

## **ENTREPRENEURIAL ENVIRONMENT:-**

### **Setting up of a Small Business Enterprise**

Who do establish small business enterprises?

Broadly, there are two types of people who establish small enterprises. One people who want to take the advantages of opportunities available. Two, people who have no option for making a livelihood.

These two types of entrepreneurs are also termed as ‘**entrepreneurs by choice**’ and ‘**entrepreneurs by compulsions**’ respectively. Starting an enterprise is not so simple and cannot be set up just. In fact, there are several **steps involved** in setting up a small business enterprise.

Step 1- Information Collection

Step 2- Information Organization

Step 3- Acquiring Required/Vocational Skills

Step 4- Financial Requirements

Step 5- Market Assessment

Step 6- Provision for Crisis

#### **1) Information Collection:**

The first step involved is to decide which enterprise one wants to set up. This begins with collecting information about the units already working in that field of concern. This can be done by various ways such as going through the telephone directories or by visiting the registrar’s office of the small-scale units.

This will enable the prospective entrepreneur to make an assessment of the present market situation in that business activity. Based on this information, they can weigh the pros and cons involved in entering into that business activity.

#### **2) Information Organization:**

Having collected information about enterprise concern, the prospective entrepreneur needs to organize the same in an orderly and systematic manner to derive the meanings from them.

This will help to make assessment about the minimum requirements to start an enterprise in a particular business line.

### **3) Acquiring Required/Vocational Skills:**

The third step is to understand the need for upgrading one's vocational skills if it is a prerequisite for your Small Enterprise Unit (SEU). The importance of acquisition of required skills is justified by the statement that "it is better to teach a man to fish than to provide him with fish everyday" .

There is a need to build on one's strengths in order to gain and feel confident of implementing your project of setting an SEU. Awareness and training in required subject can remove structural barriers. You will feel sure of yourself in taking loans and as also taking risk. Risk is a part of setting up an SEU.

### **4) Financial Requirements:**

The fourth step involved is ascertaining the financial requirements for setting up a small business enterprise. This is particularly important because generally small entrepreneurs do not have their own funds. Hence, they depend upon borrowed funds from family members or relatives or friends or financial institutions.

While planning for finance, the prospective entrepreneur needs to consider issues like sources, availability, estimation and management of working capital. One should have the basic knowledge of preparing income and expenditure statements.

One should also go for insurance cover provided by the concerned financial institutions. Providing financial services in a commercial way is gaining a lot of credence these days.

There are well-planned credit schemes for small enterprises available offered by the banks and co-operatives.

### **5) Market Assessment:**

No business enterprise can be thought of without market. Enterprise exists, survives and thrives because of market. Production has no value or meaning if it is not sold /marketed.

Therefore, while planning for establishing a small business enterprise, the prospective entrepreneur needs to know who will buy his/her product.

Here, the trite saying about the importance of market seems worth citing: "A manufacturer of iron mails must know before manufacturing who will buy his/her iron nails." In sum and substance, a prospective entrepreneur needs to identify market for his/her product before it is actually produced. Market survey or market

research helps the entrepreneur assess market for his/ her product. How much significance market assumes in success and failure of a product is exemplified with the story of a young entrepreneur Pradipta Sethi.

### **6) Provision for Crisis:**

The last but not the least step involved in setting up a business enterprise is the preparedness to manage crisis situations, if any. Yes, some may not consider it as a necessary step because foreseeing any crisis and its handling is simply an additional step.

Even many may view why to think in a negative way for the worst which may not happen at all. Admitting that optimism helps, there is no harm in being prepared for any eventuality, if it arises. It is always useful to remain prepared for something unexpected in terms of resources, policies, finances and natural calamities takes place. Seeking insurance cover is the best way to deal with these situations.

### **Issues Relating To Location:-**

Despite the increasingly pace of technology and digital enterprise, there will almost always be a requirement for a bricks and mortar presence, whether that's to house your staff, store stock in a secure warehouse, or provide a physical brand presence for your customers.

There are many things to consider when choosing a location for your business venture, whether setting up an office or a shop for the first time, or looking to expand into new areas.

#### **1. Accessibility.**

Does your business rely on frequent deliveries? If so, it's important to consider local transport links, particularly main roads and motorways. Property rental and purchase prices are often steeper in higher density, more commercialized areas, so there are certainly cost benefits to seeking a more out of town location, providing your daily business operations won't be hampered by poor transport links. Equally, if you rely on high customer footfall, then ensuring your location is accessible by car, bus and even train will all be important considerations.

Don't forget your employees too, as a good location is often a critical factor in recruiting the right people into your business, particularly if they have been offered several jobs and need to evaluate the pros and cons of each.

## **2. Security.**

Believe it or not, your location can increase your odds of being affected by crime, which in turn can influence your insurance premiums, as well as the additional security measures you made need to take to keep your premises safe. It's fair to say that in business, we all make decisions based on information, intuition and probability mixed in with a little luck.

But knowing the chances of crime in the areas you are considering is an important part of the decision making process. We recently analyzed released statistics from the UK government crime report and compared this to population data to help businesses make an informed decision about where to set up a new shop, office or warehouse.

This report conveniently provides a quick snapshot of how safe a particular area is - simply enter your postcode here for your stats summary. Knowing the risks of potential criminal activity can help you better prepare and take adequate precautions.

## **3. Competition.**

Your proximity to other competing businesses could be crucial to your success. Could they provide a benefit to your business or cause a hindrance? Establishing which competitors are in your area and their offering could help guarantee you choose the right location for your business. If there is too much competition then it may be a warning sign to expand your horizons to a new location. There are exceptions to this such as car dealerships who want to be near each other as customers compare and choose the best car deal, hence their close proximity.

Likewise, if you have an element of your offering that is unique or offers some kind of new innovation, then choosing an area that already has a ripe market could be the ideal way to pick up customers very quickly and establish a presence in a new area in a relatively short time frame.

## **4. Business Rates.**

Cash is king! Cash flow is critical as it determines the viable ability for a business to survive and pay its bills. Therefore, it is important to research the average Business Rates including rent, utility bills and taxes in the area to ensure you can afford the premises. Simple hidden costs such as deposits and whether you need to pay to park need to be snuffed out before committing to a location. Estimating the living cost of the location will prevent a commitment outside your means.

## **5. Skill base in the area.**

Find out the skill base in the area - can it fulfill your needs? Take into account employment rates as well. If you rely on skilled workers it is best to go to where there is a healthy bank of talent. Employees are often a business' s biggest asset thus choosing a location that's lacking in required talent may be the start of your business' s downfall. Some recruitment agencies will happily send you CVs on spec to gauge the market, only charging if you subsequently decide to interview and hire someone. Alternatively, posting a free job via an online jobsite will quickly show you the caliber of employees in a particular area.

## **6. Potential for growth.**

Will the premises be able to accommodate business growth or a spike in demand? Moving premises is a big upheaval and can be time consuming and costly. A decision needs to be made as to whether the premise you are choosing is a short-term location or if you would like to stay there for the long haul.

Consequently, a location' s flexibility could be a very important factor regarding the premises' suitability for your business needs.

## **Industrial Policies & Regulations**

Industrial policy can be defined as a statement stating the role of government in industrial development, the position of public and private sectors in industrialization of the country, the comparative role of large and small industries. The industrial policy formally represents the spheres of activity of the public and private sectors.

### **Objectives:-**

It enlists the rules and procedures that will monitor the growth and pattern of industrial activity. The industrial policy is neither fixed nor flexible. It is constructed; modified and further modification is done according to the changing situations, requirements and perspectives of developments.

### **The major objectives of industrial policy are discussed below:-**

#### **I. Rapid Industrial Development**

The industrial policy of the Government of India focuses at increasing the level of industrial development. It explores ways to construct favorable investment environment for the private sector and also for mobilizing resources for the

investment in public sector. In this way, the government roots to promote rapid industrial growth in the country.

## **II. Balanced industrial Structure**

The industrial policy is crafted to correct the prevailing downgraded industrial structure. Say for example, India had some fairly developed consumer products industries before independence but the capital goods sector was not at all developed, also basic and heavy industries were by and large absent.

Thus, industrial policy had to be enclosed in such a way that imbalances in the industrial structure are corrected by laying stress on heavy industries and development of capital goods sector. Industrial policy explores methods to maintain balance in industrial structure.

## **III. Prevention of Concentration of Economic Power**

The industrial policy explores to facilitate a borderline of rules, regulations and reservation of spheres of activities for the public and private sectors. This is targeted at minimizing the dominating symptoms and preventing focus of economic power in the hands of a few big industrial houses.

## **IV. Balanced Regional Growth**

Industrial policy also targets at correcting differences of region in industrial development. It is a well-known fact that some regions in our country are quite developed industrially, like Maharashtra and Gujarat, while others are marked as industrially backward regions, like Bihar and Orissa. It is the job of industrial policy to amend some programs and policies, which will result in the development of industries or industrial growth.

## **Industrial Policy Resolution 1956**

In April 1956, the Indian Parliament adopted Industrial Policy Resolution of 1956 (IPR 1956).

It is marked as the first comprehensive documented statement on industrial development of India. It systematizes three different groups of clearly defined industries.

The policy of 1956 regulated to design the basic economic policy for a very long time. The Five-Year Plans of India confirmed this fact. With respect to this Resolution, the establishment of a socialistic pattern of society was seen through

the objective of the social and economic policy in India. It ensured more powers to the governmental authorities.

**Companies were grouped into categories. These categories were:-**

Schedule A – those companies which were considered as an exclusive responsibility of the state or the society.

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

Schedule C – the left companies and their future development would, in general, be neglected and would be entirely dependent to the initiative and enterprise of the private sector.

Even though there was a category of companies left to the private sector that is those companies that are above Schedule C. The sector was monitored by the state by a system of licenses.

So to set up a new company or to widen production, obtaining a license from the government was a prerequisite to be fulfilled. Launching of new companies in economically backward areas was incentivized through easy licensing and subsidization of important inputs, like electricity and water. This step was taken to encounter regional differences that existed in the country. In fact, the license to boost the production was issued by convincing the government that the economy required more of the products and services.

Some other salient behavior of the IPR 1956 was fair and non-biased treatment for the private sector, motivating the village and small-scale companies, eradicating regional differences, and the requirement for the provision of amenities for labor, and attitude to foreign capital. This Industrial Policy of 1956 is also referred to as the Economic Constitution of the country.

**Policy Measures**

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

**Following are some of the policy measures:-**

I. Liberalization of Industrial Licensing Policy

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

## II. Introduction of Industrial Entrepreneurs' Memorandum (IEM)

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

## III. Liberalization of the Locational Policy

A crucially reformed Locational policy in tune with the liberalized licensing policy is in place. Approval from industries are not required from the Government for locations not within the **range of 25 kms of the periphery** of cities having a population of more than one million apart for those industries, where industrial licensing is compulsory.

**Non-polluting enterprises** like electronics, computer software and printing can be located within 25 kms of the periphery of cities with more than one million populations. Other industries are allowed in such locations only if they are located in an industrial area so designated prior to 25.7.91. Zoning and follow land use regulations as well as environmental legislations.

## IV. Policy for Small Scale Industries

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

## V. Non-Resident Indians Scheme

The general policy and provisions for **Foreign Direct Investment** as available to foreign investors or company are completely applicable for NRIs as well. With addition to this, the government has broadened some concessions mostly for NRIs and overseas corporate bodies having more than 60% stake by the NRIs. These include investment by NRI/OCB in the real estate and housing sectors, domestic



airlines sector up to 100%. They are also permitted to invest up to 100% equity on non-repatriation basis in all activities except for a small negative list.

#### VI. EHTP vs. STP Scheme

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

#### VII. Policy for Foreign Direct Investment (FDI)

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