



# **KLE LAW ACADEMY BELAGAVI**

(Constituent Colleges: KLE Society's Law College, Bengaluru, Gurusiddappa Kotambri Law College, Hubballi, S.A. Manvi Law College, Gadag, KLE Society's B.V. Bellad Law College, Belagavi, KLE Law College, Chikodi, and KLE College of Law, Kalamboli, Navi Mumbai)

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## **STUDY MATERIAL**

*for*

## **ENTREPRENEURSHIP DEVELOPMENT**

Prepared as per the syllabus prescribed by Karnataka State Law University (KSLU), Hubballi

Compiled by

Jayanth S. Kashyap, Asst. Prof.

Reviewed by

Deepali V.H., Asst. Prof.

**K.L.E. Society's Law College, Bengaluru**

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This study material is intended to be used as supplementary material to the online classes and recorded video lectures. It is prepared for the sole purpose of guiding the students in preparation for their examinations. Utmost care has been taken to ensure the accuracy of the content. However, it is stressed that this material is not meant to be used as a replacement for textbooks or commentaries on the subject. This is a compilation and the authors take no credit for the originality of the content. Acknowledgement, wherever due, has been provided.

## Entrepreneurship Development Study Material

### Objectives of this Subject :

The course intends to elaborate on the Human Relations aspects of entrepreneurship. It also highlights the legal requirements for establishment of new Units, licensing, clearance and other legal compliances. The Entrepreneur development programs such as Kakinada Experiment are highlighted & McClelland's motivational aspects are highlighted.

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**Reference Books:**

1. Small Scale industries and entrepreneurial development-  
C. S. V. Murthy
2. Entrepreneurship and small business management- C. B.  
Gupta and Khanka.
3. Entrepreneurship Development- S. Anil Kumar, S. C.  
Poorinima, M. K. Abraham and K. Jayashree.

## UNIT – I

### *Entrepreneurship*

#### **Synopsis of the unit:**

The unit is an introduction to the concept of entrepreneurship, the subject Entrepreneurship Development is introduced to the law integrated course with the objective of touching upon the legal side of entrepreneurship as well as the management of a Business Enterprise by an Individual. This Concept of Entrepreneurship deals with various sub topics like Meaning, Definition, characteristics, Functions and Challenges faced by entrepreneurs. Each sub topic is a life lesson for any Individual, by applying the philosophies if these topics one can induce himself with leadership skills, management skills and gain the confidence of understanding of the subject Entrepreneurship.

#### 1.1 Concept of Entrepreneur

According to Cantillon “ an Entrepreneur is the agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at an uncertain prices in the future’”

*Jayanth Sir Explanation: Here the author Cantillon was an Irish-French economist and author of Essai sur la Nature du Commerce en Général (Essay on the Nature of Trade in General) explains the concept of Entrepreneur as an agent, Agent is a person who acts as a mediator between people and business and entrepreneur in general sense is nothing but an agent who purchases the factors of production i.e. Land Capital, Labor, Equipment at a certain price and using these factors of production he prepares a product or renders a service at an uncertain price in the future, (Uncertain Price) please as a reader question yourself why is the word uncertain used , Uncertain is anything uncontrollable in the future example nobody knew that the World’s Demand for Masks and PPE Kits would increase because of COVID-19. Now this is*

*uncertain because everyone is using Masks, Sanitizers and PPE Kits, as and when the demand grows for a particular product grows new entrepreneurs enter the Society.*

*Dear Students please understand the meaning of every word to look inside the author's mind and view point and understand the subject for knowledge sake and not for just marks. After discussing the Concept and Definition of Entrepreneurship it is time to understand the meaning of entrepreneur.*

## Meaning

An entrepreneur is a person who recognizes an opportunity, raises the resources required to exploit that opportunity and assumes the risk associated with executing the plans. An Entrepreneur therefore can also be termed as an individual or a group of people who tries to create something new, who organizes production and undertakes risks involved in the establishment and operation in the business enterprise.



## ID COMPANY CLASSIC EXAMPLE OF ENTREPRENURSHIP

*Teacher Explanation : Opportunities are everywhere around us , I shall quote an example of an entrepreneur Mr. Mustafa and his friends who started ID Company , with selling the Dose and*

*Idly Batter in bulk quantities to restaurants and consumers the companies today's value is expected to be 350-400 Crores in the year 2019-20. This is the meaning of an Entrepreneur who did something new , took risks in life expected the plan, hired people and made money as well as created job opportunities for many.*

## **Importance of Entrepreneurship**

### **Entrepreneurs Spur Economic Growth**

New products and services created by entrepreneurs can produce a cascading effect, where it stimulates related businesses or sectors that need to support the new venture, furthering economic development. For example, a few information technology companies made up the IT industry in India during the 1990s. The industry quickly expanded and many other sectors benefited from it. Businesses in associated industries such as call center operations, network maintenance companies and hardware providers flourished.

### **Entrepreneurs Add to National Income**

Entrepreneurial ventures help generate new wealth. Existing businesses may remain confined to existing markets and may hit the glass ceiling in terms of income. New and improved products, services or technology from entrepreneurs enable new markets to be developed and new wealth to be created.

### **Entrepreneurs Create Social Change**

Through offering unique goods and services, entrepreneurs break away from tradition and reduce dependence on obsolete systems and technologies. This results in an improved quality of life, improved morale, and greater economic freedom. For example, the water supply in a water-scarce region will, at times, force people to stop working to collect water. This will impact their business, productivity, and income. Imagine an innovative and automatic pump that can fill people's water containers automatically. This type of innovation ensures people are able to focus on their jobs without worrying about a basic necessity like water. More time to devote to work translates to economic growth.

### **Community Development**

Entrepreneurs regularly nurture ventures by other like-minded individuals. They also invest in community projects and provide financial support to local charities. This enables further development beyond their own ventures. Infosys Training Centres for Unemployed Youth

## Characteristics of Entrepreneurship

### Characteristics of an Entrepreneur (Qualities of a successful) Entrepreneur).

Successful entrepreneur possesses a combination of traits that show both innovation and leadership qualities. Scholars from around the world have worked tirelessly to discover just what characteristics make a good entrepreneur; what exactly makes up a business founder's x-factor?

Great entrepreneurs have the following traits:

#### **Ambition**

A good entrepreneur is driven to make something of him. He knows what he wants, and he sets a course to get it. His motivation to achieve something can sometimes be overwhelming, and the urge to establish himself can be quite consuming. An entrepreneur's ambition is often the key ingredient that gets him off of his chair and puts him into action, turning his daydreams into reality. *Example : JIO by Reliance Digital is an Ambitious project which took down the other players in the market*



## Enthusiasm

Often coming hand-in-hand with ambition, enthusiasm plays a great role in the entrepreneur's motivation. While ambition may be the key to the entrepreneur's ignition, enthusiasm is the gas. Every successful entrepreneur has a positive outlook giving him the energy to pursue his endeavors. Without enthusiasm, an entrepreneurial project will slowly wither into inactivity and failure. *Example: BOUNCE is an App for local motor vehicle commute which faced problems like petrol theft, helmet theft and vehicles being damaged etc but the entrepreneur never gave up.*



## Creativity

When problems do arise, you can count on creativity to bail you out. Creativity is probably what led you to envision your company in the first place, and it'll be creativity that will help you realize the possible solutions to any hitches that might come your way. Successful entrepreneurs find inspiration throughout the entire process, and often discover ways to turn roadblocks into opportunities.

*Example : No better example of that than Steve Jobs, the co-founder of Apple Computers, which came out with some of the most innovative products and inspired future innovations in computing and mobile technology.*



## Decision-making

Entrepreneurs call all the necessary shots. While their creativity makes them men of ideas, it's their ability to make decisions that will make them men of action. The decisions that entrepreneurs make will determine the fate of the company, and it's only through decision-making that things will actually happen. An entrepreneur with poor decision-making skills will have his company caught in a state of inactivity and degradation; good decision-making skills, on the other hand, will ensure that the best possible measures in putting up the business will be enforced.

Example: *Decision of Xiaomi Corporations to enter Indian Market and release of MI Mobile series made it No 1 Mobile selling company in India.*



*Decision to introduce **Flash Sales** by Xiaomi Corporations took the middle class consumers by storm and Xiaomi established its footprints in Indian Market.*

## Perseverance

The ability to withstand the troubles that come with starting a business. Beginning a new enterprise is an immensely difficult task, and as an entrepreneur, you'll have to stick through the storms and stress if you want your venture to be a success. It sometimes takes years for a good idea to start making you money, but when it does, you'll be glad you stood strong in the face of adversity.

*Example: Walt Disney set up a small animation business and released several cartoon series, such as Laugh-O-Grams and Alice in Cartoon land. However, it did not last long, as they had to declare bankruptcy when the studio was not able to repay all its debts. He took this as his cue to move to Hollywood with his brother, and they set up the Disney Brothers' Studio. They had a met a few snags at first, but it wasn't until Walt created "Mickey Mouse" that everything took off.*



Imaged by Heritage Auctions, HA.com

**Walt Disney with his legendary creation of Mickey Mouse**

## Initiation:

Given the Demand of the situation the entrepreneur takes initiatives to start an industry and take necessary steps accordingly. As the quote goes Well begun is half done, in the same manner to initiate a business, to start a project, to begin a product is a mindset that an entrepreneur commands.

## Watch Dog

Entrepreneurs are watch dog i.e. they wait for the right business opportunities and take necessary accordingly.

*Example: During Demonetization lot of people saw this as an business opportunity and launched an app to stand in queue in front of banks on behalf of others. Although it looks strange as an example but definitely a opportunity to explore. During COVID-19 Pandemic although lots of lives are in danger and everyone are in need of Sanitizers, Masks and PPE Kits. Today, more than 600 companies in India are certified to produce PPEs, whose global market worth is expected to be over \$92.5 billion by 2025, up from \$52.7 billion in 2019. 60 days since Lockdown, 56-fold growth: India now second largest PPE manufacturer in the world is an inspiring example.*



## Information Seeker

He is ready to learn from the experience of others and enriches his business information to help him reach the goal.

*Example: Entrepreneurs working in the field of Stocks and Shares are always information seekers; they seek information from various sources to make profit. True entrepreneur is a*

*person who converts the worst of the situation to his advantage and converts every obstacle into an opportunity.*

### **Quality Conscious**

Entrepreneurs always put his excellence in the work he does and challenges already existed standard of quality.

*Example: Apple I phones are launched every year with new varieties and features is a prime example of quality. Raymond's has come out with better fabric dresses. Every well established brand always re-invents themselves.*

### **Commitment to Work:**

Entrepreneur gives his utmost priority to work and accomplishment of such work. *Ex: Successful Entrepreneur never ceases to succumb to the initial obstacles that he faces. One of the greatest treasure an entrepreneur has to develop with himself is commitment.*

*Let us go further and understand what this commitment means. In a teacher's simple words commitment is to visualize seeing the end of any work, as to , how to finish it till the end and stay till the end to finish any work.*

### **Efficiency Lover**

Tries to do things at faster pace incurring minimum cost.

In the modern day world accomplishing the work is not the motto. Accomplishing the work on time is also not the aim, but, to accomplish a given task within deadline and to save the resources and time and grow more efficient day by day is the new concept i.e. Efficiency lover.

Example : TQM (Total Quality Management), 6 Sigma Certification are all developed in the modern day world in order to accomplish excellent quality output with very minimum input and to minimize error in the work done.

Students you will be amazed if I quote an example of Mumbai's Dabbawalas



### MUMBAI 'S DABBA WALA

Dabawala was started in 1890 by one Mr. Mahadeo Havaji Bachche. He was once asked by a Parsi working in the Britisher's rank, "Will you bring my tiffin from my home?" He simply answered "Yes, I will, no problem." From that day onwards, he started to collect tiffins from homes and delivering them to the respective workplaces. In 1890, there was one dabbawala and one customer, and now, there are 5000 dabbawalas and 200,000 customers, which means, one dabbawala carries approximately 40 Tiffins. The maximum weight comes to 65-70kg; carrying that much weight in the crowded local trains is a lot of hard work. Why do they do it then? Work is worship. And, as far as qualification is concerned, you will see that the average literacy rate is 8th grade schooling; which means the dabbawalas are illiterate and yet they have managed to achieve a Six Sigma quality rating, which means only one wrong service in a 6 million deliveries.

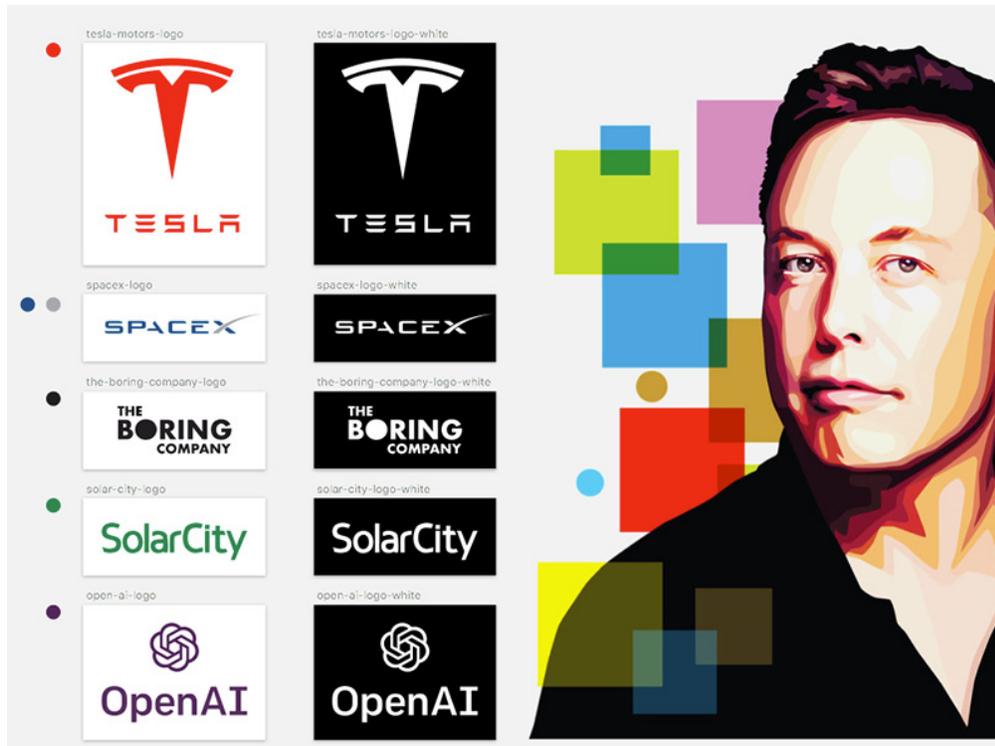
So please understand that in order to be efficient and produce great quality literacy isn't the only criteria!

### Proper Planner

Frames realistic business plans and follows them rigorously to achieve the objectives. Plan is not just an action to be made as a blueprint. It involves various experience, foresight of the future needs and a target.

## Self Confident

Strong believer in his strengths and weaknesses. Future is uncertain, so is life, so is entrepreneurship, it is vast sea where, entrepreneurs sail the lone voyage overcoming the tempest to reach the destination of profit. In order to overcome difficulties an entrepreneur has to be extremely confident in his work, his ideas and path chosen.



Confidence and crazy passion towards his goals ELON MUSK is a classic example of Entrepreneurship.

Tesla Cars, SpaceX First ever private rocket making company , Solarcity, Boring Company and its tunnel ideas and lastly the dream to travel to mars and make it Habitable .

## Assertiveness

Able to assert his issues, whatsoever these might be, in the interest of his enterprise.

## Persuasion

Succeeds in persuading others to do what he wants.

## **Entrepreneur vs. manager:**

The terms Entrepreneur and Manager are considered one and the same. But the two terms have different meanings.

The following are some of the differences between a manager and an entrepreneur.

- 1) The main reason for an entrepreneur to start a business enterprise is because he comprehends the venture for his individual satisfaction and has personal stake in it where as a manager provides his services in an enterprise established by someone.
- 2) An entrepreneur and a manager differ in their standing, an entrepreneur is the owner of the organization and he bears all the risk and uncertainties involved in running an organization where as a manager is an employee and does not accept any risk.
- 3) An entrepreneur and a manager differ in their objectives. Entrepreneur's objective is to innovate and create and he acts as a change agent where as a manager's objective is to supervise and create routines. He implements the entrepreneur's plans and ideas.
- 4) An entrepreneur is faced with more income uncertainties as his income is contingent on the performance of the firm where as a manager's compensation is less dependent on the performance of the organization.
- 5) A Manager works for his Salary whereas an Entrepreneur works for profits that he gains out of business
- 6) Manager is not a Risk taker whereas an Entrepreneur is a Risk Taker.

## **Intrapreneur vs. Entrepreneurs**

Intrapreneur vs. Entrepreneurs

### **Meaning of Intrapreneur:**

“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”

- Entrepreneurs provide the spark. Intrapreneur keeps the flame going.
- Entrepreneurs are found anywhere their vision takes them. Intrapreneur work within the confined rule of an organization.
- Entrepreneurs face many hurdles, and are sometimes ridiculed and riddled with setbacks. Intrapreneurs may sometimes have to deal with conflict within the organization.

Entrepreneurs may find it difficult to get resources. Intrapreneurs have their resources readily available to them.

- Entrepreneurs may lose everything when they fail. Intrapreneurs still have a paycheck to look forward to (at least for now) if they fail.
- Entrepreneurs know the business on a macro scale. Intrapreneurs are highly skilled and specialized.

## **Functions of an Entrepreneur**

- I. Primary Function
- II. Other Functions
- III. Functions for developing countries

### **I. Primary Function**

#### ***1. Planning:***

In common planning is today's projection for tomorrow's activity. Planning pervades in all aspects of business. An entrepreneur has to make decisions as to what is to be done, how it is to be done, when it is to be done, where it is to be done, by whom it is to be done and so on. The importance of planning lies in the fact that it ensures the smooth and effective completion of running of a business enterprise. Absence of planning causes confusion which, in turn, affects the smooth performance of job in an organization.

#### ***2. Organizing***

The organizing function of an entrepreneur refers to bringing together the men, material, machine, money, etc. to execute the plans. The entrepreneur assembles and organizes the above mentioned different organs of an enterprise in such a way that these combined start functioning as one, i.e., enterprise. Thus, organizing function of an entrepreneur ultimately provides a mechanism for purposive, integrated and co-operative action by many people in a joint and organized effort to implement a business plan.

Organizing is not only about bringing things together but also includes bringing things at the right time and to put things into effective usage.

### 3. Decision Making

Entrepreneurship is a new initiative therefore; it has to decide multivariate issues that affect new ventures. Entrepreneurship has to decide upon equipment to be used quality, price and its variation, deficiency, capital structure, the feasibility of the project, organizational structure, philosophy of management, etc. that will guide, run and prosper the new venture or distinct attempt for entrepreneurship. We know that decision-making is a process and entrepreneurship to make n a success, goes through this process. *Example is the Decision of Ambani group of companies to sell their shares in order to repay growing debt burden is a hard decision to make.*

### 4. Management

- Entrepreneurs perform several managerial roles to keep their venture functioning with success.
- The roles are interpersonal roles that consist of a figurehead role, leadership role, and liaison role; informational roles that include recipient role, disseminator role, and the spokesperson role; decisional roles that consist of an entrepreneurial role, disturbance-handler role, resource allocator role, and the negotiator role.
- The entrepreneur also does the associated managerial functions such as planning, organizing, leading and controlling.

*Teacher Explanation: An entrepreneur has wide variety of roles to play in a single day. He has to be a good employer with his employee, Negotiator with his suppliers, Profit maker to the economy, giver to the society and follower of rules to the law and a honest taxpaying citizen to the Country.*

### 5. Risk Bearing

Entrepreneurship takes the risk for the new venture. For innovative actions in the field of production technology for new products in a volatile market and new raw materials used in production. Moreover, it also takes the risk for theft, robbery, snatching market fall and hooliganism that may be involved with new entrepreneurship this is a major function of entrepreneurship in developing countries.

### 6. Uncertainty Bearing

- Uncertainty Bearing is bearing of the uninsured risk that comes alongside the business, fall in trends of market or even rise in trends of the market, fluctuation of interest rates in trade credits.

### II. Other Functions

- Diversification of Production; diversifying the production line entirely into different product. *Example Wipro diversified products from manufacturing of Oil to bulbs to software to talcum powder etc.*
- Expansion of Enterprise: *Expansion is an ever growing need of any organization example OYO Rooms started in one country expanded itself to different nations.*
- Maintaining cordial Employer and employee relationship: The emergence of HR department in an organization was to maintain cordial employer employee relationship.
- Tackling Labor problem: Emergence of Trade Unions and Union heads were to tackle labor problems like strikes of laborers due to low wages, unfair working conditions and exploitation.

### **7. Coordination with outside agencies**

There are various agencies that an entrepreneur deals with like Marketing agencies, Distribution agencies, Credit agencies, Insurance Agencies etc.

### **III. Functions for developing countries**

- Management of scarce resources
- Dealing with Public Bureaucracy
- Acquiring and assemble of the factory
- Engineering
- New product
- Parallel Opportunities
- Marketing
- Customer Relations

## **Types of Entrepreneurs**

### **A. Clarence Danhof. Classification**

- 1 Aggressive / Innovative

- 2 Imitative
- 3 Fabian
- 4 Drone

**B. Arthur Cole**

1. Empirical
2. Rational
3. Cognitive

**C. On the basis of ownership**

1. Private
2. Public

**D. On the basis of scale of enterprise**

1. Small Scale
2. Large Scale

**A. Clarence Danhof. Classification**

**Aggressive / Innovative**

- Innovators are the types of entrepreneurs who come up with completely new ideas and turn them into viable businesses. *Example: Amazon E Commerce website.*



- In most cases, these entrepreneurs change the way people think about and do things. Such entrepreneurs tend to be extremely passionate and obsessive, deriving their motivation from the unique nature of their business idea.
- Innovative entrepreneurs also find new ways to market their products by choosing product differentiation strategies that make their company stand out from the crowd. And sometimes it is not just standing out from the crowd but actually creating a new crowd.
- To say that innovators like Steve Jobs, Larry Page of Google and Microsoft founder Bill Gates were obsessed with their business would be an understatement.
- Advantages of Being An Innovate Entrepreneur:
  - Get all the glory for the success of the business (and take all the arrows)
  - Create the rules
  - Face minimal competition during the initial days
- Disadvantages of Being An Innovate Entrepreneur:
  - You will need a lot of capital to bring a new idea to life
  - Often face resistance from shareholders

- The timeframe for success is longer
- The ability of an innovative entrepreneur to envision a new way of thinking makes them stand out from the crowd and wildly successful in many cases however it takes significant capital, patience and commitment to bring true innovation to life
- **Imitators**
- Imitators are the types of entrepreneurs who copy certain business ideas and improve upon them. They are always looking for ways to make a particular product better so as to gain an upper hand in the market. *Example : Flipkart is imitation of Amazon, Ola is imitation of UBER.*



- *FLIPKART IS AN IMITATION IDEA OF AMAZON (E-COMMERCE)*
- Imitators are part innovators and part hustlers who don't stick to the terms set by other people and have a lot of self-confidence.
- **Advantages of Imitators**
- Refining a business idea is easier and less stressful
- You can easily benchmark your performance with the original idea
- Can learn and avoid mistakes that were made by the originator
- **Disadvantages of Imitators**
- Their ideas are always compared to the original idea
- Always have to play catch-up

- Taking an existing idea and refining and improving it can be a great way to develop a business

### **Fabian entrepreneurs**

- Fabian entrepreneurs are those entrepreneurs who are very much skeptical in their approach in adopting or innovating new technologies in their enterprise. They are not adaptable to the changing environment. He adopts new technology only when he is clear that failure to do so would result in heavy loss. *Ex : Nokia during Android introduction*

### **Drone Entrepreneurs**

- Drone Entrepreneurs suffer losses, as they refuse to make any modifications in the existing production methods. These entrepreneurs are conservative or orthodox in outlook. They never like to get rid of their traditional business and traditional machineries or systems of the business. They always feel comfortable with their old-fashioned technology of production even though the environment as well as the society have undergone considerable changes. They are laggards as they continue to operate in their traditional way and resist changes. *Ex : Ambassador Cars never made any changes and just let the company to become obsolete in spite of the competition*

## **B. Arthur Cole**

### **Empirical**

1. An entrepreneur who hardly introduces anything revolutionary and follows the rule of thumb
2. **Rational: Entrepreneur** is well informed about the general, introduces change that look more revolutionary.
3. **Cognitive Entrepreneur**: well informed, draws upon advice and services of experts and introduces change that reflect complete break from existing scheme.

### **D. On the basis of ownership**

3. Private

Private: Private entrepreneur is motivated profit and it would not enter those sectors of the economy in which prospects of monetary rewards are not very bright

4. Public: In under developed countries government would take initiative to share enterprise. Although hard to find these kind of companies

D. On the basis of scale of enterprise

- Small Scale: Popular in underdeveloped countries. Small entrepreneurs do not possess the necessary talents and resources to initiate large scale production.
- Large scale: Developed countries we find these large scale enterprises. Wall mart

### **Concept of entrepreneurship**

- Entrepreneurship is the process of identifying opportunities in the market place, arranging the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains.

According to Cole “ Entrepreneurship is the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain, and aggrandize profit by production or distribution of economic goods and services.

### **Nature characteristics of entrepreneurship**

- 1. Economic activity: economic activity as it involves creation and operation of an enterprise. It is basically concerned with production and distribution of goods and services.
- 2. Creative activity: Creative response to the change. Eg : Masks sale by sellers
- 3. Purposeful activity: creates and operates an enterprise seeks to earn profits through satisfaction of needs of customer. Therefore entrepreneurship is goal oriented activity.
- 4. Function of risk bearing: rent to landlord, wage to employees, and interest to investors.
- 5. Organization function: Organizing the gap between factors of production and Workforce.

- 6. Gap filling Function: Gap between human needs and available products and services.
- 7. Dynamic process: Dynamism is the new art of managing efficiency of the organization.
- 8. Innovative function: Continuous innovation is the key to adjust changing world scenario.

## **Role of Entrepreneur in economic Development**

### **1. Improvement in Per Capita Income:**

Entrepreneurs locate and exploit opportunities. They convert the latent and idle resources like land, labor and capital into national income and wealth in the form of goods and services. They help increase Net National Product and Per Capita Income in the country.

### **2. Generation of Employment:**

Entrepreneur generates employment both directly and indirectly. By starting their business they present an opportunity to others for work by offering jobs.

### **3. Balanced Regional Development:**

Entrepreneurs help to remove the regional disparities in the economic development of areas. They set up industries in backward areas to avail various substitutes and bring up the development of that region.

### **4. Improvement in Living Standards:**

Entrepreneur set up industry which introduces new products on a mass scale. They are at lower costs and this helps to improve the standard of life of a common man.

### **5. Economic Independence:**

Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture substitutes of imported products thereby reducing dependence on foreign countries. These businessmen also export products thereby earning foreign exchange for the country.

Entrepreneurship does not emerge and grow spontaneously. There are various factors having both positive and negative influence on the growth of entrepreneurship. (Positive influence implies facilitating and conducive conditions whereas negative influences refer to factors inhibiting the emergence of entrepreneurship).

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## UNIT 2

### Legal requirement for establishment of new Units, licensing, Clearance, certificate from agencies, SIDBI.

#### Synopsis

- Setting up of new business is rewarding and challenging task.
- Several problems are involved in this task. Right from conception of business idea to start of production numerous decisions have to be taken. An entrepreneur has to correctly perceive nature and intensity of problems. Entrepreneur desiring to setup the industry must at the outset be familiar with economical, political and legal environment.

Main components to be considered

- 1) Priorities and policies of the government
- 2) Various organizations assisting entrepreneurs
- 3) Incentive for starting the industry
- 4) Government Store purchase program
- 5) Licensing and registration program
- 6) Policies and regulations concerning import and export, excise, sales tax, factories act, foreign collaborations.

Keeping the above points in consideration we shall discuss establishment of a new enterprise.

### Steps involved in establishing an enterprise

**I) Project Identification:** is the process of identifying the opportunities for new business venture. This process involves collection, compilation and analysis of relevant data for the ultimate purpose of choosing a suitable opportunity for investment.

Every project has 3 dimensions: Input output, social cost and benefit.

**Input:** What project will consume in terms of raw materials, energy, manpower, finance and organizational setup.

**Output:** what project will generate in form of goods, services and employment and revenue.

**Social cost:** Sacrifice the society would make to help the business to function, like usage of water, usage of land, usage of natural resources and environment pollution etc

But there are certain constraints in the Project Identification. Constraints can be Internal to the company or External. They are as follows :

### ***Internal Constraints***

- Unrealistic project objectives, lack of project management strategies, outside dependence for feasibility reports, shortage of physical and non physical resources.

### ***External constraints***

Nature size of location, Government policies, cumbersome documentation, social taboos and limited size of the market.

## **II) Selection of the product**

- Choice of right product to be produced is the first essential success in entrepreneurship. Through generation of business Ideas product can be identified, Ideas can be generated through External and Internal Sources

- **Internal source of business ideas.**

- 1) Analysis of concepts in the of existing problems and their solution. (Problem of social distancing can be solved by many unique techniques)
- 2) Search from memory to identify similarities and elements related to concepts.
- 3) Recombining available elements.
- 4) Personal interests and hobbies of the Individual.
- 5) Thinking novel use uses of existing product: fly ash in making concrete and bricks.
- 6) Conceiving improvements in existing products.
- 7) Examining possibilities of ancilarization to large scale industry.
- 8) Knowledge of the potential customer.

- **External Sources of Ideas of New products:**

- 1) List of items reserved by the government for exclusive production in small sector.
- 2) Items reserved for Purchase form small scale industries such as electronics, components, oil and vanaspati.
- 3) Professional journals, trade journals etc.
- 4) Success stories of friends n relatives
  - Trade Fairs, exhibitions displaying new products.
  - Government agencies like SIDO,NSIC etc

- Market Surveys to know trends in fashions
- Project profiles for various industries.
- Opportunity scanning and identification (OSI).

### **III) Project formulation**

After the selection of a product and zeroing in on that, it is the duty of an entrepreneur to visualize the way product could be formulated to make business work.

Systematic development of a project idea for the eventual purpose of arriving at an investment decision is project formulation. Project formulation is like a passport for obtaining required necessary assistance from financial Institutions.

*Process of Project formulation involves*

- Feasibility Study
- Techno economic analysis
- Input analysis
- Financial analysis
- Social cost benefit analysis
- Project design and network analysis
- Project appraisal

### **IV) Assessment of Project Feasibility**

Before starting any Industry it is very much essential to judge the feasibility i.e. whether or not the project would take off. This requires

- 1) Technical feasibility: Functional design, adaptability of new customer demand, durability, finding out availability of raw materials, technical know how.
- 2) Economic Viability: Market Potential, Cost volume profit relationship, both direct and indirect competition.
- 3) Financial Feasibility: Non recurring and recurring expenses,(Salaries are recurring expenses, non recurring are repairs , fixtures etc), fixed investments and working capital requirements.
- 4) Managerial Competence: A proper assessment of the number and skills of staff required (it should not be overstaffed or understaffed), for this purpose an appropriate organization structure is decided. Skills and the talents required are determined. The

process of preparing the inventory of skills needed for effective implementation of the project consists of

- a) Activity analysis involving anticipated work flow and activities involved in project
- b) grouping of activities into tasks which employees can perform effectively
- c) Classification of tasks as the building blocks of the organization structure
- d) determining inter relationships between different positions to decided the chain in command.

#### 5) Implementation Scheme.

Lastly, an implementation schedule is prepared to ensure timely completion of the project. Timely completion will help to avoid time and cost overruns. Delays in project completion may jeopardize the financial viability of the project. The project may have to be dropped for ever. A specimen for implementation of the scheme should be made.

### V) Market Survey

- Before the production starts entrepreneur should anticipate possible market for product.
- Production has no value until it is sold.
- If proof of pudding lies in eating, proof of all production lies in marketing.

In order to grasp the capacity of various markets variety of methods are used to do the market survey.

#### 1) Opinion Poll Method: opinions of the ultimate users of the product are estimated.

They are

- a) Complete Enumeration Survey : In this survey all probable customers of the product are approached and their probable demand for the product is estimated and then summed. Estimating sales under this method is very simple. It is obtained by simply adding the probable demand for all customers.

*Example :There are 10 customers of a biscuit product and everyone will demand 5 number of biscuit packet each then the anticipated demand will be  $10*5=50$  .*

- b) Sample Survey : Under this method, only some number of consumers out of their total population is approached and data on their probable demand for the products

during the forecast period are collected and summed



- c) Sales Experience Method: Under this method, a sample market is surveyed before the new product is offered for sale. The results of the market surveyed are then projected to the universe in order to anticipate the total demand for the product.
- d) Vicarious Method: the consumers of the product are not approached directly but indirectly dealers who have the feel of their customers. The dealer's opinion about the customer's opinions are elicited.

## VI) Investment Analysis

Production of a new product or diversification both involves investment. More often than not, capital would be scarce given the investment opportunities in particular in case of small scale enterprises. The basic objective of every investment is to maximize the profit. There are many alternatives where funds should be invested into, by selecting the best opportunity.

In order to do this we have various methods. They are

- a) Ratio Analysis: An arithmetic relationship between the two relevant figures. For example : if we say J Company earned 50000 rupees profit and T Company earned 40000 rupees of profit we cannot conclude J company is more profitable. But, if we say their profits in relation to their respective capital employed say J company earned 50000 as against capital employed

50000, and T company earned 40000 as against 200000 capital employed we can conclude that T company is more profitable since its profit to capital employed is 20 percentage as against 10 Percentage of J Company.

- b) Return on Proprietors Fund or Net worth: this ratio expresses the ratio of net profit after tax and interest to proprietors fund or net worth. This ratio also suggests that whether the investment would be worth making in terms of returns as compared to the risk involved in the business which ultimately helps in taking future business decisions.
- c) Return on Capital Employed: This ratio indicates the earning power of the capital employed in the business and points out to the owner the progress or deterioration in the earning capacity of the business. It is of great significance to the shareholders or the owners as it shows the ratio of profit earned on invested capital.
- d) Return of Total Investment: it is the ratio of net profit to the total investment. This ratio shows overall profitability of the enterprise.

## **VII) Capital budgeting**

Capital budgeting involves investment decision balancing the sources and uses of funds for acquiring fixed capital assets like machinery and equipments. Investment in Plant and Machinery implies the choice of a particular project.

The Scarce capital is to be invested in the most profitable project. The project selection is made on certain techniques of capital budgeting. Let us see some examples of these methods.

### **Payback or Payout Period**

As the name itself suggests, this technique answers an investor searching questions as to how long he or she has to wait before the invested capital is recovered. It is a simple rule of thumb. The cash flow starts coming and accumulating. After a certain period of time the accumulated cash inflows become equal to the original investment made.

### **Average Rate of Return**

This is another method of evaluating project. This is also called as Accounting Rate of Return. In simple average rate of return is just a reverse of the payback method. While payback method is based on cash flow, average rate of return is based upon principle of accounting. This method

does not consider the time period. The average rate of return is calculated by dividing the average net income after taxes by average investment over life of project.

Average Rate of Return

= **Average net income after tax**

**\* 100**

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**Average investment over life of project**

### **Break Even Analysis**

It is a simple analysis of production point at which profit starts. This point is where project is actually implemented; the project or targeted level of capacity is not achieved due to various unforeseen reasons.

### **VIII) Preparation of project report**

A project report or a feasibility report is a written document pertaining to any investment proposal. It contains relevant data, on the basis of which the project has been appraised and found feasible and acceptable. A feasibility report enables the entrepreneur to know the inputs required and whether he is proceeding in the right direction.

#### **PLANNING COMMISSION GUIDELINES FOR PROJECT FORMULATION**

1. **General Information** : a brief analysis of the industry to which project belongs. It should deal with past performance of the industry.
2. **Preliminary analysis of Alternatives**: it contains present data and gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from the projects that are in production.
3. **Project Description**: The feasibility report should provide a brief description of the technology/process chosen for the project.
4. **Marketing plan**: Data on the marketing plan. Demand and prospective supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should be presented.
5. **Capital Requirement and costs**: The estimates should be reasonably complete and properly classified.

6. **Operating Requirement and Costs:** Operating costs are costs that incur after commencement of commercial production.
7. **Financial Analysis:** The purpose of this analysis is to present some measures to assess the financial viability of the project.
8. **Economic Analysis:** Social profitability analysis needs some adjustments in data relating to costs and returns of the enterprises.
9. Miscellaneous Aspects.

### **IX) Selection of site (Location)**

1. Nearness to the source of raw material
2. Nearness to market
3. Availability of land at cheap rates
4. Availability of skilled labor
5. Cost of Labor
6. Availability of transport and communication facilities
7. Availability of water, power, waste disposal and other essential services
8. Incentives and concessions available in different state
9. General Business climate in the region
10. Climate and environmental factors
11. Availability of factory sheds in industrial areas

### **X) LEGAL CONSIDERATION**

i) **Registration with Director of Industries:** Registration of small scale industries is compulsory. However registration with State Directorate of Industries or District Industries Center helps in getting assistance from the government.

The Registration of SSI is in two stages

- 1) Provisional Registration
- 2) Permanent Registration

### **Provisional Registration**

Provisional Registration is possible even when one is planning to setup the unit. For registration an application in the prescribed form has to be submitted. The issue of a provisional certificate is automatic and given within a week unless the proposed industry is one which needs raw materials which Government has declared non available to new units because of scarcity. The provisional registration is valid for one year in the first instance. It may be reviews for a further period of two years in four 6 monthly extensions on submission of satisfactory proof that the entrepreneur has taken active steps to establish the new units and needs more time. Application for extension should be made within time, otherwise registration automatically lapses.

The application for registration of small scale unit should be submitted to the General Manager, District Industries Center located in the district where the unit is to be setup. Various documents are needed to provisional registration like Application form, passport size photograph, Ration card, Partnership deed, etc.

Municipal License: Next step is to obtain municipal License. For example in Delhi it is necessary to obtain from Municipal Corporation of Delhi (MCD). Registration with Central and State Sales Tax Department would also be necessary for this the concerned department will have to be contacted. An entrepreneur has to submit periodical returns to these departments. If the small scale establishment comes within the purview of factories act i.e. employs 10 persons with power or 20 without power, register with the Inspector of Factories will also be required. Otherwise the unit has to be registered under the Shops & Establishment Act, wherever possible.

## **PROCEDURE FOR REGISTRATION**

### **Eligibility**

- All Micro & Small Enterprises which are registered with the Director of Industries (DI)/District Industries Centre (DIC) as manufacturing/service enterprises or having Acknowledgement of Entrepreneurs Memorandum are eligible for registration with NSIC(National Small Industries Corporation ) under its Single Point Registration Scheme (SPRS).

- ⦿ Micro & Small Enterprises who have already commenced their commercial production but not completed one year of existence.
- ⦿ The Provisional Registration Certificate can be issued to such Micro & Small Enterprises under Single Point Registration scheme with monetary limit, minimum amount of money to be invested, of Rs. 5 Lakhs which shall be valid for the period of one year only from the date of issue after levying the registration fee and obtaining the requisite documents.

### **How to apply**

- ⦿ Micro and Small enterprises could be applied through online application that is provided by the prescribed state website(State website's of thou are applying for registration) respective state in which or by submitting the application form in duplicate which is to be submitted the concerned Zonal/Branch Office of NSIC located nearest to the unit.

### **Procedure**

#### **Step 1: Provisional Small Scale Industry (SSI) Registration**

- ⦿ To obtain SSI registration you must apply for provisional SSI registration certificate. This certificate is given when the unit is in pre-operative stage and helps SSI unit obtain term loans and working capital. This license is given for five years.
- ⦿ One could apply for this certificate online through the state website or by applying in the concerned zonal department.

#### ***Important Documents for Provisional SSI registration:***

- ⦿ Three passport size photographs of Proprietors/partners/directors, as the case may be.
- ⦿ Photocopy of the partnership deed in case of a partnership unit. It is not necessary that the partnership should be registered under the partnership Act.
- ⦿ Copy of the Memorandum and Articles of Association in case of Private Company along with certificate of incorporation. Copy of the resolution of the company authorising one of the Directors of the company to sign the application form and also appear for the interview.
- ⦿ Proof of legal possession i.e. rent receipt, NOC from the landlord with proof of ownership, the power load authorized by the connection holder to the applicant

- ⦿ Provisional Registration would be allowed in approved Industrial areas only after the Unit has obtained consent to establish from Delhi Pollution Control Committee
- ⦿ Some of the documents may differ because each state has different requirements of documents. Above given documents are minimum required documents which are to be submitted.

#### **Benefits of Provisional SSI registration**

- ⦿ Material for construction of factory building : The material which is needed for construction of the factory or building would be available to the factory at subsidized rates from government
- ⦿ Apply for Municipal Corporation License & power connection. With the provisional registration the company would be able to get all the clearances from the concerned authorities.

#### **Start the Business**

- ⦿ The next step towards having a permanent license is to start the business with SSI certificate. The owner should start the production in the factory so that permanent licence could be given.

#### **Apply for Permanent SSI registration**

- ⦿ After you have started the business you should apply for permanent SSI registration. This could be done by applying online through state website or through the Zonal office or district office of the department.

#### **Requirements for applying PRC (Permanent Registration Certificate)**

- ⦿ You may apply for the PRC without an industrial license in case your unit is listed in Schedule-III of the Industrial Licensing Exemption Notification. Other units must first acquire an industrial license.
- ⦿ The unit should have obtained all clearances from the pollution control board, drug control board etc.

- ⦿ The unit should not violate any location restriction
- ⦿ The original value of plant including machinery should be within prescribed limits for which you are applying.
- ⦿ The unit should not be a subsidiary, owned or controlled by another industrial undertaking.

**Documents which are to be submitted for applying**

- ⦿ Proof of ownership of premises i.e. allotment letter/possession letter/lease Deed/property tax receipt. If the unit has a municipal corporation license in its own name or in the name of its proprietor or one of the Partner/Directors as the case may be, then no other proof of legal possession is required.
- ⦿ In case premises are arranged on rental basis, unit should submit proof of Legal possession i.e. a rent receipt and/or NOC from the landlord supported by the proof of land lord's ownership. For this purpose rent receipt/rent agreement with GPA (General Power of Attorney) is also accepted provided the GPA is appointed by the owner/leasee through a Regd. deed.
- ⦿ One photo copy of sale bill of each end product applied for.
- ⦿ One photo copy of purchase bill of each raw material.
- ⦿ Copy of partnership deed in case of partnership unit (this need not be registered.)
- ⦿ Copy of Memorandum of Articles of Association with certificate of incorporation in case of private limited company (in case of any change of Directors subsequently, copy of resolution and intimation in form No.32)along with copy of resolution authorizing one of the directors to sign the application for grant of permanent SSI registration.
- ⦿ Copy of the industrial license from Govt. of India in case the end products require such license under Industrial Development and Regulation Act.1951.
- ⦿ An affidavit on Rs.10/- Non judicial Stamp Paper duly attested by Notary Public affixed with proper notaries Stamp giving the status of the unit, machinery installed, power requirement etc. as per the prescribed format
- ⦿ Purchase bill of machinery installed.
- ⦿ Photo copy of valid consent letter from pollution control committee of that state.

### ***Benefits for having a permanent SSI registration***

- ⊙ Tax Benefits: Depending on your business, you may enjoy Excise Exemption Scheme as well as exemption from certain Direct Taxes in the initial years of your business.
- ⊙ Availability of raw material depending on existing policy: Raw material for production would be given by the government in the initial years at subsidized rates.
- ⊙ Benefits from Banks: All banks and other financial institutions recognize MSMEs(Micro, Small & Medium Enterprises) and have created special schemes for them. This usually includes priority sector lending, which means that the likelihood of your business being sanctioned a loan is high and lower bank interest rates. There may also be preferential treatment in case of delay in repayment.
- ⊙ Benefits from State Governments: Most states offer those who've registered under the MSMED Act subsidies on power, taxes and entry to state-run industrial estates. In particular, there is a sales tax exemption in most states and purchase preference on goods
- ⊙ Time taken for SSI or MSME registration ranges between 5 to 20 days depending on the state in which the industry is located in.

### **Guide to Business Licenses in India**

- ⊙ The licenses and permits are required besides other basic registrations such as registration for PAN, VAT, TAN, ESI, PF etc.

#### **Industrial License**

- ⊙ Indian Industrial license regime has been considerably eased after progressive liberalization and deregulation since 1991. Industrial licenses are regulated under the Industries Development Regulation Act 1951. Industrial license is granted by the Secretarial of Industrial Assistance (SIA) on the recommendation of the Licensing Committee. Presently Industrial Licensing for manufacturing is required in case of
  - Industries under compulsory licensing
  - Manufacture of item reserved for (Small Scale Industries) SSI sector by non SSI units
  - Projects affected by location restrictions

#### **Compulsory Licensing**

Following industries require compulsory industrial license under the provisions of Industrial (D&R) Act, 1951

1. Distillation and brewing of alcoholic drinks.
2. Cigars and cigarettes of tobacco and manufactured tobacco substitutes;
3. Electronic Aerospace and defense equipment, all types;
4. Industrial explosives, including detonating fuses, safety fuses, gun powder, nitrocellulose and matches;
5. Hazardous chemicals

#### **Non-SSI Units for the Manufacture of Items Reserved For SSI Units**

- ⊙ The Government has reserved certain items for exclusive manufacture in the small scale sector.
- ⊙ Non-small scale units can undertake the manufacture of items reserved for small scale sector, only after obtaining an industrial license.
- ⊙ In such cases, the non-small scale unit is required to undertake an obligation to export 50% of the production of SSI reserved items.

#### **Location Restrictions**

- ⊙ The location of industrial units is subject to applicable local zoning and land use regulations and environmental regulations. Industrial license is required if the proposed location of the unit is within 25 km of standard urban area limits of 23 cities having a population of one million as per 1991 Census.  
The restriction does not apply:
  - ⊙ If the unit were to be located in an area designated as an “industrial area” before the 25th July, 1991.
  - ⊙ In the case of Electronics, Computer software and Printing and any other industry, notified in future as “non polluting industry”.
  - ⊙ Industries exempted from the provisions of Industrial License are required to file Industrial Entrepreneur’s Memorandum (IEM) with Secretariat for Industrial Assistance (SIA), Department of Industrial Policy & Promotion (DIPP), and Ministry of Commerce & Industry.

### **Environmental Clearance**

- ⦿ Promoters of projects, subject to conditions, are required to obtain statutory clearances relating to Pollution Control and Environment as may be necessary, for setting up an industrial project belonging to specified categories as amended from time to time, by the Ministry of Environment & Forests under The Environment (Protection) Act, 1986.
- ⦿ Setting up industries in certain locations, considered ecologically fragile, is guided by separate guidelines issued by the Ministry of Environment and Forests.

### **Factory License**

- ⦿ An occupier of a factory is required to obtain a License under the provisions of respective State Factories Rules.
- ⦿ For this purpose he is required to make an Application to the Office of the Chief Inspector of Factories, in the concerned jurisdiction in accordance with the provisions of state rules.
- ⦿ The procedure, timeframe and fees vary according to different States.

### **Shops and Establishment License**

- ⦿ This is required for businesses involving premises where any trade, profession, business or any other related activity is carried out. In certain States even private educational institutes and places of public amusement and entertainment like – restaurants, hotels, motels, teashops, resorts, spas etc are covered under the provisions of this Act. Premises, where activities of registered societies, registered or unregistered charitable trusts are carried out, also require this license.
- ⦿ All types of businesses require a shop & Establishment license except the following which are exempted:
  - Shops and factories registered under the Factories Act, 1948
  - Establishments of doctors and medical Practitioners
  - Offices of lawyers
  - Foreign news agencies

### **Import License**

- ⊙ India allows for free import of most of the goods however some categories of products are strictly prohibited and some are allowed conditional import under import license.
- ⊙ Import License is issued by the Director General of Foreign Trade (DGFT).
- ⊙ Typically the license is valid for 24 months for capital goods and 18 months for raw materials, components, spare parts and consumables.

An Import License consists of two copies.

1. **Foreign Exchange Control Copy:** To be utilized for effecting remittance to foreign seller or for opening letter of credit
2. **Customs Copy:** To be utilized for presenting to Customs authority enabling them to clear the goods.

The two types of license are:

1. **General Licenses :** This license can be used for the imports of goods from all countries, except those countries from which imports are prohibited;
2. **Specific Licenses:** This license can only be used for imports from a specific country

### **Export License**

- ⊙ Export license are only issued for the goods mentioned in the Schedule 2 of ITC (HS) Classifications of Export and Import items.
- ⊙ Application for Export License must be submitted to the Director General of Foreign Trade (DGFT).
- ⊙ Exporting of items that are regulated by conditions including Minimum Export Price (MEP), registration with specified authorities, quantitative ceilings will require export license.

### **Import Export Code (IEC)**

- ⊙ IEC Code is unique 10 digit code issued by DGFT – Director General of Foreign Trade.
- ⊙ It is mandatory for import export activities and to make remittance against purchases made to foreign sellers.
- ⊙ Only one IEC would be issued against a single PAN number.
- ⊙ Any proprietor can have only one IEC number and if more than one IEC is allotted to a proprietor, the same may be surrendered to the Regional Office for cancellation.

- ⦿ An IEC number allotted to an applicant shall be indefinitely valid for all its branches/divisions/units/factories. Application for IEC must be submitted to the Regional Authority of Directorate General Foreign Trade.

### **Central Excise License**

- ⦿ For the administration of the Central Excise Act, 1944 manufacturers of excisable goods or any person who deals with excisable goods, with some exceptions, are required to get the premises registered with the Central Excise Department before commencing business.
- ⦿ Producers, manufactures and establishment that carries on trade, holds private store-room or warehouse or otherwise uses excisable goods shall get registered.

### **State Excise License**

- ⦿ Alcoholic beverages are a state subject in India, so rules & regulations and duties & taxes vary depending on the states.
- ⦿ Any person dealing with excisable goods are required to register with the State Excise. All brands (locally produced or imported) have to be registered with the Excise Department of each state.

### **Trade License**

- ⦿ To ensure that the manner in which a business is being carried on is according to the relevant rules, standards and safety guidelines the municipal authority in charge of the place where trade is conducted issues a Trade License.
- ⦿ The procedure & fees to obtain a trade license are set by the municipal authority therefore widely differs according to the location.
- ⦿ Trade License is a certificate/document which grants permission to carry on the particular trade or business for which it is issued.
- ⦿ It does not confer ownership of property or permission for any other activity than for which it is issued

### **Other Licenses**

- ⦿ Depending on the nature of business the promoter may have to register or apply for license with the concerned regulatory authority.

- ⊙ Several registration, permits & license, clearance may be required before commencing a business, for instance a retail business if commencing operations on proper regulatory terms will have to acquire nearly 50 approvals depending on the nature of operations.

### **New Enterprise Setup – Clearances**

An entrepreneur has to obtain several clearances or permissions depending upon the nature of his unit and products manufactured.

#### Regulatory or Taxation Clearances

- ⊙ 1. Registration under Sales Tax Act - Commercial Tax officer of area concerned
- ⊙ 2. Registration under Central Excise Act - Collector of Central Excise or his nominee for area
- ⊙ 3. Payment of Income Tax - ITO of the area concerned
- ⊙ 4. Registration of Partnership deed - Inspector General of area concerned
- ⊙ 5. Calibration of weights & measures - Weights and Measures Inspector of State
- ⊙ 6. Power Connection - Designated Officer of State Electricity Board
- ⊙ 7. Employee strength exceeding 10 with power connection or 20 without power - Chief Inspector of Factories

### **Environment & Pollution Related Clearances**

The method of granting consent under water and air pollution to SSI units has been simplified. Except for 17 critically polluting sectors given below, in all other cases SSI units will merely have to file an application and obtain an acknowledgement which will serve the purpose of consent:-

1. Fertilizer (Nitrogen/Phosphate)
2. Sugar
3. Cement
4. Fermentation & Distillery
5. Aluminum
6. Petrochemicals
7. Thermal Power

8. Oil refinery
  9. Sulphuric Acid
  10. Tanneries
  11. Copper smelter
  12. Zinc smelter
  13. Iron & Steel
  14. Pulp & Paper
  15. Dye and Dye intermediates
  16. Pesticides manufacturing and formulation
  17. Basic Drugs and Pharmaceuticals
1. Establishing a Printing Press - District Magistrate
  2. License for Cold Storage Construction - Designated Official in State
  3. Pesticides - Central/State Agricultural Department - Ministry of Agriculture
  4. Drugs and Pharmaceuticals - Drug license from State Drug Controller
  5. Safety Matches/ Fireworks - License under Explosives Act from Directorate of Explosives, Nagpur
  6. Household Electrical Appliances - License from Bureau of Indian Standards
  7. Wood Working Industry within 8 km from forest - District Forest Officer
  8. Milk Processing & Milk products manufacturing units - Approval under Milk and Milk Products Order from State Agricultural/ Food Processing Industries Department above a designated capacity.

### **New Enterprise Setup – Quality Certification**

- ☉ Quality certification has become extremely important in competitive markets and especially in gaining foothold in exports.
- ☉ To avail the certification of ISO-9000, a unit has to undertake significant costs; the small scale industries have been found wanting mainly on account of resource crunch to implement quality systems to obtain this certification.
- ☉ However, as a paradigm shift, SSI must make 'Quality' a way of life.

- ⦿ It has been decided to push the quality up gradation programme in the SSI Sector in a big way.
- ⦿ A scheme has been launched to give financial incentive to those SSI units who acquire ISO-9000 certification, by reimbursing 75% of their costs of obtaining certification, subject to a maximum of Rs. 0.75 lakh per unit.
- ⦿ In order to promote modernization and technology up gradation in SSI, the units are assisted in improving the quality of their products.
- ⦿ A new scheme has been launched to assist SSI units in obtaining ISO-9000 or an equivalent international quality standard.
- ⦿ Subject to an upper ceiling of Rs. 0.75 lakh, each unit is given financial assistance equal to 75% of the costs incurred in acquiring the quality standard.
- ⦿ The SSI units are also encouraged to participate in quality awareness and learning programmes organized specially for their benefit.

### **Basic Start up Problems**

The main problem involved in establishment of SSI

- 1) Selection of Industry: Selection of industry depends on analyzing persons aptitude, propensity to take risk, organizational ability, skills and experience, family background, financial position, government policy and Incentives, infrastructural facilities, advices of consultants etc.
- 2) Product Selection: Choice of product to be manufactured. This can be decided through comparative analysis of a few product items with special reference to
  - a) Size and structure of the market
  - b) Future demand pattern
  - c) Competition position
  - d) Life cycle of product
  - e) Availability of raw material
  - f) Technical aspects of production
  - g) Availability of required labor
  - h) Government policy and controls

- 3) Choice of factory site finding suitable location for the factory. Like nearness to water or raw materials etc.
- 4) Form of Organization: Proprietor has to select an appropriate form of business organization for this unit.
- 5) Supply of Raw Material: Appropriate supply of raw materials has to be selected. Agreements need to be made to collect required finance.
- 6) Financing the Unit: Funds required for both fixed capital and working capital have to be estimated. Appropriate sources of required funds have to be decided. Arrangements then have to be made to collect necessary finance.
- 7) Recruitment and Training Staff : Staffing of the new unit is another concern. Quantity and Quality of staff required are judged. Then people with required skills are selected, necessary Training arrangements are made for preparing the selected people to handle the work effectively.
- 8) Trial Run: Production is then started on an experimental basis. The difficulties and constraints experienced during the trail run are tackle before starting commercial production.
- 9) Marketing: Through necessary prospecting, markets for products are decided. Test marketing is done to judge the acceptability of the product. The experience gained through test marketing us used to make necessary improvements in the product. After that the product is launched in the market
- 10) Gestation period: Great care and efforts are required to successfully overcome the problems and risks during the gestation period. Effective control over expense, cost and time, sales patterns etc is necessary to ensure that the unit survives the initial expense and losses. Once the unit starts generating profits the startup problems are by and large.

### **Small Industries Development Bank of India (SIDBI)**

- ⦿ SIDBI is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India.
- ⦿ Set up on April 2, 1990 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India.
- ⦿ Current shareholding is widely spread among various state-owned banks, insurance companies and financial institutions.
- ⦿ Beginning as a refinancing agency to banks and state level financial institutions for their credit to small industries, it has expanded its activities, including direct credit to the SME through 100 branches in all major industrial clusters in India.
- ⦿ Besides, it has been playing the development role in several ways such as support to micro-finance institutions for capacity building and on lending.
- ⦿ Recently it has opened seven branches christened as Micro Finance branches, aimed especially at dispensing loans up to 5 lakhs.
- ⦿ It is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.
- ⦿ SIDBI retained its position in the top 30 Development Banks of the World in the latest ranking of The Banker, London. As per the May 2001 issue of The Banker, London, SIDBI ranked 25th both in terms of Capital and Assets (Aug 2012).

**Four basic objectives are set out in the SIDBI Charter.**

- ⊙ Financing
- ⊙ Promotion
- ⊙ Development
- ⊙ Co-ordination

**Mission**

- ⊙ *"To facilitate and strengthen credit flow to MSMEs and address both financial and developmental gaps in the MSME eco-system"*

**Vision**

- ⊙ *To emerge as a single window for meeting the financial and developmental needs of the MSME sector to make it strong, vibrant and globally competitive, to position SIDBI Brand as the preferred and customer - friendly institution and for enhancement of share - holder wealth and highest corporate values through modern technology platform.*

**SIDBI Associates**

- ⊙ CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE)
- ⊙ INDIA SME TECHNOLOGY SERVICES LTD.
- ⊙ SME RATING AGENCY OF INDIA LTD. (SMERA)
- ⊙ INDIA SME ASSET RECONSTRUCTION COMPANY LTD (ISARC)

## UNIT – 3

### Entrepreneurship Development Program

**Synopsis:** Entrepreneurship Development program is a set of training activities consisting of 3 phases which believes in the fact that entrepreneurship skills can be taught to a person or induced to him through usage of scientific training program called EDP. EDP was started through Kakinada Experiment which proved that entrepreneurship can be taught. In this unit we discuss about meaning importance of EDP alongside discussing the 3 phases of EDP with obstacles that an EDP faces.

#### Meaning

- As the term itself denotes, Entrepreneurship Development Programme is a programme meant to develop entrepreneurial abilities among the people. In other words, it refers to inculcation, development, and polishing of entrepreneurial skills into a person needed to establish and successfully run his / her enterprise. Thus, the concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise.
- Small Industries Extension and Training Institute (SIET 1974), now National Institute of Small Industry Extension Training (NISIET), Hyderabad defined EDP as “an attempt to develop a person as entrepreneur through structural training.
- The main purpose of such entrepreneurship development programme is to widen the base of entrepreneurship by development achievement motivation and entrepreneurial skills among the less privileged sections of the society.”

#### Definition

- According to N. P. Singh (1985), “Entrepreneurship Development Programme is designed to help an individual in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. It is necessary to promote this understanding of motives and their impact on

entrepreneurial values and behavior for this purpose.” Now, we can easily define EDP as a planned effort to identify, inculcate, develop, and polish the capability and skills as the prerequisites of a person to become and behave as an entrepreneur.

### **OBJECTIVES OF EDP**

- a. Develop and strengthen the entrepreneurial quality, i.e. motivation or need for achievement.
- b. Analyze environmental set up relating to small industry and small business.
- c. Select the product.
- d. Formulate proposal for the product.
- e. Understand the process and procedure involved in setting up a small enterprise.
- f. Know the sources of help and support available for starting a small scale industry.
- g. Acquire the necessary managerial skills required to run a small-scale industry.
- h. Know the pros and cons in becoming an entrepreneur.
- i. Appreciate the needed entrepreneurial discipline.
- j. Besides, some of the other important objectives of the EDPs are to:
- k. Let the entrepreneur himself / herself set or reset objectives for his / her enterprise and strive for their realization.
- l. Prepare him / her to accept the uncertainty in running a business.
- m. Enable him / her to take decisions.
- n. Enable to communicate clearly and effectively.
- o. Develop a broad vision about the business.
- p. Make him subscribe to the industrial democracy.

- q. Develop passion for integrity and honesty.
- r. Make him learn compliance with law.

### **Operational Problems of Entrepreneurship Development programmes**

Operational problems can be explained in a manner in which when undergoing the training facility a programme would face innumerable obstacles such obstacles should be identified well in advance. Nonetheless after the operation begins the programme at no cost should be halted.

Some of the operational problems are here :

- Past experience has shown that the supporting agencies/organizations either tend to be slipshod in the first or less interested in the 3<sup>rd</sup> phase , fails to tap entrepreneurial potential of the are or trained entrepreneurs do not receive the support and counseling which they need most. Training once provided should be put into use and trainees must be converted into successful entrepreneurs which are failing.
- Element of cynicism (an inclination to believe that people are motivated purely by self-interest ;). A re-orientation in the attitude of supporting organization is called forth. In EDP People have to focus on larger aspect of honing the skills rather indulge in self interest.
- Incompetence and poor management lead to failures.
- Inherent inability to identify the needs of instruction and differences of opinion prevailed amongst trainees i.e. difference of opinions and ego issues
- Low Institutional commitment for local support to entrepreneurs and low level of involvement in marketing the products of units.
- Non availability of various inputs raw materials, power, infrastructure necessary to create and foster entrepreneurial skills.

- ill Planned training methodology , inconsistent program design , its content sequence and theme and focus of the programme is not clear.
- Training institutions do not have much concern for the objectives identification and selection of entrepreneurs and follow up after training.
- Some institutions are still debating whether to have proper identification and selection of entrepreneurs for preparing successful entrepreneurs.
- Limited man power support or narrow linkage with other support agencies.
- No Standard curriculum even in terms of broad module being adopted. Standard curriculum should be updated as and when the world grows.
- Majority institutions are not convinced of what they are doing as the task is delegated by the government. Social objective is not achieved.
- Perpetual ambiguity, grass root level issues, significant deterioration in content and interest are all reasons for operational problems. Unclear or inexactness on the issues they are dealing with. Confusion and lack of clarity is one other issue with EDP.

## **Phases in EDP**

It is said that an economy is an effect for which entrepreneurship is a cause. Entrepreneurship development has, therefore, become a matter of great concern in all developed and developing countries all over the world. But the real problem is how to develop entrepreneurship.

Entrepreneurship development programme (EDP) is deemed to offer the solution of this problem.

- EDP pass through following three stages:
- I. Initial or Pre-training phase
- II. Training or Development phase
- III. Post training or follow-up phase

### **Pre-training or Initial Phase**

- Pre-training phase consists of all activities and preparation to launch training programme. Pre-training phase of EDP consists of the following activities :

#### **Designing course-curriculum for training**

- It is essential for any EDP that whatever material for study or training is designed should fulfill the needs or purpose of the EDP. The main objectives to be kept in mind while designing the course curriculum are as follows:
- a) To provide knowledge and information regarding entrepreneurship, role of entrepreneur in economic development and available facilities regarding establishment of enterprise to prospective entrepreneurs.
- b) To provide motivation training to the prospective entrepreneurs in order to develop right approach and behavior towards business.
- c) To provide and arrange for necessary course material important for management and technical information.

- d) To collect and provide information regarding various agencies engaged in providing assistance to entrepreneurs to establish and run the enterprises.
- e) To provide various project reports so that they can study and analyse the feasibility of various projects with regard to marketing, technical and financial aspects.
- f) Arranging plant visits so that they may become familiar with real life situations. This will help in inculcating the right behavior and thoughts and in developing a strong personality.

#### **Selection of faculty**

- The success of an EDP depends upon able or well qualified experienced faculty or resource persons. Thus selection of the proper faculty is an important part of pre-training phase. For this teacher from various universities, professional institutes, banks, research and development fields are invited.

#### **Advertisement**

- Next important task is giving advertisement for EDP to be conducted. So that maximum number of candidates can participate. Advertisement can be given in local newspaper, educational institutes or employment exchange.

#### **Selection of potential or perspective Entrepreneurs**

- For the success an EDP it is essential that only those participants take part who really has qualities to be potential entrepreneurs. The selection of prospective entrepreneurs can be made on following basis:
  - i. On the basis of information available from application form.
  - ii. On the basis of written examination to check the aptitude.
  - iii. On the basis of personal interview of the candidate.

## **II. Training phase**

- The main objective of this phase is to bring desirable change in the behavior of the trainees. The purpose of training is to develop 'need for achievement' i.e. motivation among the trainees. Accordingly, a trainer should see the following changes in the behavior of trainees:
- Is he or she attitudinally tuned very much towards his or her proposed project idea?
- Is the trainee motivated to plunge into entrepreneurial career and bear risks involved in it?
- How should he or she behave like an entrepreneur?
- What kinds of entrepreneurial traits the trainee lacks the most?
- Do the trainees possess the required skill in selecting the viable project, mobilizing the required resources at the right time?

Asking such questions would increase the purpose of training.

### **Methods of training**

Methods of Training: On-the-job Training Method and Off-the-Job Methods

- **1. On-the-job Training (OJT) Methods:**
- This is the most common method of training in which a trainee is placed on a specific job and taught the skills and knowledge necessary to perform it.
- **The advantages of OJT are as follows:**
- 1. On the job method is a flexible method.
- 2. It is a less expensive method.
- 3. The trainee is highly motivated and encouraged to learn.
- 4. Much arrangement for the training is not required.

**1. Coaching:**

- Coaching is a one-to-one training. It helps in quickly identifying the weak areas and tries to focus on them. It also offers the benefit of transferring theory learning to practice. The biggest problem is that it perpetrates the existing practices and styles. In India most of the scooter mechanics are trained only through this method. A lot of Tuition Centers and Coaching centers have been opened.

**2. Mentoring:**

- The focus in this training is on the development of attitude. It is used for managerial employees. Mentoring is always done by a senior inside person. It is also one-to- one interaction, like coaching.

**3. Job Rotation:**

- It is the process of training employees by rotating them through a series of related jobs. Rotation not only makes a person well acquainted with different jobs, but it also alleviates boredom and allows to develop rapport with a number of people. Rotation must be logical.

**Job instructions:**

- Also known as step-by-step training in which the trainer explains the way of doing the jobs to the trainee and in case of mistakes, corrects the trainee.

**Committee assignments:**

- A group of trainees are asked to solve a given organizational problem by discussing the problem. This helps to improve team work.

- **Job Instructional Technique (JIT):**

- It is a Step by step structured on the job training method in which a suitable trainer prepares a trainee with an overview of the job, its purpose, and the results desired, demonstrates the task or the skill to the trainee, allows the trainee to show the demonstration on his or her own, and follows up to provide feedback and help. The

trainees are presented the learning material in written or by learning machines through a series called 'frames'. This method is a valuable tool for all educators (teachers and trainers). It helps us:

- **5. Apprenticeship:**

- Apprenticeship is a system of training a new generation of practitioners of a skill. This method of training is in vogue in those trades, crafts and technical fields in which a long period is required for gaining proficiency. The trainees serve as apprentices to experts for long periods. They have to work in direct association with and also under the direct supervision of their masters.

- **6. Understudy:**

- In this method, a superior gives training to a subordinate as his understudy like an assistant to a manager or director (in a film). The subordinate learns through experience and observation by participating in handling day to day problems. Basic purpose is to prepare subordinate for assuming the full responsibilities and duties.

- **B. Off-the-job Training Methods:**

Off-the-job training methods are conducted in separate from the job environment, study material is supplied, there is full concentration on learning rather than performing, and there is freedom of expression. Important methods include:

- **1. Lectures and Conferences:**

Lectures and conferences are the traditional and direct method of instruction. Every training programme starts with lecture and conference. It's a verbal presentation for a large audience. However, the lectures have to be motivating and creating interest among trainees. The speaker must have considerable depth in the subject. In the colleges and universities, lectures and seminars are the most common methods used for training.

## **2. Vestibule Training:**

- Vestibule Training is a term for near-the-job training, as it offers access to something new (learning). In vestibule training, the workers are trained in a prototype environment on specific jobs in a special part of the plant.

## **3. Simulation Exercises:**

- Simulation is any artificial environment exactly similar to the actual situation. There are four basic simulation techniques used for imparting training: management games, case study, role playing, and in-basket training.

### **(a) Management Games:**

- Properly designed games help to ingrain thinking habits, analytical, logical and reasoning capabilities, importance of team work, time management, to make decisions lacking complete information, communication and leadership capabilities. Use of management games can encourage novel, innovative mechanisms for coping with stress.
- Management games orient a candidate with practical applicability of the subject. These games help to appreciate management concepts in a practical way. Different games are used for training general managers and the middle management and functional heads – executive Games and functional heads.

- **(b) Case Study:**

- Case studies are complex examples which give an insight into the context of a problem as well as illustrating the main point. Case Studies are trainee centered activities based on topics that demonstrate theoretical concepts in an applied setting.
- A case study allows the application of theoretical concepts to be demonstrated, thus bridging the gap between theory and practice, encourage active learning, provides an opportunity for the development of key skills such as communication, group working and

problem solving, and increases the trainees' enjoyment of the topic and hence their desire to learn.

**(c) Role Playing:**

- Each trainee takes the role of a person affected by an issue and studies the impacts of the issues on human life and/or the effects of human activities on the world around us from the perspective of that person.
- It emphasizes the "real- world" side of science and challenges students to deal with complex problems with no single "right" answer and to use a variety of skills beyond those employed in a typical research project.

### **III. Post-training phase**

- The ultimate objective of the entrepreneurship development programme is to prepare the participants to start their enterprise. The success of the EDP can be judged from the objectives it has achieved, that is how many participants actually started their own enterprise after getting training. This phase involves assessment to judge how far the objectives of the program have been achieved. This is called Follow-up. In follow up following three things come:
  - Was the programme conducted as per plans?
  - If not what were the deviations, loopholes in the plan?
  - Taking Corrective action to improve the weaknesses after identifying them?

## **Kakinada Experiment**

### Introduction

- Achievement depends on how badly one wants to achieve. The need for achievement, therefore, plays an important role in making an entrepreneur as successful. It is an inner spirit that activates an entrepreneur to strive for success. In simple terms, need for achievement is the desire to do well. The empirical evidences support the hypotheses that need for achievement contributes to entrepreneurial success. Hence, there is the need for developing achievement motivation for developing entrepreneurship in an economy.
- Then, the question is how to develop achievement motivation? David C. McClelland, a well-known Behavioral scientist of USA holds the view that achievement motivation can be developed through training and experience. For this, McClelland conducted his experiments with groups of businessmen in three countries, i.e. Malawi, India, and Ecuador.
- He carried out a separate full-fledged training programme in India to instill achievement motivation in the minds of entrepreneurs. His successful experiment is popularly known as “Kakinada Experiment” Following is a brief description of this experiment.

### **Kakinada Experiment:**

Kakinada is an industrial town in Andhra Pradesh. The experiment started in January 1964. The main objective of the experiment was to break the barrier of limited aspirations by inducing achievement motivation. A total of fifty two persons were selected from business and industrial community of the town. They were given an orientation programme at Small Industry Extension Training Institute (SIET), now NIESIET, and Hyderabad.

- The participants were grouped into three batches. They were put under training for 3 months. The training programme was designed in such a way that it could help the trainees improve imagination and enable them to have introspection of their motivation.

**Accordingly, the programme included the following items in its syllabus**

- 1. The individuals strived to attain concrete and regular feedback.
- 2. The participants sought models of achievement to emulate.
- 3. The participants thought of success and accordingly set plans and goals.
- 4. The participants were encouraged to think and talk to themselves in a positive manner.
- The impact of this training programme on the participants' behavior was observed after a period of two years. The observations were quite encouraging. It was found that those attended the programme performed better than those did not.
- The participants' need for achievement was assessed by using Thematic Apperception Test (TAT). In this TAT, ambition related pictures were displayed to the trainees and then they were asked to interpret the pictures and what is happening in the picture.
- Thereafter, all the themes related to achievement were counted and, thus, the final score represented one's need for achievement. McClelland reached to this conclusion that the training programme positively influenced the entrepreneurial behavior of the participants. As regards caste, the traditional beliefs and imitation of western culture, they did not determine one's behavior as an entrepreneur.
- That the need for achievement motivation can be developed more especially in younger minds is well supported by the cross-country experiments. For example, Junior Achievement Programme' is started in the United States of America with a view to instill achievement motivation in the minds of younger generation. Similarly, in United Kingdom, "Young Enterprise" programme has been started in the same objective of inducing achievement motivation in younger minds.

## UNIT 4

### Entrepreneurial Environment

#### Synopsis

Entrepreneurship is influenced by distinct factors: economic development, culture, technological development and education. In areas where these factors are present, you can expect to see strong and consistent entrepreneurial growth. These conditions may have both positive and negative influences on the emergence of entrepreneurship. Positive influences constitute facilitative and conducive conditions for the emergence of entrepreneurship, whereas negative influences create inhibiting milieu to the emergence of entrepreneurship. This unit helps us to make understand how Entrepreneurs are affected by various Environments and necessary steps to be taken by them in order to keep the business afloat.

#### ENTREPRENEURIAL ENVIRONMENT

Environment is the sum total of external factors within which an enterprise operates.

Characteristics of environment:

1. Dynamic
2. Uncontrollable and external.
3. Poses threats and offers opportunities.

#### Economic Factors

Economic environment exercises the most direct and immediate influence on entrepreneurship. This is likely because people become entrepreneurs due to necessity when there are no other jobs or because of opportunity.

**The economic factors that affect the growth of entrepreneurship are the following:**

#### 1. Capital

Capital is one of the most important factors of production for the establishment of an enterprise. Increase in capital investment in viable projects results in increase in profits which help in accelerating the process of capital formation. Entrepreneurship activity too gets a boost with the easy availability of funds for investment.

Availability of capital facilitates for the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital is therefore, regarded as lubricant to the process of production.

France and Russia exemplify how the lack of capital for industrial pursuits impeded the process of entrepreneurship and an adequate supply of capital promoted it.

## **2. Labor**

Easy availability of right type of workers also effect entrepreneurship. The quality rather than quantity of labor influences the emergence and growth of entrepreneurship. The problem of labor immobility can be solved by providing infrastructural facilities including efficient transportation.

The quality rather quantity of labor is another factor which influences the emergence of entrepreneurship. Most less developed countries are labor rich nations owing to a dense and even increasing population. But entrepreneurship is encouraged if there is a mobile and flexible labor force. And, the potential advantages of low-cost labor are regulated by the deleterious effects of labor immobility. The considerations of economic and emotional security inhibit labor mobility. Entrepreneurs, therefore, often find difficulty to secure sufficient labor.

## **3. Raw Materials**

The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and its influence in the emergence of entrepreneurship. In the absence of raw materials, neither any enterprise can be established nor can an entrepreneur be emerged

It is one of the basic ingredients required for production. Shortage of raw material can adversely affect entrepreneurial environment. Without adequate supply of raw materials no industry can function properly and emergence of entrepreneurship to is adversely affected.

In fact, the supply of raw materials is not influenced by themselves but becomes influential depending upon other opportunity conditions. The more favorable these conditions are, the more likely is the raw material to have its influence of entrepreneurial emergence.

## **4. Market**

The role and importance of market and marketing is very important for the growth of entrepreneurship. In modern competitive world no entrepreneur can think of surviving in the absence of latest knowledge about market and various marketing techniques.

The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. Frankly speaking, if the proof of pudding lies in eating, the proof of all production lies in consumption, i.e., marketing.

The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market. However, the disadvantage of a competitive market can be cancelled to some extent by improvement in transportation system facilitating the movement of raw material and finished goods, and increasing the demand for producer goods.

## **5. Infrastructure**

Expansion of entrepreneurship presupposes properly developed communication and transportation facilities. It not only helps to enlarge the market, but expand the horizons of business too. Take for instance, the establishment of post and telegraph system and construction of roads and highways in India.

Apart from the above factors, institutions like trade/ business associations, business schools, libraries, etc. also make valuable contribution towards promoting and sustaining entrepreneurship' in the economy. You can gather all the information you want from these bodies. They also act as a forum for communication and joint action. In India lot of Institutions has been setup in order to boost entrepreneurship

## **Social Factors**

Social factors can go a long way in encouraging entrepreneurship. In fact it was the highly helpful society that made the industrial revolution a glorious success in Europe. Strongly affect the entrepreneurial behavior, which contribute to entrepreneurial growth. The social setting in which the people grow, shapes their basic beliefs, values and norms.

**The main components of social environment are as follows:**

### **1. Caste Factor**

There are certain cultural practices and values in every society which influence the' actions of individuals. These practices and value have evolved over hundreds of years. For instance, consider the caste system (the varna system) among the Hindus in India. It has divided the population on the basis of caste into four divisions. The Brahmana (priest), the Kshatriya (warrior), the Vaishya (trade) and the Shudra (artisan): It has also defined limits to the social mobility of individuals.

## **2. Family Background**

This factor includes size of family, type of family and economic status of family. In a study by Hadimani, it has been revealed that Zamindar family helped to gain access to political power and exhibit higher level of entrepreneurship.

Background of a family in manufacturing provided a source of industrial entrepreneurship. Occupational and social status of the family influenced mobility. There are certain circumstances where very few people would have to be venturesome. For example in a society where the joint family system is in vogue, those members of joint family who gain wealth by their hard work denied the opportunity to enjoy the fruits of their labor because they have to share their wealth with the other members of the family.

## **3. Education**

Education enables one to understand the outside world and equips him with the basic knowledge and skills to deal with day-to-day problems. In any society, the system of education has a significant role to play in inculcating entrepreneurial values.

In India, the system of education prior to the 20th century was based on religion. In this rigid system, critical and questioning attitudes towards society were discouraged. The caste system and the resultant occupational structure were reinforced by such education. It promoted the idea that business is not a respectable occupation. Later, when the British came to our country, they introduced an education system, just to produce clerks and accountants for the East India Company, The base of such a system, as you can well see, is very anti-entrepreneurial.

Our educational methods have not changed much even today. The emphasis is still on preparing students for standard jobs, rather than marking them capable enough to stand on their feet.

## **4. Attitude of the Society**

A related aspect to these is the attitude of the society towards entrepreneurship. Certain societies encourage innovations and novelties, and thus approve entrepreneurs' actions and rewards like profits. Certain others do not tolerate changes and in such circumstances, entrepreneurship cannot take root and grow. Similarly, some societies have an inherent dislike for any money-making activity. It is said, that in Russia, in the nineteenth century, the upper classes did not like entrepreneurs. For them, cultivating the land meant a good life. They believed that land belongs to God and the produce of the land was nothing but god's blessing. Russian folk-tales, proverbs and songs during this period carried the message that making wealth through business was not right.

### **Cultural Factor**

Motives impel men to action. Entrepreneurial growth requires proper motives like profit-making, acquisition of prestige and attainment of social status. Ambitious and talented men would take risks and innovate if these motives are strong. The strength of these motives depends upon the culture of the society. If the culture is economically or monetarily oriented, entrepreneurship would be applauded and praised; wealth accumulation as a way of life would be appreciated. In the less developed countries, people are not economically motivated. Monetary incentives have relatively less attraction. People have ample opportunities of attaining social distinction by non-economic pursuits. Men with organizational abilities are, therefore, not dragged into business. They use their talents for non-economic end. Example for Cultural factor affecting the entrepreneurship,

### **Political factors**

Political factors play a huge role in the development of entrepreneurship in a given geographical area. This is because politicians decide the type of market that is in place.

The market could be capitalistic, communist or some countries have adopted a mixed economy. Each of these three markets has very different implications for the way in which entrepreneurs are required to function. Capitalism requires breakthrough innovation whereas communism requires entrepreneurs to be well connected with the political class. Therefore, it has been observed that the more capitalistic any country is, the more entrepreneurship flourishes in the region.

### **Legal Factors**

- Entrepreneurs are dependent upon law for a wide variety of factors. The strength and fairness of the legal system of a nation affect the quality of entrepreneurship to a large extent. This is because entrepreneurs require a wide variety of legal services to function.
- For instance, entrepreneurs would require the courts to enforce the contracts that were entered to between parties. In many countries such contracts are not enforceable and therefore the resultant risk prohibits the development of entrepreneurship.
- Then again, the entrepreneurs are dependent on the courts for the protection of their property rights. Also, many advanced countries have noticed that the provision of declaring bankruptcy has been positively associated with the development of entrepreneurship. Entrepreneurs do fail a few times before they find the right innovation that leads to their success.
- The United States is amongst the countries with the highest rate of entrepreneurial development and it is also known to have one of the most advanced bankruptcy laws. Even business legends like Henry Ford had declared bankruptcy in their early days.

### **Organizational Law**

The organizational law is the first type of business law that we will talk about here. Any business that is organized as a legal entity is subject to the state law that governs its operation and conduct. There are different types of business entities. For example, corporations, limited partnerships, partnerships, limited liability partnerships, limited liability limited partnerships and limited liability companies all of which have different legal status and issues.

### **Securities Law**

If a business is seeking to obtain financing through different types of investors, it may be subject to legal issues such as security law. For instance, a decision to offer promissory notes, a type of loan to your investors, will subject the legal factor affecting business to state and federal regulations and security laws.

### **Contract Law**

If the intention is to enter an agreement with another person or entity, then contract law is binding. This also has a special area that is involved directly with factors affecting business, for example, government contracts, which is also known as government procurement laws. In India it is under Indian Contracts Act .

### **Consumer Protection Laws**

Some businesses act unfairly towards their consumers. For this reason, most countries have consumer protection laws that are aimed at ensuring that consumers are protected. Here are examples;

- **Weight and Measures Act:** These laws ensure that the goods sold are weighed on Standard weighting equipment.
- **Trade Description Act:** This law ensures that it is illegal to deliberately give misleading impression about products.
- **Consumer Credit Act:** According to this Act, consumers should be given information of the credit agreement and should be made aware of the interest rates, length of loan while taking a loan.
- **Sale of Goods Act:** This Act declares that It is illegal to sell products with flaws or problems and that any goods sold conforms to standards.

### **Employees Protection laws**

Different governments have passed laws to protect the interest of employees. These laws protect them against unfair discrimination at work and when applying for jobs. It ensures that no one is discriminated against on the basis of such things as race, religion, sex, age, or colour.

### **Laws regarding health and safety at workplaces**

Below are a few laws in regards to employees' working conditions

- Employees receive protection from dangerous machines.
- At the workplace, employees should be given clothing and equipment that meet the highest safety standards.
- Employees should have a reasonable temperature at their workplaces.

- The highest hygienic standards at the workplace and washing facilities should be met for the sake of employees.
- Employees to have enough breaking periods while working.

### **Security against haphazard termination of employees**

It is illegal now for businesses to dismiss the employees for joining trade unions or for expecting a baby unless you choose to ignore the new legal factors in business which will have repercussions on your business. Before dismissal of any worker, there has to be warning with proper reasons, otherwise, the case may be treated as an unfair dismissal.

## **Theories of Entrepreneurship**

### **Economic Theories**

Economic entrepreneurship theories date back to the first half of the 1700s with the work of Richard Cantillon, who introduced the idea of entrepreneurs as risk takers. The classic, neoclassical and Austrian Market process schools of thought all pose explanations for entrepreneurship that focus, for the most part, on economic conditions and the opportunities they create. Economic theories of entrepreneurship tend to receive significant criticism for failing to recognize the dynamic, open nature of market systems, ignoring the unique nature of entrepreneurial activity and downplaying the diverse contexts in which entrepreneurship occurs.

### **Resource-Based Theories**

Resource-based theories focus on the way individuals leverage different types of resources to get entrepreneurial efforts off the ground. Access to capital improves the chances of getting a new venture off the ground, but entrepreneurs often start ventures with little ready capital. Other types of resources entrepreneurs might leverage include social networks and the information they provide, as well as human resources, such as education. In some cases, the intangible elements of leadership the entrepreneur adds to the mix operate as resource that a business cannot replace.

### **Psychological Theories**

Psychological theories of entrepreneurship focus on the individual and the mental or emotional elements that drive entrepreneurial individuals. A theory put forward by psychologist David McClelland, a Harvard emeritus professor, offers that entrepreneurs possess a need for achievement that drives their activity. Julian Rotter, professor emeritus at the University of Connecticut, put forward a locus of control theory. Rotter's theory holds that people with a strong internal locus of control believe their actions can influence the external world and research suggests most entrepreneurs possess trait. A final approach, though unsupported by research, suggests personality traits ranging from creativity and resilience to optimism drive entrepreneurial behavior. Mind set of entrepreneur is positive and they never give up.

### **Sociological/Anthropological Theories**

The sociological theory centers its explanation for entrepreneurship on the various social contexts that enable the opportunities entrepreneurs leverage. Paul D. Reynolds, a George Washington University research professor, singles out four such contexts: social networks, a desire for a meaningful life, ethnic identification and social-political environment factors. The anthropological model approaches the question of entrepreneurship by placing it within the context of culture and examining how cultural forces, such as social attitudes, shape both the perception of entrepreneurship and the behaviors of entrepreneurs.

### **Opportunity-Based Theory**

Prolific business management author, professor and corporate consultant, Peter Drucker put forward an opportunity-based theory. Drucker contends that entrepreneurs excel at seeing and taking advantage of possibilities created by social, technological and cultural changes. For example, where a business that caters to senior citizens might view a sudden influx of younger residents to a neighborhood as a potential death stroke, an entrepreneur might see it as a chance to open a new club.

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## UNIT – 5

### Entrepreneurial Motivation

#### Introduction and Meaning of entrepreneurial motivation

##### Synopsis

The entrepreneurial motivation is the process that activates and motivates the entrepreneur to extend higher level of efforts for the achievement of his/her entrepreneurial goals. The entrepreneurial motivation refers to the forces or drive within an entrepreneur that affect the direction, intensity and persistence of his / her confidence as an entrepreneur. So to conclude, an entrepreneurial motivation will be a will to exert a particular level of effort, for a certain period of time toward a particular goal.

##### Definition

“Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make in a goal-directed pattern towards restoring a state of equilibrium by satisfying the need.” - **Vitiles**

“Motivation implies any emotion or desire which so conditions one’s will that the individual is properly led into action.” - **Vance**

- Motivation is regarded as “the inner state that energizes activities and directs or channels behavior towards the goal”.
- Motivation is the process that arouses action, sustains the activity in progress and that regulates the pattern of activity.

### **Nature of Motivation**

- Motivation is a psychological phenomenon which generates within an individual. A person feels the lack of certain needs, to satisfy which he feels working more. The need satisfying ego motivates a person to do better than he normally does.

#### **From definitions given earlier the following inferences can be derived:**

- Motivation is an inner feeling which **energizes** a person to work more.
- The **emotions or desires** of a person prompt him / her for doing a particular work.
- There are **unsatisfied needs** of a person which disturb his equilibrium.
- A person moves to **fulfill his unsatisfied needs** by conditioning his energies.
- There are **dormant energies** in a person which are activated by channelizing them into actions.

### **Types of Motivation**

- ❖ Positive Motivation
- ❖ Negative Motivation
- ❖ **Positive Motivation:** Workers are **tempted** to put in their best for achieving the desired objectives. These temptations, rewards or incentives can be in the shape of extra pay, promotion, recognition etc. positive motivation will result in willing cooperation of workers for the attainment of entrepreneurial goals.
- ❖ **Negative motivation:** Negative motivation creates **fear** or deterrent in once self. Fear forces creates certain behavioral changes failing which, they are threatened with losses, lack of interest, de-motivation etc.

### **Importance of Motivation**

- Improved Morale : A motivated person's morale are always high to achieve great results
- Lower labor turnover : Mindset should be clear to achieve any difficult task , a goal and motivation towards that goal increases labor efficiency
- Improved goodwill: Motivated persons inspire people around in return earns goodwill.
- Cordial Industrial Relations: Motivation is an indirect factor helping in maintaining cordial relations.
- Quality Orientation: Better motivated people produce better quality products.
- Acceptability of Change

### **Entrepreneurial Motivating Factors**

- ❖ Internal Factors
- ❖ External Factors

#### **Internal Factors**

- Desire to do something new. Zeal or an enthusiasm to do new things.
- Technical background. Added advantage by knowing the technology and software's eases the work
- Become independent.
- Achieve what one wants to have in life.
- Be recognized for one's contribution.
- One's educational background.
- One's occupational background

- Experience in the relevant field.

### **External Factors**

- Government assistance and support.
- Availability of labor and raw material or factors of production.
- Encouragement from big or already established business houses.
- Promising demand for the product.
- Competition

## **THEORIES OF MOTIVATION**

**Maslow's Need Hierarchy Theory**

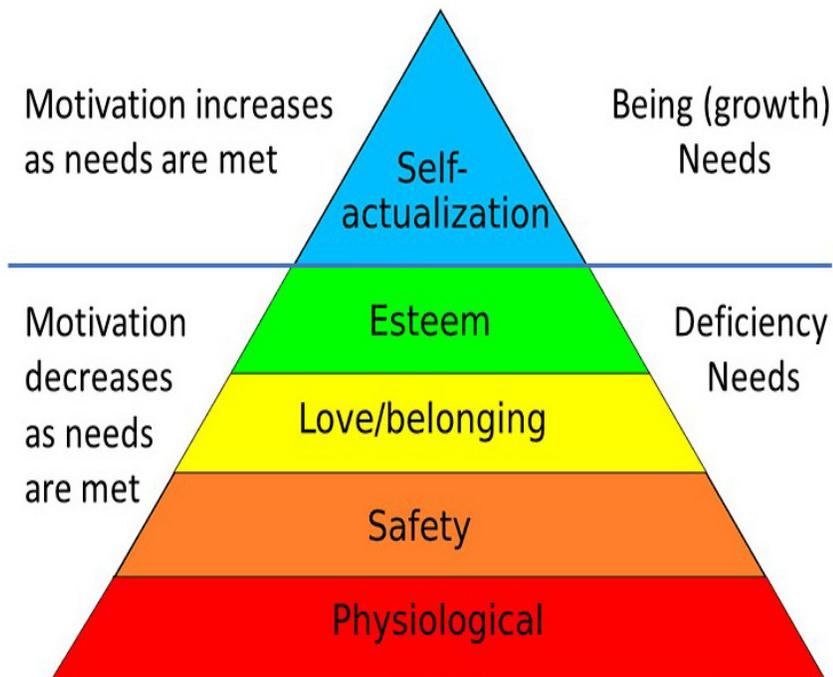
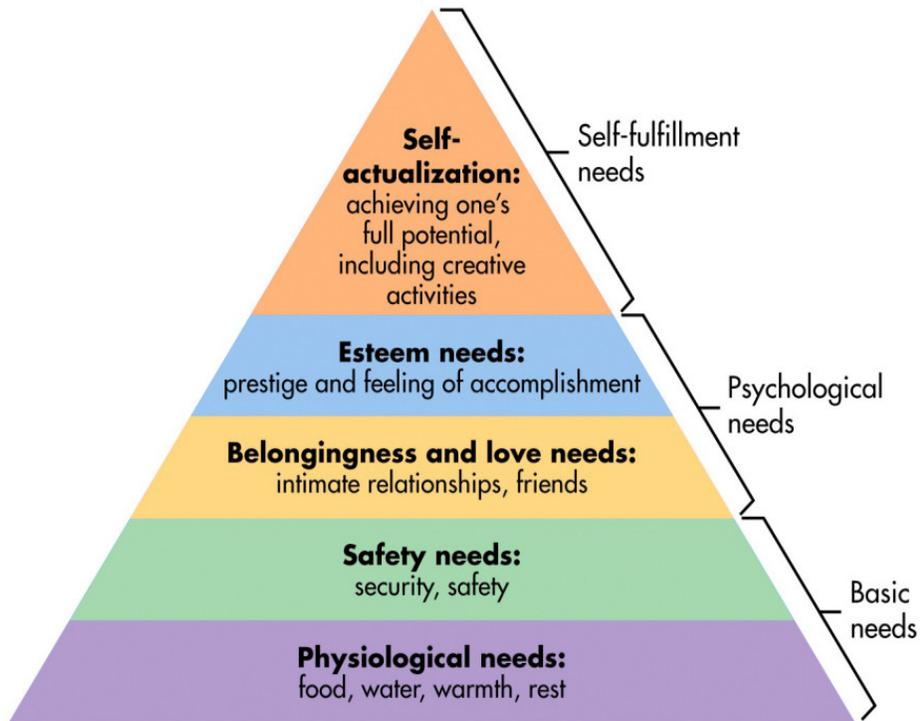
**Frederick Herzberg Theory**

**McClelland's Theory of Needs**

**McGregor's Participation Theory**

**Urwick's Theory Z**

**ERG Motivation theory Alderfer**



## MASLOW'S NEED HIERARCHY THEORY

## MASLOW'S NEED HIERARCHY THEORY

### 1. Physiological Needs:

These needs are basic to human life and, hence, include food, clothing, shelter, air, water and necessities of life. These needs relate to the survival and maintenance of human life. They exert tremendous influence on human behavior. These needs are to be met first at least partly before higher level needs emerge. Once physiological needs are satisfied, they no longer motivate the man. That is the point when men seek to move on to the next factor.

*Teacher Explanation: In today's modern world the definition of physiological needs have upgraded. Just like Food, Water, Clothes & Shelter, there is an addition to it i.e. Internet and Mobile phones have just become the basic needs of people.*

### 2. Safety Needs:

After satisfying the physiological needs, the next needs felt are called safety and security needs. These needs find expression in such desires as economic security and protection from physical dangers. Meeting these needs requires more money and, hence, the individual is prompted to work more. Like physiological needs, these become inactive once they are satisfied.

*Example: For most of the people Buying an insurance policy, purchasing the house and owning immovable property gives a feeling of security.*

### 3. Social Needs:

Man is a social being. He is, therefore, interested in social interaction, companionship, belongingness, etc. It is this socializing and belongingness why individuals prefer to work in groups and especially older people go to work. *Example: Needs like friendship, creation of community, social groups and other social circles.*

### 4. Esteem Needs:

These needs refer to self-esteem and self-respect. They include such needs which indicate self-confidence, achievement, competence, knowledge and independence. The fulfillment of esteem needs leads to self-confidence, strength and capability of being useful in the organization.

However, inability to fulfill these needs results in feeling like inferiority, weakness and helplessness.

### **5. Self-Actualization Needs:**

This level represents the culmination of all the lower, intermediate, and higher needs of human beings. In other words, the final step under the need hierarchy model is the need for self-actualization. This refers to fulfillment.

In effect, self-actualization is the person's motivation to transform perception of self into reality.

According to Maslow, the human needs follow a definite sequence of domination. The second need does not arise until the first is reasonably satisfied, and the third need does not emerge until the first two needs have been reasonably satisfied and it goes on. The other side of the need hierarchy is that human needs are unlimited. However, Maslow's need hierarchy-theory is not without its detractors.

### **Criticisms of Maslow's Theory**

Maslow's theory has become wildly popular both in and out of psychology. The fields of education and business have been particularly influenced by the theory. While popular, Maslow's concept has not been without criticism. Chief among these:

- **Needs don't follow a hierarchy:** While some research showed some support for Maslow's theories, most research has not been able to substantiate the idea of a needs hierarchy. Wahba and Bridwell reported that there was little evidence for Maslow's ranking of these needs and even less evidence that these needs are in a hierarchical order.
- **The theory is difficult to test:** Other criticisms of Maslow's theory note that his definition of self-actualization is difficult to test scientifically. His research on self-actualization was also based on a very limited sample of individuals, including people he knew as well as biographies of famous individuals that Maslow believed to be self-actualized.

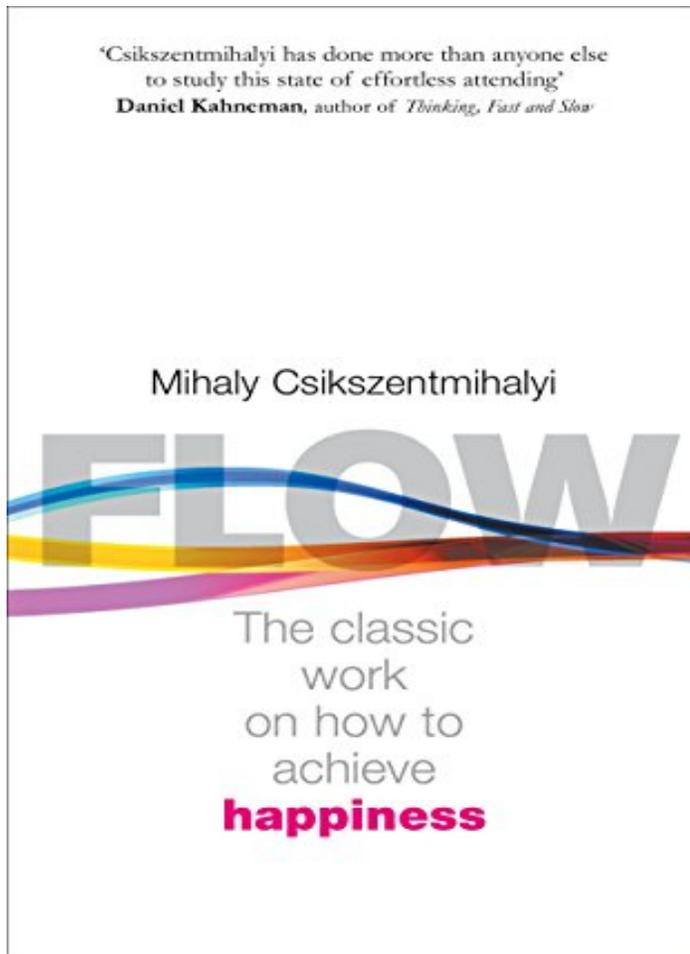
## II. Frederick Herzberg Motivation Hygiene Theory

The **Psychologist Frederick** Irving Herzberg extended the work of Maslow and **proposed a new motivation theory** popularly known as Herzberg's Motivation Hygiene Theory, also called as *Two-Factor Theory (1959)* of job satisfaction.

- According to his theory, people are influenced by two sets of factors:
  - Motivator Factors
  - Hygiene Factors or Maintenance factor

### *Motivator Factor*

- Job content : Contentness in job arises when the job is enjoyed and in return the work is giving satisfaction and needed Motivation.
- Intrinsic factors (when a person finds a task interesting and derives satisfaction from performing it.)
- Achievement : Need to Recognition is one of the most prevalent needs of the modern world, students should have seen that people tend to hurry up in life to feel accomplished and feel achieved, but which takes years of effort and patience as said by **Dr Mihaly in his famous book “ The Flow”**.



- Recognition
- Work itself
- Responsibility
- Advancement
- Possibility of growth

#### **Hygiene Factors or Maintenance factor**

- Job context
- Extrinsic factor (refers to behavior that is driven by **external rewards** such as money, fame, grades, and praise. This type of **motivation** arises from outside the individual, as opposed to **intrinsic motivation**)

- Company policy & Administration
- Quality of supervision
- Relation with superiors
- Working conditions
- Salary
- Peer relation
- Status
- Job security
- According to Herzberg, today's motivators are tomorrow's hygiene because the latter stop influencing the behaviour of persons when they get them. Accordingly, one's hygiene may be the motivator of another.
- *The main use of his recommendations lies in planning and controlling of employees work.*

## Herzberg's Two Factor Theory



Hygiene and Motivation are 2 factors

## Two Factor Theory of Motivation



In a general sense, there are four states an organization or team can find themselves in when it comes to Two Factor Theory.

### 1. High Hygiene and High Motivation

This is the ideal situation and the one which every manager should strive for. Here, all employees are motivated and have very few grievances.

### 2. High Hygiene and Low Motivation

In this situation, employees have few grievances but they are not highly motivated. An example of this situation is where pay and working conditions are competitive but the work isn't very interesting. Employees are simply there to collect their salary.

### 3. Low Hygiene and High Motivation

In this situation, employees are highly motivated but they have a lot of grievances. A typical example of this situation is where the work is exciting and really interesting but the pay and conditions are behind competitors in the same industry.

### 4. Low Hygiene and Low Motivation

This is obviously a bad situation for an organization or team to find itself in. Here, employees aren't motivated and the hygiene factors are not up to scratch.

### III. McClelland's Theory of Needs

Another well-known need-based theory of motivation, as opposed to hierarchy of needs of satisfaction-dissatisfaction, this is the theory developed by McClelland and his associates'. McClelland developed his theory based on Henry Murray's in this theory they developed long list of motives and manifest needs with the earlier studies of theories of personalities.

**McClelland's need-theory is closely associated with learning theory, because he believed that needs are learned or acquired by the kinds of events people experienced in their environment and culture.**

His theory focuses on **Henry Murray's** three need theory; achievement, power and affiliation.

In the literature, these three needs are abbreviated "**n Ach**", "**n Pow**", and "**n Aff**" respectively'.

- ✓ *Need for achievement*
- ✓ *Need for power*
- ✓ *Need for affiliation*
- ✓ **Need for Achievement - "n Ach" :**

*This is the drive to excel, to achieve in relation to a set of standard, and to strive to succeed.* In other words, need for achievement is a behavior directed toward competition with a standard of excellence. *McClelland found that people with a high need for achievement perform better than those with a moderate or low need for achievement, and noted regional / national differences in achievement motivation.*

- ✓ **The following three characteristics of high-need achievers:**
- ✓ 1. High-need achievers have a strong desire to assume personal responsibility for performing a task for finding a solution to a problem.
- ✓ 2. High-need achievers tend to set moderately difficult goals and take calculated risks.

- ✓ 3. High-need achievers have a strong desire for performance feedback.
- ✓ **Need for Power - “n Pow” :**
- ✓ The need for power is concerned with making an impact on others, the desire to influence others, the urge to change people, and the desire to make a difference in life. People with a high need for power are people who like to be in control of people and events. This results in **ultimate satisfaction** to man.

**People who have a high need for power are characterized by:**

- ✓ 1. A desire to influence and direct somebody else.
- ✓ 2. A desire to exercise control over others.
- ✓ 3. A concern for maintaining leader-follower relations.

**Need for Affiliation - “n Aff” :**

The need for affiliation is defined as a desire to establish and maintain friendly and warm relations with other people'. The need for affiliation, in many ways, is similar to Maslow's social needs.

**The people with high need for affiliation have these characteristics:**

- ✓ 1. They have a strong desire for acceptance and approval from others.
- ✓ 2. They tend to conform to the wishes of those people whose friendship and companionship **they value**.
- ✓ 3. They value the feelings of others.



### **Theory of Needs**

#### **IV. McGregor's Participation Theory**

Douglas McGregor formulated two distinct views of human being based on participation of workers.

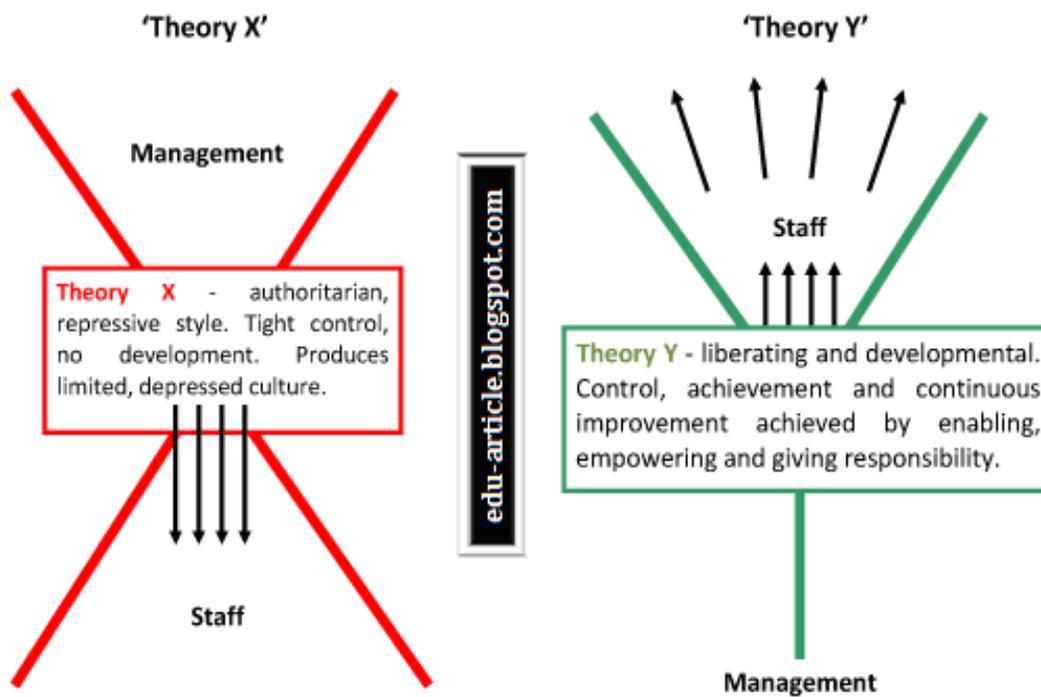
- The first basically negative, labeled Theory X, and
- The other basically positive, labeled Theory Y.

#### **Theory X is based on the following assumptions:**

1. People are by nature indolent. That is, they like to work as little as possible.
2. People lack ambition, dislike responsibility and prefer to be directed by others.
3. People are inherently self-centered and indifferent to organizational needs and goals.
4. People are generally gullible and not very sharp and bright.

**On the contrary, Theory Y assumes that:**

1. People are not by nature passive or resistant to organizational goals.
2. They want to assume responsibility.
3. They want their organization to succeed.
4. People are capable of directing their own behaviour.
5. They have need for achievement.



## V. Urwick's Theory Z

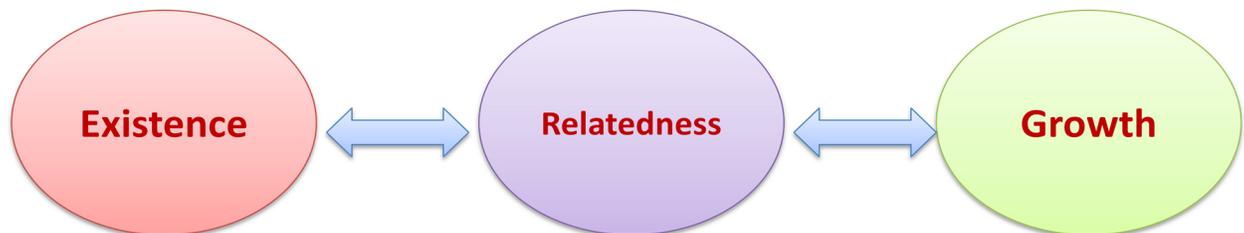
Much after the propositions of theories X and Y by McGregor, the three theorists **Urwick, Ranganekar, and Ouchi** propounded the third theory labeled as Z theory.

### The two propositions in Urwick's theory are that:

- (i) Each individual should know the organizational goals precisely and the amount of contribution through his efforts towards these goals.
- (ii) Each individual should also know that the relation of organisational goals is going to satisfy his/her needs positively.

## VI. ERG Motivation theory Alderfer

Clayton P. Alderfer's **ERG theory** from 1969 condenses Maslow's five human needs into three categories: **Existence, Relatedness** and **Growth**.



### Existence Needs:

Include all material and physiological desires (e.g., food, water, air, clothing, safety, physical love and affection). **Maslow's first two levels.**

### Relatedness Needs:

Encompass **social and external esteem**; relationships with significant others like **family, friends, co-workers and employers**. This also means to be recognized and feel secure as part of a group or family. Maslow's **third and fourth levels.**

**Growth Needs:**

Internal esteem and self actualization; these impel a person to make creative or productive effects on himself and the environment (e.g., to progress toward one's ideal self). **Maslow's fourth and fifth levels. *This includes desires to be creative and productive, and to complete meaningful tasks.***

**ENTREPRENEURIAL TRIATS OR COMPETENCIES**

- **According to Steneir** “a motive is an inner state that energizes, activates or moves and directs or channels behavior goals”.
- It is this inner urge in an individual to achieve his/her goal which David McClelland has termed as ‘Achievement Motivation’.

**Various competencies required for superior performance were identified during the study and are as under:**

1. Initiative
2. Looking for opportunity
3. Persistence
4. Information seeker
5. Quality consciousness
6. Commitment to efficiency
7. Proper planning
8. Problem solver
9. Self confidence
10. Employees welfare

## **District Industries Centre**

- **The 'District Industries Centre' (DICs) is a program that was started in 1978** with the mission of creating a platform to support small venture and industry by offering resources. The Government of Manipur functions as the Head of Department.
- **The program also promotes rural industrialization and development**, less economic stratification for certain regions, increased governmental support, and improving the policies slowing down the process of entrepreneurship.

**The Department's involvements are broadly listed on their website and include the following activities:**

- Village & Small Enterprises
- Industries other than Village & Small Enterprises (including PSUs)
- **Trade & Commerce**
- **Mineral Development**
- Registration of Partnership Firms under Indian Partnership Act, 1932
- **Administration** of the Factories Act, 1948
- **Indian Boilers Act, 192**

**Objectives of District Industries Centre (DIC):**

- The important objectives of DICs are as follow :
- i. Accelerate the overall efforts for industrialisation of the district.
- ii. Rural industrialisation and development of rural industries and handicrafts.

- iii. Attainment of economic equality in various regions of the district.
- iv. Providing the benefit of the government schemes to the new entrepreneurs.
- v. Centralization of procedures required to start a new industrial unit and minimization- of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.

**Functions of District Industries Centre (DIC):**

- i. Acts as the focal point of the industrialization<sup>1</sup> of the district.
- ii. Prepares the industrial profile of the district with respect to :
- iii. Statistics and information about existing industrial units in the district in the large, Medium, small as well as co-operative sectors.
- iv. Opportunity guidance to entrepreneurs.
- v. Compilation of information about local sources of raw materials and their availability.
- vi. Manpower assessment with respect to skilled, semi-skilled workers.
- vii. Assessment of availability of infrastructure facilities like quality testing, research and development, transport, prototype development, warehouse etc.
- viii. Organizes entrepreneurship development training programs.
- ix. Provides information about various government schemes, subsidies, grants and assistance available from the other corporations set up for promotion of industries.
- x. Gives SSI registration.
- xi. Prepares techno-economic feasibility report.
- xii. Advices the entrepreneurs on investments.
- xiii. Acts as a link between the entrepreneurs and the lead bank of the district.

- xiv. Implements government sponsored schemes for educated unemployed people like PMRY scheme, Jawahar Rojgar Yojana, etc.
- xv. Helps entrepreneurs in obtaining licenses from the Electricity Board, Water Supply Board, and No Objection Certificates etc.
- xvi. Assist the entrepreneur to procure imported machinery and raw materials.
- xvii. Organizes marketing outlets in liaison with other government agencies.

## **PROFORMA OF A PROJECT REPORT OF BEAUTY PARLOR**

### **BEAUTY SALOON/FITNESS CENTRE**

#### **Introduction:**

A beauty saloon has become an almost iconic image in Western culture. It is a place where people go for beauty treatments and to purchase beauty products. Women go frequently to beauty salon to get their hair trimmed and nails polished.

Today's people are more conscious in the field of fitness, beauty and fashion, which turns the beauty industry in a promising position. With the rising in standards of living, the requirement of services like beauty salon is on the increase. Moreover the status of women in society improving and their lifestyle is changing. Economic independence makes them to resort to these types of services. It is in this prospective that development of beauty care assumes significant importance. New challenges and new opportunities for investing in this sector have arisen.

#### **Services:**

Beauty care & fitness services are gaining increasing importance in recent years. The concept of beauty care is emerging from providing beauty treatment to various services for improvement of overall status and also maintenance of good health. Some of the services offered by beauty salon are skin care specialized services, beauty care specialized services, hair care specialized services and hand & feet specialized services. Apart from these, fitness services have also included in modern beauty salon.

#### **Market Potential:**

Although several small & medium size beauty parlour both local or branded are flooded in big cities, but a beauty salon in world class standard has a tremendous market in growing cities in northeast India. With an average growth rate of 12 per cent, this industry is bound to generate a high employment potential along with the need for related services in the years ahead.

Presently most of the ladies, members of business community and as well as service professional become beauty and health conscious and these community are now more and more inclined towards multi various services in leading beauty based salon. With the modernization beauty based salon from overseas are also finding their way into the Indian Market.

Beauty Salons are available at locations in cities and towns. The typical unit must offer a differentiated salon experience through consistent quality, competitive prices and professionally trained beauty experts.

**Suggested Capacity (per annum):**

The proposed typical unit will provide a comprehensive range of services. The Traffic per day and the range of services as proposed are stated below:

Range of Services	Annual Traffic per day (in nos.)	Avg. Value per Bill (Rs.)	Turn over per day (Rs.)
A. Skin care specialized services.	3	400.00	1200.00
B. Beauty care specialized services.	6	300.00	1800.00
C. Hair care specialized services.	10	250.00	2500.00
D. Hand & feet specialized services	10	150.00	1500.00
E. Leg/hand massaging	4	150.00	600.00
F. Body shaping, Figure beautifying & Anti ageing treatment/therapy.	2	500.00	1000.00
G. Other Essential Services Like:	1	2	
1. Bridal services,	4	500.00	500.00
2. Mehendi		250.00	500.00
3. Hena etc.		200.00	800.00
	36	-	10400.00

**Basis:-**

No. of working days	=	300 days per year
No. of Shifts	=	1 per day 10 hours

**Infrastructure Requirement:****The main Infrastructure facilities required are:**

- 1.) Required area 900 Sq.ft. Air conditioning/ventilation Rooms.
- 2.) Waiting Lounge 300 Sq.ft. Air conditioning with audio visual system.
- 3.) Power requirement 5 kW. and heavy duty Inverter.
- 4.) Water (with proper treatment) 2000 Ltrs. required in every working day.
- 5.) Sewage, sanitation and waste disposal.

**Raw Materials/Consumables and its availability:**

The Major raw materials required for running a beauty parlour are lotion, herbal cream, soap (assorted), shampoo (assorted), Facial cream (assorted), Face pack, Hair oils, Massage oil, Mehendi, hena powder and other cleaning materials like napkins/towels etc. that estimated an amount of Rs. 60,000 will be required per month.

**Suggested Location:**

Beauty salon and fitness center can be located in up coming cities, state capitals, big towns and as well as in large urban areas in the region.

**SUGGESTED LOCATION :**

Major centres in NER & Sikkim.

**Process/Steps of services:**

Beauty Salons offer a full range of the latest beauty and grooming services in the areas of hair care, skin care and beauty. The services include specialized services for skin (facials), hair (colouring, cuts, styles, perms etc), hands & feet (advanced manicures and pedicures) as well as essential beauty services (waxing, pedicures, manicures).

**PROJECT ECONOMICS****(Amount Rs. in lakhs)**

The total capital requirement is estimated as under :-

A. Fixed Capital	Own/Lease
<b>Land</b>	
<b>Building/Civil Works</b>	
i.) Required area 900 Sq.ft. Air conditioning and ventilation Rooms with interior decoration.	9.00
ii) Waiting Lounge 300 Sq.ft. Air conditioning with interior decoration.	3.60
<b>Plant &amp; equipments</b>	10.50
<b>Other misc. Fixed Assets</b> (Water arrangement with water treatment facilities, Electrical fittings, furniture & fixture & Other Equipments)	2.75
<b>Preliminary &amp; Pre-operative Expenses</b>	<u>0.80</u>
Sub Total (A) Rs.	<u>26.65</u>

**B. Working Capital**

	(Norms)	(Amount Rs. in lakhs)
Raw Materials/Consumables	1 month	0.60
Working Expenses	1 month	0.90
Receivable	3 days	<u>0.30</u>
	Sub Total (B) Rs.	<u>1.80</u>

Note: Working Capital to be financed as:-

Margin Money:	Rs. 1.25
Bank Finance:	<u>Rs. 0.55</u>
	<u>Rs. 1.80</u>

**Means of Finance** (Rs. in Lakhs)

Promoter's Equity(25%)	7.00
Term Loan(75%)	<u>20.90</u>
	<u>27.90</u>

**Production Expenses** (Rs. in Lakhs)

Raw materials/consumables	7.20
Wages & Salaries	7.80
Utilities	0.90
Repair & Maintenance	0.20
Administrative Overhead	0.50
Depreciation	1.20

Selling expenses 5% on sales	1.55
Interest	<u>2.70</u>
	<u>22.05</u>

**Profitability:**

Based on the sales Turnover and the operating expenses, the profit would be Rs. 9.15 lakhs per year. This works out to a return on capital investment of 32%. The unit would break-even at about 58% of the rated capacity.

**Machinery and Equipments:**

Description	Nos.
1. Vapour Beauty Machine (Hot & Cold Steam)	2 sets.
2. Black head extractor	2 sets.
3. Magnifying glass(skin test)	2 sets
4. Vibrator face and body massager	2 sets
5. Hair Dryer Automatic	4 nos.
6. Hair Holding clip	6sets
7. Hair Scissors	5 sets
8. Hair Dyer/Henna Brush	3 sets
9. Hair Straighter	2 nos.
12. Eyebrow washing m/c	5 sets
13. Pedicure set	3 sets
14. Manicure set	3 nos
15. Nail polish sets	3 sets
16. Trolley	3 nos
17. Tarizers	4 nos.

18 Facial Chairs	2 nos.
19 Facial Tanners	2 nos.
20 Folding Cosmetology bed	2 nos.
21. Massage bed	2 nos.
22. Massage Belt	2 sets.



23. Mini Crystal Skin Refreshing equipment	1 nos.
24. Photon Slimming System with Negative Air Pressure (body Shaping + Figure beautifying + anti aging)	1 nos.
25. Three-in-one brush (lipstick, eye shadow, blossom)	5 sets.
26. Vibrissa trimmer	2 nos.
27. Audio Visual System	1 Set

28. Air conditioning M/c	4 nos.
29. Inverter (heavy duty)	2 nos.
30. Leg massager	2 sets.
31. Makeup kits	2 sets.
32. Razor	4 sets
33. Multifunctional beauty equipment	2 nos.
34. Monopolar equipment	1 nos.
35 Beauty bed	2 nos.

#### Break Even Analysis

<b>A. Variable Cost:</b>	(Rs. in Lakhs)
Raw Materials/consumables	7.20
Utilities	0.90
Selling Expenses	1.55
	<u>9.65</u>
<b>B. Semi-Variable Cost:</b>	(Rs. in Lakhs)
Wages & Salaries	7.80
Repair & Maintenance	0.20
Administrative Overhead	0.50
Depreciation	1.20
Interest	2.70
	<u>12.40</u>
C. Sales Turnover:	Rs. 31.20 Lakhs
D. Contribution:	Rs. 21.55 Lakhs
E. Break Even Point B/D X 100%	58 %

**Mannpower:**

**Manpower:**

Category	No. of Person	Salary Per Person Per Month (Rs)	Monthly Salary Bill (Rs.)
Reception cum manager	1	8,000	8,000
Trained Beautician	3	7,000	21,000
Assistants (semi Skilled)	4	5,000	20,000
Accountant/storekeeper	1	6,000	6,000
Security	1	4,000	4,000
			<b>59,000</b>

Salary Bill Rs 7.08 Lakhs + Benefits @10%. annually i.e. Rs 0.71

**Total Annual Salary Bill: Rs. 7.80**

**Highlights:**

The major highlights of the project are as follows:

Total Capital requirement	Rs.	28.45 lakhs
Promoter's contribution	Rs.	7.00 lakhs
Annual Sales realization	Rs.	31.20 lakhs
Annual Operating Expenses	Rs.	22.05 lakhs
Annual Profit	Rs.	9.15 lakhs
Return on sales		29%
Break-even point		58%
No. of person employed		10

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The above proforma of beauty parlor speaks about preparation of project report.

THE END

**Study Material compiled by:**

Jayanth S Kashyap

Assistant Professor

KLE SOCIETY'S LAW COLLEGE

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