly increased, giving a talented workforce the opportunity to migrate to better economies elsewhere. This leads to brain drain, which can have a devastating impact on local economies. By setting up a healthy startup ecosystem, local economies have benefitted as they have been able to retain top talent in their countries. Furthermore, having a great startup ecosystem has also been beneficial in getting highly skilled global talent to these countries, boosting the local economy.

 Tax revenue for the government: Initially, while developing and nurturing a growing startup ecosystem, a government may have to provide some tax benefits for developing startups and allocate a startup budget to help the ecosystem grow. However, with time and with an increasing number of successful startups turning out to become unicorns, local governments

have been financially rewarded with tax revenue from such companies. Israel, for example, enjoys monthly exits of high-value startups, enriching its reserves and creating the opportunity of investing those funds in the growth of the economy as a whole.

 Being noticeable as an innovative country: Countries like Chile, Israel, and Estonia have quickly become noticeable on the global level for their successful startup ecosystem. They are frequently quoted as leaders in successful startup ecosystems, helping to open up trade relations between countries and bring the country on par with other leading ecosystems, increasing the country's prestige and self-image.

The role of funding organizations in the Startup ecosystem

The establishment and further development of a startups cannot be imagined without the support of funding organizations. Some of these organizations, which play a crucial role in vitalizing of startups, especially in financial segment are:

 Banks - give a loan for Startup and create special programs of support which often include mentoring programs. These financial institutions are trying to give as much support as possible to the development of startups, and on the other hand to secure their investments.

 Startup incubators and accelerators - The incubation concept seeks an effective means to link technology, capital and know-how in order to leverage entrepreneurial talent, accelerate the development of new companies, and thus speed the exploitation of technology.

 Clusters -Clusters are geographic concentrations of interconnected companies and institutions in a particular field. In clusters, a balance is reached between cooperation and competition, which becomes evident in the higher productivity of the companies because of their increased access to inputs, information, technology and institutions; or in greater innovation and venture creation. The important role of the cluster is to provide incentives for the entry of new companies or startups.

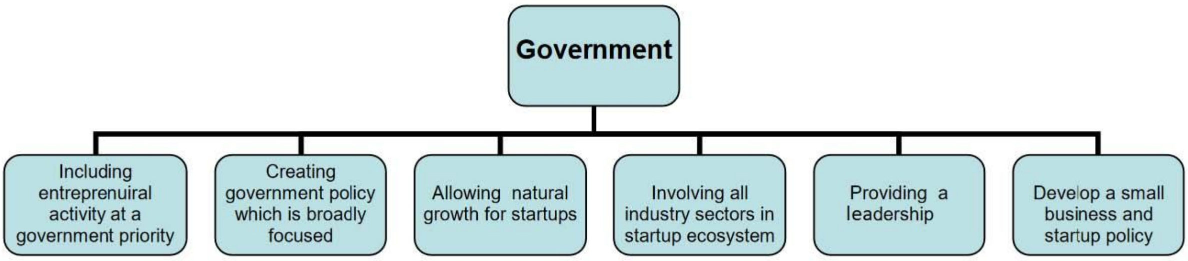
 Angel investors - are high net-worth, non-institutional, private equity investors who have the desire and sufficiently high net worth to enable them to invest part of their assets in high risk, high-return entrepreneurial ventures in return for a share of voting, income and ultimately, capital gain. Angels normally invest in early stage ventures where the founding team has exhausted their personal savings and sources of funding from family and friends. These ventures are not sufficiently developed to stand on their own, or sufficiently attractive to gain venture capital funding.

 Venture capital funds - Venture capital (VC) is an equity investment aimed at supporting the pre-launch, launch and early stage development phases of a business. Although it is commonly assumed to be the main source of seed and early stage financing, in fact the majority of venture capital firms intervene at a later stage. The venture funds are the kind of investment funds that manage the money of investors who seek private equity in startups with predicted a high and strong growth potential.

 Crowdfunding - is the process of asking the general public for donations that provide Startup capital for new ventures. This concept includes using a small amounts of capital from a large number of individuals or organizations to finance some new Startup. Forms of crowd funding are: donation crowdfunding, reward crowdfunding, crowdfunded lending, and equity crowdfunding. Every of these models have different form of return and motivation of the funder.

The role of government in the Startup ecosystem

Governments all around the world are interesting for entrepreneurship and startups such as potential solutions to flagging economic growth and increasing employment in their states. The primary goals for governments need to be removing obstacles for funding startups and their growth, especially in areas such as: developing a workable policy, competitive regulation on the market, unfair taxation on small companies, attracting investment capital and help them in the sensitive stages of their development. Some of the main activities of the government within the framework of Startup ecosystem are presented in the figure below:



Creating a sustainable environment for Startup companies is one of the biggest challenges the government is facing. The mechanisms used for this purpose must be well-designed and applicable to all startups, regardless of which activity they are related to. The main role of governments should be to facilitate the emergence of dynamic ecosystems by working closely with entrepreneurs, investors, companies, local champions, role models, and other interested players.

Some of the key recommendations for government policy of the fostering Startup ecosystem are:

- **Make the formation of entrepreneurial activity a government priority** – The formulation of effective policy for entrepreneurial ecosystems requires the active involvement of Government Ministers working with senior public servants who act as 'institutional entrepreneurs' to shape and empower policies and programs.
- **Ensure that government policy is broadly focused** –Policy should be developed that is holistic and encompasses all components of the ecosystem rather than seeking to 'cherry pick' areas of special interest.
- **Allow for natural growth not top-down solutions** –Build from existing industries that have formed naturally within the region or country rather than seeking to generate new industries from green field sites.
- **Ensure all industry sectors are considered not just high-tech** – Encourage growth across all industry sectors including low, mid and high-tech firms.
- **Provide leadership, but delegate responsibility and ownership** –Adopt a 'top-down' and 'bottom-up' approach devolving responsibility to local and regional authorities.
- **Develop policy that addresses the needs of both the business and its management team** –Recognize that small business policy is 'transactional' while entrepreneurship policy is 'relational' in nature.

The role of research and educational institutions in the Startup ecosystem

Research and educational organizations have a huge impact on startups, especially in the early stages of development. Experts from different institutions such as: universities, faculties, institutes could provide a functioning and efficient platforms for startups operating. Most often, this type of platform is based on the establishment of spin of companies and creating a business environment for them. Institutions which involved in higher education and researching, represents a critical factor in innovation and human capital development and plays a central role in the success and sustainability of the knowledge economy. These educational and research institutions must showcase their ability to enhance the major scientific and technical competencies required by their students and employees to be competitive in the future in a very advanced environment.

Many institutions have started conducting audit courses on entrepreneurship, design thinking and they have created specialized programs to support aspiring entrepreneurs. For instance, Startup School India is one of the best programs for early stage entrepreneurs to build prototypes, launch their idea and get feedback from gurus in the program. It is a hands-on program to accelerate early

stage startups. Many Incubation centres supported by government schemes run programs to support early stage startups. Some incubators also, provide tech support to startups and their programs usually support a cohort which is supported by industry.
In fact, many institutions offer, top-class mentors, experts across industries on a full-time basis, exposure to other startups in similar domains, and assistance in raising investments, all without any charges or a stake in the startups. They also have labs to foster creativity and imagination among entrepreneurs and Startup employees and to help them inculcate self-reliant skills such as Machine Learning AI, computational thinking, adaptive learning and so on.
Some of the incubators in institutions are accessible to the selected startups round the clock and through the week, and they also provide operational advice, banking support, and guidance for IPR laws and applications.
Major responsibilities revolve around the following points listed:

- Facilitate and extend government schemes / grants to startups.
- Provide prototyping and office facilities to entrepreneurs.
- Work with industries and an extensive network of institutional partners to help entrepreneurs launch and scale.
- Attract the best entrepreneurs from across the globe
- Help startups to get equipped with entrepreneurship skills required to succeed, using methodologies that transcend traditional learning
- Operating as a node to lead or support entrepreneurship efforts of the government.

Role of Big Companies in the Startup ecosystem

Collaboration between technology start-ups and large corporates is key for fostering innovation in Europe. It can benefit both sides, helping corporates to enter and create new markets, and start-ups to develop their products, and to scale: chief executive officers of both corporates and start-ups share the common strategic goals of growing their company, improving its competitive positioning and generating revenue. Even partnerships with potential disruptors can be beneficial because of the difficulty for an established business to disrupt from within.

Scalable customer base: Large corporates can be an ideal target customer as they have enough people, budget and opportunity to scale. This is helpful for start-ups and providers of emerging technologies that are looking for their first customers.
Riskless internationalization: Working with corporate headquarters offers the possibility to expand into other countries by partnering with the corporate's local subsidiaries. Moreover, large user bases may also help start-ups to refine and optimize their products.
Attractive retail sales channel: The infrastructure of an established corporate, including its existing clients, allows faster scaling of the start-up business model than the start-up could achieve on its own.
Access to proprietary assets: Partnering with a corporate can enable a start-up to exploit underutilized corporate assets such as data that would otherwise not be accessible, and create new business opportunities.
Market knowledge and mentoring: An established business player can help start-ups enter the market with its resources. Start-ups can also tap into the knowledge and long-term experience of the corporate in the form of mentoring.
Revenues and independence from external capital: Revenue often is a key incentive for an early-stage company. As big corporates can invest considerable amounts of money for products, corporates can free start-ups from the need to seek outside investments.
Success story for future sales: Large corporate customers substantially enhance the reputation of start-ups and serve as reference cases for future sales. As corporate decision-makers look for references before engaging in a collaboration, this also triggers a network effect. In this context, the

transformation of the sales process from an innovation pitch into reference selling may become a key success factor for a start-up.

Role of Support Service Providers in the Startup ecosystem

Successful Startup ecosystems need various different support services, programmes and/or institutions that help new startups to get access to networks, investors, customers, new employees, advisors and other service providers (e.g. business, legal, accounting consulting, etc.).

Entrepreneurship education initiatives and competitions: Entrepreneurship education should be embedded in all learning processes. However, the Business Support Ecosystem does not necessarily deal with FORMAL education, as it does not have influence over it. Input to formal education may not be possible in some countries. Competitions (e.g. calls for business ideas) are very useful and can stimulate interest in a fun environment. Competitions tend to be more motivational for the entrepreneur and receive a better response in term of audience.

Entrepreneurship dissemination activities: Dissemination needs to be focused. Focus could include specialisation in specific areas, such as regional strengths that may be promoted/built upon (e.g. thematic workshops rather than just general dissemination/awareness activities to provide direction).

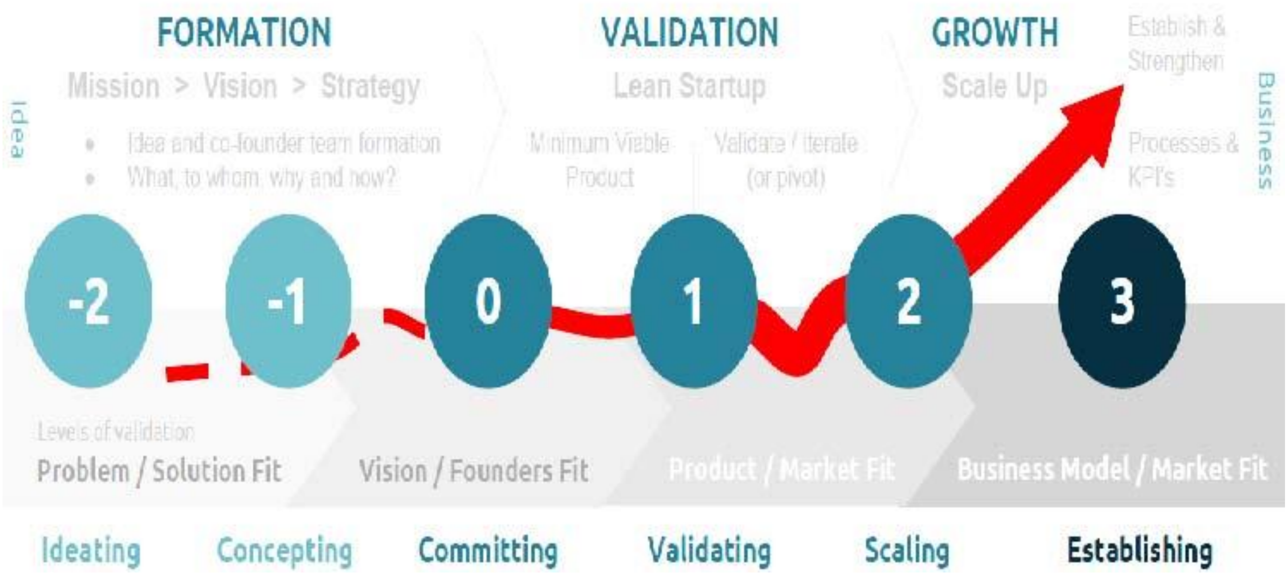
Integrated orientation services and training: The range of services that can be provided in this phase include consultation, mentoring and training for orientation (profiling, careers guidance, and skills assessment), business idea evaluation and business plan support.

Co-working spaces and innovation / technology Hubs: Physical spaces are important in this phase as they allow for human contact, exchange and a creative environment in which to focus on the
business idea. Co-working spaces can be horizontal or sector specific. Innovation or technology hubs should focus on supporting specific ideas related to innovation/digital innovation.

Start-up Development Phases

First, startups need an idea and a clear vision of its implementation. This requires building a team, defining concepts for the new products and services, as well as setting up a viable strategy and committing to its implementation. Second, startups need to validate their products and services and get first customers and resources for further development. Third, once the product or service has been validated and the business model is in place, the startups need to scale up by attracting new customers and getting into broader markets.

As competition has become more intense and global, startups often need to compete against startups from all over the world. In order to be able to succeed in global competition, startups needs various different resources in the different phases of their development. Ideating and concepting new products and services require the right people and talent, and efficient collaboration between them. Developing and validating concepts requires (in addition) access to seed funding and potential customers and end-users. Finally, scaling up and establishing the company requires growth financing, access to networks and strong business competence (e.g. through mentors or advisors). In practice, all this calls for efficient and open knowledge transfer, trust, face-to-face discussions and connections to experts of various different branches. These resources are best available in thriving startup ecosystems.



a) Ideating and Concepting

Entrepreneurial ambition and/or potential scalable product or service idea for a big enough target market. Initial idea on how it would create value. One person or a vague team; no confirmed commitment or no right balance of skills in the team structure yet. It seems everybody has (what they consider) a million-dollar idea, but making an idea into reality is very rare. Rarer still is the "great idea" that not only gets off the ground, but finds its perfect audience. A huge factor in a start-up's success comes before the company itself ever launches. Before you do anything else, carefully research your target audience and your offering's potential product-market fit . Do people really need
your product or service? What problem does your offering solve? Is your idea already out there, being sold by an existing company? Answering these questions entails a lot of research into your potential competition and industry, but it also takes talking to hypothetical customers about how your offering might help them. Research in hand, create a business plan and mission statement. Set goals for your development over the coming years. Defining mission and vision with initial strategy and key milestones for next few years on how to get there. Two or three entrepreneurial core co-founders with complementary skills and ownership plan. Maybe additional team members for specific roles also with ownership.

b) Committing

Committed, skills balanced co-founding team with shared vision, values and attitude. Able to develop the initial product or service version, with committed resources, or already have initial product or service in place. Co-founders shareholder agreement (SHA) signed, including milestones, with shareholders time & money commitments, for next three years with proper vesting terms. Team commitment is always an issue if some members of the team have other daily obligations and roles to be filled. Launching a startup company often requires 100% commitment form the key-founders. If the commitment level is under that, the progress takes longer and the startup is likely to run out of resources. It is recommended that the startup company should operate in sprints, where all the team-members commit their time fully to develop the company, but the time periods are shorter (e.g. one week, one month, three months). Working in sprints also helps to keep the progress, product or service development on track.

c) Validating

Iterating and testing assumptions for validated solution to demonstrate initial user growth and/or revenue. Initial Key Performance Indicators (KPI's) identified. Can start to attract additional resources (money or work equity) via investments or loans for equity, interest or revenue share from future revenues. Validation, is typically the first year of a start-up. This is the stage where you begin to get the word out about your product and gain your first customers. Here you find out whether or not your company is truly viable. Before the companies start to grow, most entrepreneurs mistake traction for growth. Both come at different stages in the lifecycle of the startup and play very different roles. At this stage, focus on growing your customer base and actually attaining the product-market fit you researched earlier.

d) Scaling

Focus on KPI based measurable growth in users, customers and revenues and/or market traction & market share in a big or fast growing target market. Can and want to grow fast. Consider or have attracted significant funding or would be able to do so if wanted. Hiring, improving quality and implementing processes. As the product gains traction, the company grows rapidly. It is now out of startup mode and is well on its way to becoming a "real" business. The customer base expands significantly, requiring additional customer relationship management (CRM) tools. Larger venture capital investors enter the picture and join the board. This is a good time to transition from an outsourced CFO or controller to full-time staff. The company's account-ing needs become more technical, requiring a more advanced adviser — especially when selling across state or international boundaries. Banks and VCs often request external audits, expanding your accounting firm relationship.

e) Establishing

Achieved great growth that can be expected to continue. Easily attract financial and people resources. Depending on vision, mission and commitments, will continue to grow and often tries to culturally continue "like a startup". Founders and/or investors make exit(s) or continue with the company. By considering these phases from the beginning and throughout the growth process, companies can gradually build a strong foundation for success instead of wasting time and energy playing catch-up just as the business gains traction. It's important to have an expansive vision of where you're headed — and it's just as important to know how you plan to get there.

Startups and Business Partnering

Partnerships can be particularly important as mechanisms to help address market failures or failures in governance and weak public administrative or infrastructure capacity – where neither the market nor government is able, on its own, to deliver public goods or meet crucial social and environmental challenges. In such situations it is often necessary to mobilize both public and private resources, and this is often done through partnership. Yet, partnerships are only one tool. They are not always the most appropriate approach. Nor are they easy. They often have high transaction costs and are difficult to establish and sustain. Many of them fail, or at least fail to meet the high expectations that are created when they are first established. There is also the challenge of defining partnerships with much debate as to what actually constitutes a public-private or cross-sector partnership. Many types of cooperation between business and other sectors are contract-driven, transaction-based or one-off promotions, events, or dialogues – all of which make an important contribution, but tend to be limited in scale and scope. Others are fully-fledged partnerships, where the companies share risks, costs and benefits, and play an active role in governance of the relationship.

We do not think being prescriptive is helpful, but definitions of business partnering usually include one or more of the following:

- **Involvement in strategy formulation, implementation and communication**
- **Involvement in commercial decision making and negotiations**

• Leading on business analysis

• Being a sounding board, trusted adviser, critical friend and facilitator of productive business discussions.

Success factors of effective partnership

There is no simple checklist or blueprint for successful partnership building. It is often an intuitive and constantly evolving "voyage of discovery" based on organizational and individual learning, trust and experimentation. The success factors that underpin many effective partnerships include the following:

1 Openness, transparency and clear communication to build trust and mutual understanding

2 Clarity of roles, responsibilities, goals and "ground rules"

3 Commitment of core organizational competencies

4 Application of the same professional rigour and discipline focused on achieving targets and deliverables that would be applied to governing, managing and evaluating other types of business alliances

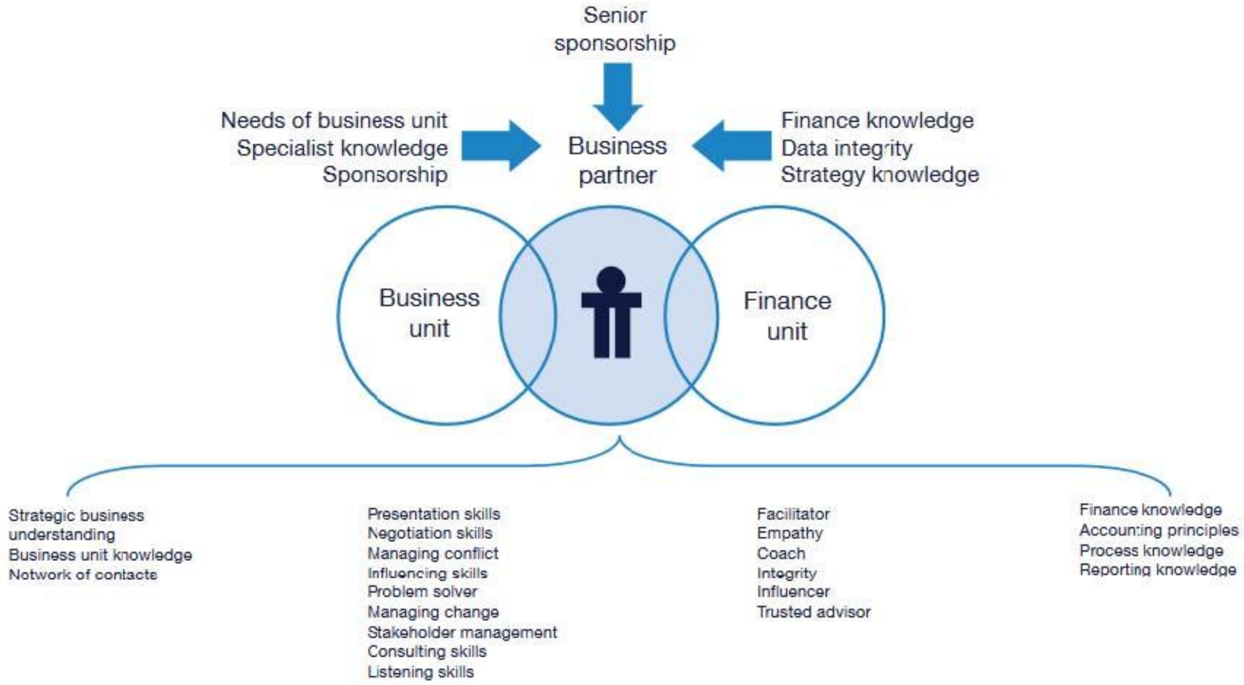
5 Respect for differences in approach, competence, timeframes and objectives of different partners

6 Focus on achieving mutual benefit in a manner that enables the partners to meet their own objectives as well as common goals

7 Understanding the needs of local partners and beneficiaries, with a focus on building their own capacity and capability rather than creating dependence

Laying the foundations of Finance business partnering

Having the right people with the right skills is an important foundation to provide an environment and culture where business partnering can succeed. From a finance business partner view, having the financial skills is a fundamental requirement but added to that are the necessary people skills outlined in the diagram below. Some organisations are defining their own business partnering recipes of success to give clarity to the skills and behaviours that people are expected to develop. Today's managers are also expecting finance business partners to demonstrate many new disciplines which are not typically found in existing finance functions. These include having the service delivery mindset of a shared service centre, strong relationship skills to manage outsource providers, robust team working and collaboration skills not just technical abilities, excellent relationship skills, and experience of managing change. Focused recruitment, skills development and senior commitment to build the right culture will be required where there are gaps.



Certain areas of focus should be routine questions for finance business partners on a 'business-as-usual' basis. These questions are based on 4 parameters:

a) Knowledge and focus

- Does your operational management have a detailed understanding of their cost base (what are fixed and semi-fixed costs; what are the cost drivers)?
- Does management know what activities employees spend their time on and how much it costs?

b) Performance management

- How robust is your working capital and cash flow forecasting?
- How good are your scenario planning capabilities?

c) Contract management

- Are major contracts delivering value for cost?
- Should areas be outsourced?
- Alternatively, has outsourcing gone too far?

d) Accountability

- Are operational management aware of their financial responsibilities (e.g. cost ownership)?
- Is a robust approach to governance in place?
- Is the organisational structure 'fit for purpose'?
- How well connected is finance with the business to support strategic and tactical decision making?

Founders/Co-Founders and Startup Culture

In their pursuit to be unique and successful, startup founders often focus their attention primarily on building their products and gain market traction. In this single-minded pursuit, they may miss out on paying the required attention on building the company culture. They assume that once their employee strength reaches a reasonable number of 50 to 100 employees, then would be a more suitable for them to focus on developing company culture. Little do they realize that the moment they hire their first employee, the company culture has already begun taking shape. It is the onus and responsibility of the founders to proactively establish a strong and positive culture for the company, which will be driven by everyone, including the employees.
Today's startup environment is very competitive and tough. Therefore, startups constantly strive to be successful at any cost. Interestingly, this is where the company's culture makes all the difference for the employees to pursue the coveted market success. A startup may actually have a lot of qualities of its founders. For instance, if the startup founder is competitive, then the company also evolves a culture of being very competitive.
It is also important that how effectively the founder communicates to his team and employees about collaborating, adhering to rules and competing hard. If he walks the talk, the employees emulate the same ethics and values, which lays the foundation of a positive organizational culture. While it is the founders' role to define the culture, it is senior leadership's responsibility to amplify and accelerate the expectations of the company by demonstrating their visible actions. By articulating

the culture to their team members, they permeate the cultural importance and values across the organization, so that the company culture becomes stronger and cohesive.

Why a Start up's culture is important?

It is important to remember that as the company grows, it is easy to grow or even change its product offerings, but once its culture is established, it is not something that can be altered often. Hence, it is important that certain aspects of culture need are at the core right from the beginning.

a) Culture attracts talent

- A startup's success depends on its ability to attract and retain good employees, and the right culture plays an important role in achieving that. While it also makes the work environment exciting and motivating for the employees, it also gives the employees a sense of purpose that resonates with their personal beliefs. The best part is that a great company culture is not even that hard to figure out.
- To begin with, companies can offer autonomy to its employees, while giving them the confidence to contribute ideas freely. This lays foundation of a culture that is non-hierarchical and more welcoming.
- There is always a possibility for a gap to remain between the research and market reality, due to which an idea could fail. Rather than taking a backseat with failure and placing mistrust in employees, the decision makers in organizations must take failures in their stride to aim higher and smarter the next time around. They should appreciate the efforts their employees have put in, and motivate them for future.
- Such actions driven by the leadership of organizations strengthen the company's culture. It is these reasons that command respect from employees and keeps them motivated to stick with the company, even in the most difficult times and irrespective of financial lures and perks offered by other companies.
- Particularly in case of startups, when their brand name is not enough to attract good talent, it becomes extremely important that the early employees become the brand ambassadors, as it is them who amplify the company's culture. They also make this known outside the organization by talking about it in high regard, which in turn helps attract new talent.

b) Good culture future-proofs the Startup

- Organizations today are becoming less hierarchical, which helps in catering to customer demands by being quicker and more agile. So, if you want to build an organization for the future, which is non-hierarchical and is quick to react to customer demands, then your company culture becomes an important element to help people align themselves with your organization's strategies and bring agility and responsiveness.
- Knowing the importance of company culture, even stakeholders today are clearly interested in knowing more about it and how a startup has built the business around it. By demonstrating a strong sustainable culture, a start-up can give its investors the confidence that it will be able to face and wade through the market difficulties.

Determinants of Startup culture

a) **Core Values**

- The chosen values must embody the essence of the business. They should be action and results-oriented. Team members should be able to understand and use them as a guide for making daily business decisions.
- Employees must know what the enterprise deems important, why it is valued and how their behaviour will model those values. Examples of strong startup principles are authenticity,

building trust, clear communication, transparency, alignment with company goals, team building, collaboration, commitment, conviction, inspiration, innovation, and competence. The earlier the Founders begin to define, shape and document the organization's guidelines the better.

b) **Purpose**

 Every startup founder is a sum of their decisions both positive and negative. They have a strong sense of purpose that allows them to inspire others to follow them. They deeply believe in their strategies, plans, and objectives. As strong leaders, they say what they do and do what they say consistently and with conviction.

 Extraordinary founders are persistent and resilient. They are comfortable executing their plans. Being trailblazers, they are willing to take a stand for what they believe is the correct thing to do.

c) **People**

 The best employees to hire are those that are a good "cultural fit." Diversity in skills, education, and perceptions are paramount.

 Maintaining excellent relationships with your employees is essential. Employees work much harder when they feel they are a vital part of the culture. We have found that a healthy work ecosystem is no longer optional; it is mandatory in order to compete for exceptional talent.

 Successful Founders always surround themselves with people that exhibit the culture's characteristics and help to fulfil its business purpose. Outstanding leaders are quick to reward accomplishments and think carefully before admonishing for mistakes.

d) **Evolution**

 The Founders personalities, beliefs, strengths and weaknesses form the DNA of the organization. The company literally evolves in the image of their founders.

 Mark Zuckerberg, the founder of Facebook, shared a vision with his employees so powerful it became the foundation for the company. The firm went from four-hundred to thousands of employees worldwide in only a few years. He accomplished this by teaching his employees how to tell the story of Facebook to others.

 Startup Founders use more verbs than adjectives to describe the company's story. The narrative is not only the backbone of their culture, it becomes a conversation people have about its success. Magnificent Founders talk about the organization's beginnings constantly in every internal and external communication regarding the enterprise.

Different Stages of Startup Financing/Funding

Regardless of where you are in that Startup life, you need money to keep the lights on, the team happy, and the momentum going. Raising money may not have been your dream when you began building the company, but your ability to do so will determine how far it will go. Understanding the different needs at each stage of funding will equip you with the confidence to engage investors with a clear pathway to what you each will get out of the exchange. The stages outlined below provide a foundation to get you started.

Early Business Stages Requiring Startup Financing

 Seed Stage: Seed stage capital is required to finance the early development of a new product or service. These early funding's may be directed towards product development, proof-of concept, market research, or to cover the administrative costs of starting the enterprise. A true seed stage company has not yet established commercial operations. A Startup in this phase establishes proof-of-concept by demonstrating a prototype (product or service) to potential customers and entices them to become sources of capital. The company's goal in this stage is

to test the market, establish the viability of the business idea, and measure interest and attractiveness to investors.

 Startup Stage: Financing for startups entering this phase provides funds for product development, some initial marketing and some administrative overhead. This type of financing is usually offered to recently organized companies or to those that have been in business for a short time, but have not yet sold their product into the marketplace. Startup companies in this stage have, often times, assembled key management, prepared a proper business plan, and have conducted due diligence on the market viability of their product or service.

 Early Stage: Startups requiring "early" stage financing have usually been in business between 2-3 years and have launched the company. The management team has been established, commercial operations have begun and funding at this stage is often required to cover cash flow requirements. Financing in this stage also strengthens capabilities in the areas of manufacturing, sales, and marketing.

Traditional Business Expansion Stage Requirements

Expansion capital facilitates the expansion of companies that are already selling products or services.

 Second Stage: Second stage capital financing facilitates the expansion of companies that are already selling products or services. At this stage a company raises additional equity capital to expand its engineering, technology platforms, sales, marketing, and manufacturing capabilities. Many companies in this stage are not yet profit-able and they often use the financing obtained in this stage to cover working capital requirements, and to support organizational overhead, and inventory costs.

 Third Stage: Third Stage financing, if necessary, facilitates major expansion projects such as plant expansion, integrated marketing programs, the development of a large scale sales organization, and new product development. At this stage the company is usually at or near break even or profitable.

Traditional Late Stage Financing Requirements

 Mezzanine Financing Phase: Mezzanine financing is a late stage form of financing for startups and is often used for major expansion of the company. This type of financing can also fund an emerging growth opportunity for the company. At this point the company may not wish to seek an additional round of equity diluting investment and may prefer the hybrid form of financing that mezzanine debt/equity financing offers. In addition, entrepreneurs may still be unable to obtain traditional bank loans at this point. Mezzanine loan investors are able to obtain a higher degree of security than an ordinary investment in equity since their rights, as debt holders, are senior to that of shareholders. Third Stage financing facilitates expansion projects such as plant expansion, integrated marketing programs, the development of a large scale sales organization, and advanced product development.

 Bridge Financing Phase: Companies seeking bridge financing are mature, profitable, and are enjoying expansion. This type of short term debt financing is provided for a company expected to "go public" within six months to a year. The funds are often used to finance various requirements prior to making a public offering or some other major restructuring event. Often, bridge financing is structured so that it can be repaid from the proceeds of an initial public offering (IPO). Bridge financing can also involve restructuring of major stockholder positions through secondary transactions. This is done if there are early investors who want to reduce or liquidate their positions. Bridge financing may also be conducted following a management

change. This enables the founders to purchase back shares from former management and individuals (friends, relatives, associates, etc.) prior to the IPO.

 Liquidation Phase: The business life cycle tends to work like the cycle of life itself, even for the most successful of Startup enterprises that have succeeded beyond their wildest imaginations. For those enterprises that have made it all the way, the questions of “how and when” to “cashout” may be inevitable.

FFF – Friends, Family and Fools as a source of Finance

FFF, or Friends, Family and Fools has long been the first line of contact with entrepreneurs, but usually the fools were either family or friends. These new tools potentially bring a lot of new “fools” to the market many of them “founders”- and they should take a note from the “buyer beware” book. The reality is, that the vast majority of these startups will likely fail to a certain degree. The dream of making millions, is the rare occasion, not the common one as it requires a major exit – either by acquisition (“trade sale”) or by IPO (we know how that is going…). FFF or not, investment requires due diligence (even if quick and dirty) into the product, the team and the market, and this is a step unseasoned investors are likely to skip unless educated on how to do that. As a general rule, professional investors will expect that you have already some commitments from this source to show your credibility. If your friends and family don’t believe in you, don’t expect outsiders to jump in. This is the primary source of non-personal funds for very early-stage startups.

This one is outside of the normal lines of financing and it does what it says on the tin – this is funding from your closest humans (and, of course, the easy to fool). This is one of the most prevalent forms of SME financing, accounting for 38% of funds raised by startups. Friends & Family are clear categories of lovely people who either share your genes or have other reasons to think you’re at least an acceptable person. Fools, on the other hand, are people who don’t particularly love you, but who you’ve convinced by great sales talent or sheer enthusiasm that your company will make it big. They are not professional investors and will be unable to run the necessary due diligence, but they will have expectations, sometimes wildly misinformed ones about the potential success of the business. The potential pitfalls of FFF are many, but so is the advantage – this will probably be your easiest to access form of financing. It’s very unlikely that they’ll sneer at your valuation, ask for securities or grill you on the minutest details of the business plan.
As an entrepreneur, you can lobby friends, family, and associates for funding that is usually invested more because of your personal relationship rather than an accurate assessment of the business plan. The Friends and Family Round often acts as a seed investment to get the business to a point where it will be able to obtain larger funding from an Angels or VCs. Funding is usually obtainable quickly due to your existing relationship.Potential exists for themutual vested interest in the business to bring you closer with loved ones.
The investment terms are usually more flexible and potential exists for numerous equity or pay back methods. However, there are certain downsides to FFF funding, immense pressure to succeed can strain personal relationships.Friends and family frequently have an extremely limited ability to evaluate the potential of your business, though they tend to give advice because of their monetary stake in the compan
y. Friends and family usually bring nothing more to the table as an investor besides the initial capital.

Angel Investor Financing

Angel Investors often provide a required round of financing to startups that are on the early stage path to profitability. In many cases, startups have over- looked the category of angel investor for their financing needs. Some academics place angel investors in the seed stage category of capital sources and others identify angel investors as filling the gap between seed stage capital and venture capital. Angel investing is, in actuality, a hybrid between the two.

Angel investors are often affluent people such as successful entrepreneurs, who wish to stay involved with their industry by assisting the next generation of startups. It is not just money that motivates angel investors; providing needed and valuable guidance to management of the startup is gratifying as well. Startup founders need to take a close look at their own needs and requirements before entering customized agreements with angel investors as they may find them- selves giving away more control over their companies than they really want to.

Angel investors require a return on investment in the area of 20x-30x their initial investment. These investors are not interested in slow-growth or "lifestyle" businesses. They are after businesses that can grow at an annual rate of 40% or more. Unlike venture capitalists (VCs), many angel investors do not calculate Internal Rates of Return (IRR) and other measures of investment performance. Angels often regard these types of calculations as too speculative. Startups can also expect a changing playing field when negotiating return expectations with angel investors.

Angel Investors place a great deal of emphasis upon the selection of the entrepreneurs they choose to fund. Angels typically focus on factors such as the entrepreneur's enthusiasm, trustworthiness, and experience. Obtaining angel financing, or any financing for that matter, is akin to making any other high-ticket sale. Good first impressions play an important role with these investors. Angel investors are often pivotal in funding the seed stage or very early stage startup requiring an infusion of $500,000 or less. Angel capital can "pave the road" toward venture capital, as lacking this key financing, many start- ups would not grow to the stage required to attract the interests of venture capital firms. However, unlike high profile venture capital firms, angel investors often stay "under the radar" to avoid being deluged with business plans and requests for capital. Most potential investments are introduced to angels by their business, professional, and personal contacts. Seventy-five percent of startup founders say an angel investor's active participation benefits the firm, so be sure to select angel investors who can contribute the relevant expertise –as well as capital– to your firm.

Venture Capital Financing

Venture capital is a source of financing that usually follows seed stage funding and angel investor funding that is utilized in the earlier stages of the startup's life. This type of growth financing is provided to high-potential, growth-oriented companies that require a substantial round of investment. The amounts are usually in excess of five-hundred thousand dollars and up to tens of millions of dollars or more. However, it should be noted that venture capital funding can occur at any time throughout the startup's initial phases prior to IPO. Venture
capital firms bear a high degree of risk investing in startups, including a complete loss of their investment. As such, most venture capital investments are done in a pooled for- mat, where several investors combine their investments into one large fund that invests in many different startup companies. Large pooled funds of VC firms can range anywhere in size from $25 million–$1 billion. The VC firm will generally take a seat on the Board of Directors of the startup and will take an active role in bringing their management experience to the company. Many VC firms specialize in certain industries such as technology, biotechnology, and health care where they bring deep industry expertise to bear.

VC's most often take equity positions in startup companies in exchange for their capital and expect annual rates of return of between 30%-50%. It should be noted, however, that rates of return in this category are subject to a wide variety of factors, not least of which has been the difficulty in raising pools of capital for venture financing over the last several years. VC's require high rates of return because, in many cases, their investments in startups are highly illiquid and require anywhere from 3-7 years to come to fruition through a favorable exit event such as an IPO, merger and acquisition, or a leveraged buy-out. It is critical for startups to perform their due diligence on VC firms before jumping into bed with them. While it is true that VC financing is difficult to obtain, it is probably a good idea to avoid VC firms with a long standing record of being "Vulture Capitalists". Some VC's have no problem firing everyone in the startup, including the founders, and shutting down the company, if they determine there is a financial advantage (for them) to do so.

Crowdfunding

A flourishing new source of financing for startups in the seed stage phase is just beginning to emerge and is known as crowdfunding. It is our belief that this form of capital funding will represent a significant opportunity for startup companies going forward. We believe that crowdfunding has the potential for profoundly changing the landscape of global startup finance.
Although crowdfunding, (also known as crowdsourcing), has served the financial needs of charitable causes, bands, authors, and non-profit initiatives for some time, it was the financial crisis in 2008 that drove the need for a new paradigm in small scale financing for commercial endeavors. The idea behind crowd- funding is both simple and profound. Crowdfunding neutralizes the advantage of the powerful Wall Street Investment Banks by distributing the ability to invest and profit to the people.

Business Incubation (BI)

Business incubation is a process aimed at supporting the development and scaling of growth-oriented, early-stage enterprises. The process provides entrepreneurs with an enabling environment at the start-up stage of enterprise development. This environment should help reduce the cost of launching the enterprise, increase the confidence and capacity of the entrepreneur, and link the entrepreneur to the resources required to start and scale a competitive enterprise. Entrepreneurs accepted into the business
incubator stay until an agreed upon milestone is reached, often measured in terms of sales revenue or profitability. Business incubation is one of many tools aimed at fostering innovative enterprise creation and growth. Other complementary intermediaries also exist, such as business development service providers and technology parks. The below figure illustrates how business incubation is positioned in relation to these two complementary vehicles.

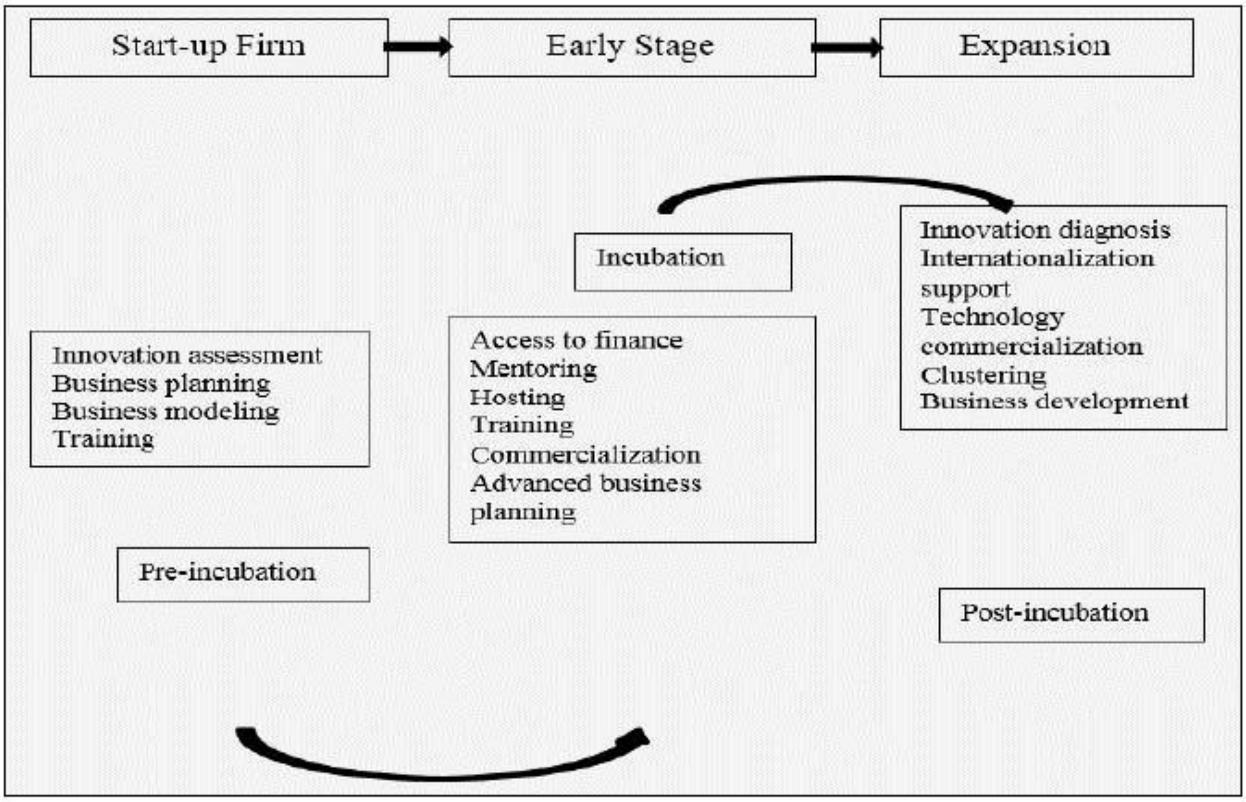
	BUSINESS DEVELOPMENT SERVICE PROVIDERS	BUSINESS INCUBATORS	TECHNOLOGY PARKS
TARGET ENTERPRISES	Any SME	Early-stage enterprises with high growth potential	Emerging and established technology businesses
KEY FEATURES	• Ad hoc, demand-driven assistance. • Focused on a particular issue for which the entrepreneur asks for assistance. • Usually broad business support, including training and advisory services.	• Emphasis on co-location and the "cluster" effect between enterprises. • Ongoing supply and demand-driven assistance until an agreed upon performance milestone has been reached. • Integrated mix of intensive strategic and operational support focused on the enterprise in its entirety.	• Emphasis on co-location and the "cluster" effect between enterprises. • Demand-driven assistance. • Emphasis on provision of state-of-the-art real estate, office space, and research facilities and networking opportunities.
REVENUE SOURCES	Government / donor subsidies, fee-for-service	Government/ donor subsidies, fee-for-service, rent, royalties, equity	Government/ donor subsidies, fee-for-service, rent, royalties, equity
BUSINESS MODEL	Non-profit or profit-making		

Key Principles of Business Incubation:

1. Realize the incubator itself is a dynamic model of a sustainable and efficient business operation, and must be managed as a business-like organization. An incubator cannot prepare its clients for success and have a lasting impact if it does not succeed. Incubators must operate as businesses with a strong focus on succeeding as one.
2. Focus the energy and resources of the incubator on assisting companies throughout their growth process, thereby maximizing the companies' chances of success and their positive impact on the community's economy. Incubators should devote their services to those companies most in need of their support and most-likely to succeed as a result of that support.
3. Develop a sophisticated range of services and programs directed at companies according to their needs and stage of development. Incubators are only as good as the services they can provide their clients. Developing targeted and effective services which can be utilized by incubatees at various stages of development is critical.
4. Develop a network that the incubator can rely on. An incubator is not a standalone business that has all the required competencies and capacities 'in-house'. It needs to involve the community and gain the support of their area's stakeholders. Collaboration and integration are a critical success factor. For example, incubators need to refer to external sources of support in different expertise areas such as for mentors for instance.

The Incubation Process

The development of BI was earlier tracked as an example of generational evolution, but the results of this study also confirmed that BI follow a path of staged-development involving: start-up where BI typically provide pre-incubation assistance such as innovation assessment, business planning, exploration of business models, and training; early incubation stage where services include access to finance, mentoring, training, hosting, commercialization, and advanced business planning; and the final expansion or post-incubation stage which is the graduation stage where services may cover internationalization efforts, technology commercialization, business development or innovation initiatives, and such BIs are referred to as accelerators.

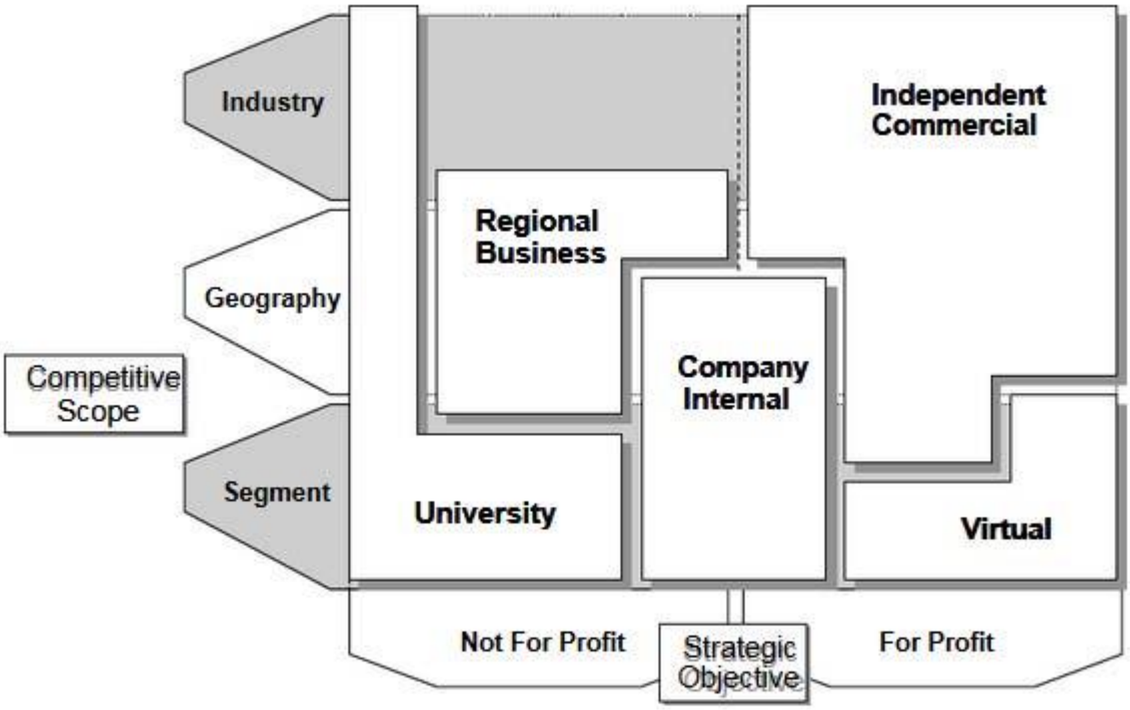


Classification of Incubators:

Interestingly, many incubators do not consider profit or financial returns as their primary goals. These incubators considered creating profit-oriented start-ups more as a means to fulfilling other goals, such as employee retention or public image. Ideally, companies finance activities in the next period with revenues generated in the previous period. Other forms of financing are dependent on anticipated
positive cash flows. The success of a start-up, however, is inherently difficult to predict. Incubators have no constant inflow of revenues, and investments in start-ups take several years to return a sizeable profit. Some incubators understand themselves as risk-brokers and try to develop a portfolio of different revenue generators. Earlier incubator business models that relied solely on exit proceeds were particularly vulnerable. For instance, following the new economy shake-up in the year 2000, start-ups developing internet and web-applications realised that they would take much longer to (and may never) become profitable. As a consequence, most investors cut back on their financial support of for-profit internet incubators. Start-ups and incubators in biotech have fared much better. Not-for-profit incubators generally have a strong financial sponsor such as a university or municipality to back losses and potentially long droughts. Not-for-profit incubators outnumber for-profit incubators. Various researchers found that only about 10% of incubators were for profit,

Incubators fall into two basic types: **for-profit or not-for-profit**. We further identified five basic archetypes, operating with various degrees of competitive focus (segment, industry, geography):

a. Independent commercial incubators
b. Regional business incubators
c. University incubators
d. Company-internal incubators
e. Virtual incubators



Each of these incubator archetypes is explained in more detail below. The above figure illustrates how competitive focus and strategic objective differentiate between incubator archetypes. The competitive focus axis distinguishes between three competitive scopes: industry, geography and segment. The strategic objective axis differentiates incubators according to their profit orientation: For-profit incubators have profitability as their primary strategic objective; not-for-profit incubators usually fulfil a public mission first, such as regional employment and growth, or they serve goals only indirectly related to operational profits, such as employee retention, innovation capacity building or stock market valuations. Although the strategic objectives of a not-for-profit incubator are also economic in the long term, the benefits are often reaped outside the incubator by a parent or sponsoring organisation, and the incubator's contributions are difficult or impossible to measure. Internal sustainability objectives are relatively recent trends for most not-for- profit incubators.

Most incubators can be associated with one of the five archetypical forms, although some incubators incorporate elements of two or even three incubation archetypes. University incubators usually have no financial pressure to return a profit, but they are focused on serving the scientific community at the university. Regional business incubators serve a local community first of all, and their objective is to create jobs and support local commerce and wealth. Independent commercial incubators are profit oriented, and they often focus on a particular technology or industry to achieve this. Virtual incubators are also for-profit, but they focus on particular needs in the entrepreneurial community rather than a particular industry. Company-internal incubators are more difficult to categorise because on the one hand their parent companies have strong commercial objectives, but on the other hand the internal incubator serves (both internal and external) political interests as well as corporate development objectives.

a) Independent commercial incubators: Pure, commercial, independent incubators are characterised by a strong profit or commercial objective, although this does not rule out motivations to generate benefits for the local community. Commercial incubators are generally spun off as entrepreneurial boot camps by venture capital firms or started by independent entrepreneurs as a place to help other entrepreneurs. Since commercial incubators are often established without the constraints of having to fit into an existing organisation, there is more freedom to develop an efficient incubation business model. The business model of an independent incubator is based on clear internal competencies and focuses on a given technology or industry (e.g., language recognition software) or target market (e.g., Japan). A set of internal technical competencies attracts a preferred-profile entrepreneur, and the incubator is able not only to create synergy among the incubated start-ups but also to fine-tune its skills in this particular competitive environment. The incubator thus enhances its possibilities to optimally leverage each individual start-up.

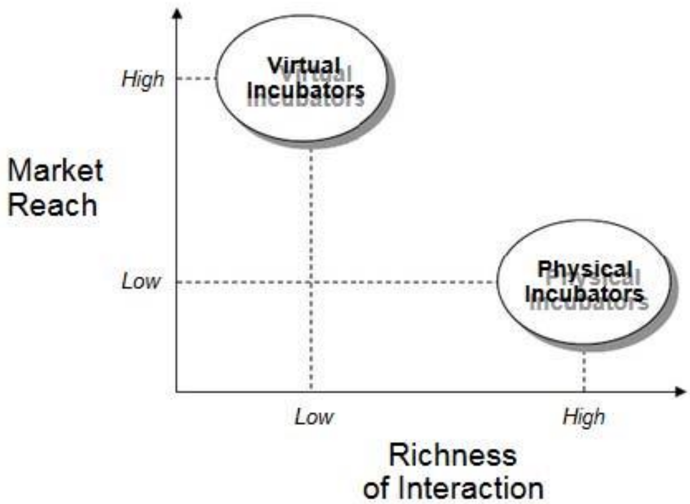
b) Regional business incubators: Regional business incubators are established by local governments or organisations with similar regional political and economic interests, to provide office space and start-up support for the local community. Their main objectives are public: to generate employment, improve local industry or improve public image. Commercial results, at least for the initiator of the regional incubator, are a secondary factor, the public mission is stronger than the profit objective. Typically, a government agency is a principal investor in and sponsor of the incubator. Since funding is comparatively secure, this type of incubation provides a relatively safe haven for fledgling start-ups. With their geographical focus, regional incubators are on the short-list of international companies seeking partners to develop a local presence and a local industry network – all good news for start-ups looking for large customers with potential global market access.

c) University incubators: Naturally, technical universities are hotbeds of new inventions and cutting-edge technologies. Until recently, however, most universities had no intention of capturing some of this value commercially. The first technology-transfer offices were established in the 1970s, amongst much debate about the extent to which academic institutions should 'soil' their hands with financial interests. By early 2001, few of these offices had returned profits to their universities and their main mission had remained to support the transfer of technology rather than its commercialisation. As a consequence of increased internal demand and some political interest, some universities provide or build office space for entrepreneurial-minded researchers and students. These university incubators often emerge from already existing technology parks – laboratories designed to foster collaboration between scientists in academia and industry. Start-up coaches support resident entrepreneurs, providing

links to the venture capital industry, helping with business plans and introducing simple management and business practices.

d) Company-internal incubators: Company-internal incubation of new technologies has been a responsibility of corporate R&D for many years. There is plenty of literature on strategy and management concepts of how to improve innovation from R&D departments. Some of the most cited problems of R&D-based innovation include, among others: inability to cope with disruptive technologies, poor communication between technical and business functions, inflexible management and organisational structures, inability to align long-term vision with short-term needs. In the late 1990s, companies turned to the incubation concept to overcome some of these difficulties. However, they found that promoting radically new ideas often encounters huge resistance. It requires an entrepreneurial culture that challenges existing technical competencies and requires a redefinition of what the company's business is supposed to be. The R&D pipeline is optimised for ideas that fit into dominant business and technology strategies, so unwanted projects are often eliminated or spun off

e) Virtual incubators: In comparison with traditional incubators, virtual incubators offer no physical workspace **or** office support. Instead, they offer online access to a network of entrepreneurs, investors and advisors, as well as support to help match other entrepreneurial needs to professional advice. Virtual incubators do not offer the positive effects of local synergy between similar startup companies obtained through face-to-face networking and problem-solution sharing. Also, start-ups do not have a running start to their business life, with secretarial or infrastructure support. However, virtual incubators are able to offer a greater advisory network to their incubatees, better matching supply and demand of management and technical talent. This is often left to the initiative of the entrepreneur – the incubator merely provides the platform and the network. We observed two functions of virtual incubators: online matchmaking and service aggregation. The online matchmaker provided a communication and news platform for entrepreneurs and start-ups, and organised conferences and seminars. Matchmakers also designed online learning groups around special interests, which included advice seeking from professionals as well as experience sharing among peers. Although there was little hands-on coaching from the incubator management, there was certainly a lot of exchange of advice and best practices within the start-up community.



The role of incubators

A fundamental question regarding incubators, is why do they need to exist at all? Why is the support for start-ups that incubators provide necessary? A number of authors and researchers from the
incubation industry advocate the positive impact of incubators for communities, economies, business, individuals and policy-making.

a) It has been suggested that business incubation is an invaluable tool for both stimulating enterprises and developing businesses with growth potential, both in practical and policy-making terms.

b) Incubators also save money and time through the acceleration of enterprise growth, achieving this through the provision of an enabling environment for business in the start-up stage, helping to reduce the costs associated with launching an enterprise and increasing the confidence of entrepreneurs and linking them to the resources and networks required to scale the business.

c) Incubators contribute to local and regional economies. Indeed, government subsidies for incubation programmes, it is argued, can be seen as a strong investment in local and regional economies.

d) Incubators contribute to economies in a variety of ways with incubator graduates going on to become job creators locally, nationally and regionally and incubators assisting in the commercialisation of new technologies, strengthening local, national and regional economies.

e) Incubation is recognized as a way of meeting a variety of economic and socio-economic policy needs which can include:

•Employment and wealth creation
•Support for small firms with high growth potential
•Transfer of technology
•Promoting innovation
•Enhancing links between universities, research institutions and the business community
•Industry cluster development
•Assessment of a company's risk profile

f) Spending public money is efficient when market failures exist and benefits of such support exceed the costs. If the potential social returns of the innovation are higher than private returns, the incubation process may well be the efficient way for a start-up to exploit a new innovation.

Incubator Models

In the 1980s, the first generation incubators were primarily providers of shared office space and infrastructure in order to provide small start-ups economies of scale. In the 1990s, in the second generation, the emphasis shifted to providing business support in order to accelerate the start-up learning curve. The third generation of incubators emerged at the end of the 1990s with an emphasis on facilitating access to external resources, knowledge and legitimacy. Additionally, the newer generation of incubators have a stronger focus on more specific sectors, in particular high-tech, ICT as well as targeting the most promising innovative start-ups. The changes in incubator models over time has consequences for research as the studies conducted on earlier generations of incubators do not necessarily apply to the present incubators and it is thus important to survey more recent data. However, nowadays, even older generation incubators tend to offer a similar portfolio of services to incubatees and new generation, thus the provisions of most incubators are quite similar.

	1st Generation 1980s	2nd Generation 1990s	3rd Generation 2000 +
Offering	Office space and shared resources	Business support via coaching and training	Access to networks
Theoretical Rationale	Economies of scale	Accelerating the learning curve	Access to external resources, knowledge and legitimacy

Next, we turn to discussing the different incubation services in more detail. Whilst, as seen in the above Figure 1 it is argued that the functions of incubator services have changed overtime –moving from a focus on activities to achieve economies of scale through accelerating the learning curve and, presently, facilitating access to external resources, knowledge and legitimacy.

A more concise framework illustrated below divides incubation activities into “buffering” and “bridging” functions that limit the likelihood of start-up failure. Buffering protects new firms from their external environment by providing resources to shelter new firms against lack of own resources, thus encouraging the survival of new firms. Bridging, on the other hand, enables new firms to actively engage in their external environment by facilitating the building of connections with external organisations and developing social capital and legitimacy. This is intended to encourage business growth.

	Buffering	Bridging
Role	Helping new firms develop their internal resources	Helping new firms connect with external resources
Incubation activities	Subsidized office space Subsidized office support service Subsidized training and development services Subsidized business advisory services Provision of financial resources	Networking Agglomeration Field development

How incubation programmes make money?

This is major challenge for any incubation programme as providing supporting services to start-ups is costly and most start-ups are cash-strapped so are unable to pay the full value for the services themselves. Three core strategies used by incubation programmes to finance their activities: growth-driven, fee-driven and independent.

a) In the **growth-driven model** the programme is designed to eventually be financed by the supported start-ups by generating revenue from equity, taking a share of the start-ups earnings or through appealing to business angels and venture capitalists. This funding model relies on the incubators having access to a stream of high-growth businesses but also backers who are willing to support the incubator for a number of years until returns from investment can be realised. This requirement means that growth-driven financed programmes tend to focus on ventures in early or later stage.

b) In the **fee-driven model**, the incubator programmes are financed directly by the start-ups who are charged regular fees such as rent, membership fees or service fees. As start-ups have to pay in order to participate in such programmes, fee-driven models tend to support start-ups that have already established a revenue-stream or have investment from which they can pay the fees. This means that they are not likely to support pre-start-up entrepreneurs or very early stage start-ups.

c) **Independent incubator programmes** are the third designated category. This means that the programmes do not rely on the start-ups as a source of income-as in the growth-driven and fee-driven models. Instead, revenue comes from other sources, such as public bodies and corporate sponsors who see an advantage in establishing and running an incubator or through running events, hiring out spaces and providing catering using the incubator space. As these types of programmes do not rely on the start-up for generating income, they can service a wider range of stages of the start-up journey. However, the authors find that independently financed programmes tend to focus on the pre-start-up and start-up phase.

Success Factors of Business Incubation

 Access to science and technology expertise and facilities. Conducive environments for business incubation are located where access to scientific and technical knowledge and services and supporting infrastructure is readily available, either from universities or scientific institutions such as the CSIR and science councils.

 Availability of funding. Incubators must have the ability to help raise capital and provide business tax and risk management services for its clients. Conducive environments are those that have ready access to low-interest funding such as government grants and loans or angel and venture capital.

 Quality of entrepreneurs. Notwithstanding the fact that this research found a weak correlation between stringent selection criteria and incubator success, it did find that successful incubation depends on the quality of entrepreneurs being incubated. Entrepreneurship development seems to be more important than selection. The entrepreneurs must have sufficient knowledge and ability, be prepared to take calculated risks, and have the desire to succeed.

 Stakeholder support. The involvement and support of stakeholders, consisting of sponsors drawn from the local business community, government, the broader community, venture capital providers, entrepreneurs and incubator management are vital for success. It is important that there is clarity, consistency and cooperation from its stakeholders that is consistent with the needs and capacities of the locality it is aiming to serve. There should be consensus on a mission that defines the incubator's role in the community and quantifiable objectives to achieve the mission. Incubators should develop stakeholder support, including a resource network.

 This research found only a weak correlation between support from an experienced advisory board and incubator success. This could simply be that advisory boards have not yet made an impact because of the early stage of incubation in South Africa, or it might indicate that advisory boards are currently ineffective. Incubators need to appoint effective boards of directors committed to the incubator's mission.

 Supportive government policies. The success of services directed to entrepreneurship promotion depends largely on a broad-based consensus on economic and industrial policy. Initiatives such as business incubators make sense only if the relationship between entrepreneurship and economic growth has been acknowledged at all levels of government.1 Government policies should therefore be aimed at creating and sustaining environments that are conducive for business incubation, which is, having the characteristics described in this report.

 Competent and motivated management. The success of business incubators depends to a large extent on the quality of the management teams appointed to operate them. The team leader should have a business background and entrepreneurial skills, a flair for leadership and organization and be well networked in the community. The management team should be given measurable objectives against which performance can be monitored and incentives should be offered to managers to encourage and award outstanding performance. Incubators must recruit and appropriately compensate management capable of achieving the mission of the incubator.

 Financial sustainability. Incubators should operate as viable businesses, with their own sources of sustainability such as taking equity, royalties and even ongoing subsidies. The ultimate test of success of an incubator is whether it can be self-sustaining. Incubators should be dynamic models of sustainable, efficient business operations. It is surprising that we found only a weak correlation between implementing a comprehensive business plan and success in incubation. This might also be due of the early stage of incubation in South Africa. Business plans might simply not have had enough time to make an impact yet.

 Networking. Partner networks contribute to incubator successes through sharing of the wisdom reaped from both achievement and failure. Networking is also important in expanding market opportunities for entrepreneurs and graduates. This network typically includes universities, industrial contacts, and professional service providers such as lawyers, accountants, marketing specialists, venture capitalists, angel investors, and volunteers.