



11108CH09

## CHAPTER 9

# SMALL BUSINESS AND ENTREPRENEURSHIP

### LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the meaning and nature of small business;
- appreciate the role of small business in India;
- analyse the problems of small business; and
- classify the different forms of assistance provided by the government to small business, particularly in rural and hilly areas.

### **Romi Bags of Manipur**

Khumbongmayum Dhanachandra Singh didn't have much in life. The son of a poor tailor, he wasn't brought up with many privileges. He saw his father working day and night to earn a meager income. He saw the rich getting richer and the poor remaining poor. The boy wanted to do something more in life. He couldn't imagine a life of stitching clothes relentlessly and earn just enough to survive. Imphal is a small city. Hardworking men and women send their children away to bigger cities so they can have opportunities to progress. Khumbongmayum's father couldn't afford to send him or even educate him. He just taught him what he knew- tailoring. Fabrics, stitching and clothing styles was what the boy grew up with. There was only one sewing machine and the boy used it when his father wasn't using it. He learnt it silently because he knew it was what his father wanted but his heart wasn't in it.

Sometimes an incident can change your life. This happened to Khumbongmayum when he stitched a purse made out of leftover fabrics from his father's scraps. Khumbongmayum offered the purse to his friend who marveled at the unique design. The friend in turn showed the interesting purse to his other friends. They asked Khumbongmayum if he could make such purses for them. It led him to wonder if there was a market for his designs. And he knew he had stumbled on to his business venture. He made a business plan and launched a purse making company 'Romi Bags' in 1996. Khumbongmayum was not one to do anything on a whim. He noticed the demands of his product and he calculated his costs, expenses and expected income. He ignored the detractors and critics. As a first time entrepreneur, he believed in whatever quality of materials he was getting. This was his biggest mistake. The cheap quality of materials for shoes led to them being rejected by the consumers. Stock was returning and remaining unsold in the factory. Khumbongmayum learnt his first lesson. In 2007, he received the National Award for in Bag Making for Micro & Medium Enterprises. For him though, it's just the beginning. Khumbongmayum Dhanchandra Singh has changed his life by sheer grit, perseverance and hard work. You can't let anything stop you from moving forward. You can't become successful or reach the top in a day. If you listen and hear effectively.

## **9.1 INTRODUCTION**

Small scale industries contribute significantly to the development process and acts as a vital link in the industrialisation in terms of production, employment and exports for economic prosperity by widening entrepreneurial base and use of local raw materials and indigenous skills.

Small scale industries dominate the industrial scenario in the country with sizeable proportion of labour force and tremendous export potential.

In India, the 'village and small industries sector' consists of both 'traditional' and 'modern' small industries. This sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi

and village industries, small scale industries and powerlooms. The last two come under the modern small industries, while the others come under traditional industries. Village and small industries together provide the largest employment opportunities in India.

## 9.2 TYPES OF SMALL BUSINESS

It is important to know how size is defined in our country, with reference to small industries and small business establishments. Several parameters can be used to measure the size of business units. These include the number of persons employed in business, capital invested in business, volume of output or value of output of business and power consumed for business activities. However, there is no parameter which is without limitations. Depending on the need, the measures can vary.

The definition used by the Government of India to describe small industries is based on the investment in plant and machinery. This measure seeks to keep in view the socio-economic environment in India where capital is scarce and labour is abundant.

The emergence of a large services sector has necessitated the government to include other enterprises covering both Small Scale Industries (SSI) sector and related service entities under the same umbrella. Expansion of the small scale enterprises was taking place growing into medium scale enterprises and they were required to adopt higher levels of technologies in order to remain

competitive in a fast globalizing world. Thus, it was necessary to address the concerns of such enterprises micro, small and medium and provide them with a single legal framework. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues relating to definition, credit, marketing and technology up gradation. Medium scale enterprises and service related enterprises also come under the purview of this Act. The MSMED Act, 2006 came into force w.e.f., October, 2006.

Accordingly, enterprises are classified into two major categories viz., manufacturing and services.

### 9.2.1 Manufacturing

In the case of enterprises engaged in the manufacture or production of goods pertaining to any industries specified in the first schedule to the Industries (Development and Regulation) Act, 1951, there are three types of enterprises:

**(i) Micro enterprise:** where the investment in plant and machinery does not exceed twenty-five lakh rupees.

**(ii) Small enterprise:** where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees.

**(iii) Medium enterprise:** where the investment in plant and machinery is more than five crore rupees but does not exceed ten crores rupees.

### 9.2.2 Services

In the case of enterprises engaged in providing or rendering of services there are three types of enterprises:

**(i) Micro enterprise:** where the investment in equipment does not exceed ten lakh rupees.

**(ii) Small enterprise:** where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.

**(iii) Medium enterprise:** where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

### 9.2.3 Village Industries

Village industry has been defined as any industry located in a rural area which produces any goods, renders any service with or without the use of power and in which the fixed capital investment per head or artisan or worker is specified by the central government, from time to time.

### 9.2.4 Cottage Industries

Cottage industries are also known as Rural Industries or Traditional Industries. They are not defined by capital investment criteria as in the case of other small scale industries. However, cottage industries are characterized by certain features like the following:

- these are organised by individuals, with private resources;

- normally use family labour and locally available talent;
- the equipment used is simple;
- capital investment is small;
- produce simple products, normally in their own premises;
- production of goods using indigenous technology.

## 9.3 ROLE OF SMALL BUSINESS IN INDIA

Small Scale Industries in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. The following points highlight their contribution.

(i) The contribution of small industries to the balanced regional development of our country is noteworthy. Small industries in India account for 95 per cent of the industrial units in the country.

(ii) Small industries are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries. They are, therefore, considered to be more labour intensive and less capital intensive. This is a boon for a labour surplus country like India.

(iii) Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables,

wood and steel furniture, paints, varnishes, safety matches, etc. Among the sophisticated items manufactured are electric and electronic goods like televisions, calculators, electro-medical equipment, electronic teaching aids like overhead projectors, air conditioning equipment, drugs and pharmaceuticals, agricultural tools and equipment and several other engineering products. A special mention should be made of handlooms, handicrafts and other products from traditional village industries in view of their export value. (see Box A which highlights the major industry groups that come under the purview of small industries as per the classification laid down by the government.)

(iv) Small industries which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. Since they can be widely spread without any locational constraints, the benefits of industrialisation can be reaped by every region. They, thus, contribute significantly to the balanced development of the country.

(v) Small industries provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channeled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business.

(vi) Small industries also enjoy the advantage of low cost of production.

Locally available resources are less expensive. Establishment and running costs of small industries are on the lower side because of low overhead expenses. Infact, the low cost of production which small industries enjoy is their competitive strength.

(vii) Due to the small size of the organisations, quick and timely decisions can be taken without consulting many people as it happens in large sized organisations. New business opportunities can be captured at the right time.

#### **9.4 ROLE OF SMALL BUSINESS IN RURAL INDIA**

Traditionally, rural households in developing countries have been viewed as exclusively engaged in agriculture. There is an increasing evidence that rural households can have highly varied and multiple sources of income and that, rural households can and do participate in a wide range of non-agricultural activities such as wage employment and self-employment in commerce, manufacturing and services, along with the traditional rural activities of farming and agricultural labour. This can be largely attributed to the policy initiatives taken by the Government of India, to encourage and promote the setting up of agro-based rural industries.

The emphasis on village and small scale industries has always been an integral part of India's industrial strategy, more so, after the second Five Year Plan. Cottage and rural industries

play an important role in providing employment opportunities in the rural areas, especially for the traditional artisans and the weaker sections of society. Development of rural and village industries can also prevent migration of rural population to urban areas in search of employment.

Village and small industries are significant as producers of consumer goods and absorbers of surplus labour, thereby addressing the problems of poverty and unemployment. These industries contribute amply to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy.

In fact promotion of small scale industries and rural industrialisation has been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.'

However, the potential of small industries is often not realised fully, because of several problems related to size. We shall now examine some of the major problems that small businesses whether in urban or in rural areas are encountering in their day-to-day functioning.

### 9.5 PROBLEMS OF SMALL BUSINESS

Small scale industries are at a distinct disadvantage as compared to large

scale industries. The scale of operations, availability of finance, ability to use modern technology, procurement of raw materials are some of these areas. This gives rise to several problems.

Most of these problems can be attributed to the small size of their business, which prevents them from taking advantages, which accrue to large business organisations. However, the problems faced are not similar to all the categories of small businesses. For instance, in the case of small ancillary units, the major problems include delayed payments, uncertainty of getting orders from the parent units and frequent changes in production processes. The problems of traditional small scale units include remote location with less developed infrastructural facilities, lack of managerial talent, poor quality, traditional technology and inadequate availability of finance.

The problems of exporting small scale units include lack of adequate data on foreign markets, lack of market intelligence, exchange rate fluctuations, quality standards, and pre-shipment finance. In general the small businesses are faced with the following problems:

**(i) Finance:** One of the severe problems faced by SSIs is that of non-availability of adequate finance to carry out its operations.

Generally a small business begins with a small capital base. Many of the units in the small sector lack the credit worthiness required to raise as capital



from the capital markets. As a result, they heavily depend on local financial resources and are frequently the victims of exploitation by the money lenders. These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks. Banks also do not lend money without adequate collateral security or guarantees and margin money, which many of them are not in a position to provide.

**(ii) Raw materials:** Another major problem of small business is the procurement of raw materials. If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials. Their bargaining power is relatively low due to the small quantity of purchases made by them. Also, they cannot afford to take the risk of buying in bulk as they have no facilities to store the materials. Because of general scarcity of metals, chemicals and extractive raw materials in the economy, the small scale sector suffers the most. This also means a waste of production capacity for the economy and loss of further units.

**(iii) Managerial skills:** Small business is generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. Many of the small business entrepreneurs possess sound technical knowledge but are less successful in marketing the output.

Moreover, they may not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers.

**(iv) Labour:** Small business firms cannot afford to pay higher salaries to the employees, which affects employee willingness to work hard and produce more. Thus, productivity per employee is relatively low and employee turn over is generally high. Because of lower remuneration offered, attracting talented people is a major problem in small business organisations. Unskilled workers join for low remuneration but training them is a time consuming process. Also, unlike large organisations, division of labour cannot be practised, which results in lack of specialisation and concentration.

**(v) Marketing:** Marketing is one of the most important activities as it generates revenue. Effective marketing of goods requires a thorough understanding of the customer's needs and requirements. In most cases, marketing is a weaker area of small organisations. These organisations have, therefore, to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.

**(vi) Quality:** Many small business organisations do not adhere to desired standards of quality. Instead they concentrate on cutting the cost and keeping the prices low. They do not

have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology. In fact maintaining quality is their weakest point, when competing in global markets.

**(vii) Capacity utilisation:** Due to lack of marketing skills or lack of demand, many small business firms have to operate below full capacity due to which their operating costs tend to increase. Gradually this leads to sickness and closure of the business.

**(viii) Technology:** Use of outdated technology is often stated as serious lacunae in the case of small industries, resulting in low productivity and uneconomical production.

**(ix) Sickness:** Prevalence of sickness in small industries has become a point of worry to both the policy makers and the entrepreneurs. The causes of sickness are both internal and external. Internal problems include lack of skilled and trained labour and managerial and marketing skills. Some of the external problems include delayed payment, shortage of working capital, inadequate loans and lack of demand for their products.

**(x) Global competition:** Apart from the problems stated above small businesses are not without fears, especially in the present context of liberalisation, privatisation and globalisation (LPG) policies being followed by several countries across the world. Remember, India too has taken the LPG path since 1991. Let us look into the areas where small businesses

feel threatened with the onslaught of global competition.

(a) Competition is not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes. Opening up of trade results in cut throat competition for small scale units.

(b) It is difficult to withstand the quality standards, technological skills, financial creditworthiness, managerial and marketing capabilities of the large industries and multinationals.

(c) There is limited access to markets of developed countries due to the stringent requirements of quality certification like ISO 9000.

## 9.6 GOVERNMENT ASSISTANCE TO SMALL BUSINESS UNITS

Keeping in view the contribution of small business to employment generation, balanced regional development of the country, and promotion of exports, the Government of India's policy thrust has been on establishing, promoting and developing the small business sector, particularly the rural industries and the cottage and village industries in backward areas. Governments both at the central and state level have been actively participating in promoting self-employment opportunities in rural areas by providing assistance in respect of infrastructure, finance, technology, training, raw materials, and marketing. The various policies and schemes of Government assistance



for the development of rural industries insist on the utilisation of local resources and raw materials and locally available manpower. These are translated into action through various agencies, departments, corporations, etc., all coming under the purview of the industries department. All these are primarily concerned with the promotion of small and rural industries.

Some of the support measures and programmes meant for the promotion of small and rural industries are :

### **1. National Bank for Agriculture and Rural Development (NABARD):**

National Bank for Agriculture and Rural Development was setup in 1982 to promote integrated rural development. Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches. It offers counselling and consultancy services and organises training and development programmes for rural entrepreneurs.

### **2. The Rural Small Business Development Centre (RSBDC)**

The Rural Small Business Development Centre is sponsored by NABARD. It works for the benefit of socially and economically disadvantaged individuals and groups. Through its programmes it covers a large number of rural unemployed youth and women in several trades, which includes food

processing, soft toys making, ready-made garments, candle making, incense stick making, two-wheeler repairing and servicing, vermicomposting, and non conventional building materials.

### **3. National Small Industries Corporation (NSIC)**

National Small Industries Corporation was set up in 1955 with a view to promote, aid and foster the growth of small business units in the country. This focuses on the commercial aspects of these functions.

- (i) Supply indigenous and imported machines on easy hire-purchase terms.
- (ii) Procure, supply and distribute indigenous and imported raw materials.
- (iii) Export the products of small business units and develop export-worthiness.
- (iv) Mentoring and advisory services.
  - (a) Serve as technology business Incubators.
  - (b) Creating awareness on technological upgradation.
  - (c) Developing software technology parks and technology transfer centres.

### **4. Rural and Women Entrepreneurship Development (RWED)**

The Rural and Women Entrepreneurship Development programme aims at promoting a conducive business environment and

at building institutional and human capacities that will encourage and support the entrepreneurial initiatives of rural people and women. RWE provides the following services:

- (i) Creating a business environment that encourages initiatives of rural and women entrepreneurs.
- (ii) Enhancing the human and institutional capacities required to foster entrepreneurial dynamism and enhance productivity.
- (iii) Providing training manuals for women entrepreneurs and training them.
- (iv) Rendering any other advisory services.

#### **5. Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**

To make the traditional industries more productive and competitive and to facilitate their sustainable development, the Central Government set up in the year 2005. The main objectives of the scheme are as follows:

- (i) To develop clusters of traditional industries in various parts of the country;
- (ii) To build innovative and traditional skills, improve technologies and encourage public-private partnerships, develop market intelligence etc., to make them competitive, profitable and sustainable; and
- (iii) To create sustained employment opportunities in traditional industries.

#### **6. The District Industries Centers (DICs)**

The District Industries Center was launched on 1 May 1978, with a view to providing an integrated administrative framework at the district level, which would look at the problems of industrialisation in the district, in a composite manner. Identification of suitable schemes, preparation of feasibility reports, arranging for credit, machinery and equipment, provision of raw materials and other extension services are the main activities undertaken by these centers.

#### **9.7 ENTREPRENEURSHIP DEVELOPMENT**

Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practising some profession. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called an enterprise. It is interesting to note that entrepreneurship besides providing self-employment to the entrepreneur is responsible to a great extent for creation and expansion of opportunities for the other two economic activities, that is, employment and profession. And, in the process, entrepreneurship becomes crucial for overall economic development of a nation. When you make this choice, you become a job-provider rather than a job-seeker, besides enjoying a host of other financial and psychological

rewards. Taking to entrepreneurship is surely more a matter of aspiring to become an entrepreneur rather as being born as one. We would like to define entrepreneurship as a systematic, purposeful and creative activity of identifying a need, mobilising resources and organising production with a view to delivering value to the customers, returns for the investors and profits for the self in accordance with the risks and uncertainties associated with business. This definition points to certain characteristics of entrepreneurship that we turn our attention to.

Entrepreneurship does not emerge spontaneously. Rather, it is the outcome of a dynamic process of interaction between a person and his/her environment. Ultimately, the choice of entrepreneurship as a career lies with an individual, yet he/she must see it as a desirable, as well as, a feasible option. In this regard, it becomes imperative to look at both-factors in the environment, as well as, factors in the individual's perception of desirability and feasibility.

### 9.7.1 Characteristics of Entrepreneurship

Every country, whether developed or developing, needs entrepreneurs. Whereas, a developing country needs entrepreneurs to initiate the process of development, the developed one needs entrepreneurship to sustain it. In the present Indian context, where on the one hand, employment opportunities in public sector and large-scale sector

are shrinking, and on the other, vast opportunities arising from globalisation are waiting to be exploited; entrepreneurship can really take India to the heights of becoming a super economic power. Thus, the need for entrepreneurship arises from the functions the entrepreneurs perform in relation to the process of economic development and in relation to the business enterprise.

The following are the characteristics of entrepreneurship:

#### (i) Systematic

#### Activity:

Entrepreneurship is not a mysterious gift or charm and something that happens by chance! It is a systematic, step-by-step and purposeful activity. It has certain temperamental, skill and other knowledge and competency requirements that can be acquired, learnt and developed, both by formal educational and vocational training as well as by observation and work experience. Such an understanding of the process of entrepreneurship is crucial for dispelling the myth that entrepreneurs are born rather than made.

#### (ii) Lawful and Purposeful Activity:

The object of entrepreneurship is lawful business. It is important to take note of this as one may try to legitimise unlawful actions as entrepreneurship on the grounds that just as entrepreneurship entails risk, so does illicit businesses. Purpose of entrepreneurship is creation of value for personal profit and social gain.

**(iii) Innovation:** From the point of view of the firm, innovation may be cost

saving or revenue-enhancing. If it does both it is more than welcome. Even if it does none, it is still welcome as innovation must become a habit!

Entrepreneurship is creative in the sense that it involves creation of value. By combining the various factors of production, entrepreneurs produce goods and services that meet the needs and wants of the society. Every entrepreneurial act results in income and wealth generation. Entrepreneurship is creative also in the sense that it involves innovation-introduction of new products, discovery of new markets and sources of supply of inputs, technological breakthroughs as well as introduction of newer organisational forms for doing things better, cheaper, faster and, in the present context, in a manner that causes the least harm to the ecology/environment.

**(iv) Organisation of Production:** Production, implying creation of form, place, time personal utility, requires the combined utilisation of diverse factors of production, land, labour, capital and technology. Entrepreneur, in response

to a perceived business opportunity mobilises these resources into a productive enterprise or firm. It may be pointed out that the entrepreneur may not be possessing any of these resources; he may just have the 'idea' that he promotes among the resource providers. In an economy with a well-developed financial system, he has to convince just the funding institutions and with the capital so arranged he may enter into contracts of supply of equipment, materials, utilities (such as water and electricity) and technology. What lies at the core of organisation of production is the knowledge about availability and location of the resources as well as the optimum way to combine them. An entrepreneur needs negotiation skills to raise these in the best interests of the enterprise.

**(v) Risk-taking:** It is generally believed that entrepreneurs take high risks. Yes, individuals opting for a career in entrepreneurship take a bigger risk that involved in a career in employment or practice of a profession as there is no "assured" payoff. In practice, for example, when a person

What if, your idea is not just an Idea?  
 What if, your idea sees the light of the day?  
 What if, it is really born?  
 What if, you get someone to believe in it and nurture it?  
 What, if you set a path to travel on it?  
 What if, it grows and blooms?  
 What if, the world embraces your idea?  
 What if, your idea develops to make the world safer, happier and prosperous for the future generations?  
 Adapted from [www.startupindia.gov.in](http://www.startupindia.gov.in)

quits a job to start on his own, he tries to calculate whether he or she would be able to earn the same level of income or not. To an observer, the risk of quitting a well-entrenched and promising career seems a "high" risk, but what the person has taken is a calculated risk. They are so sure of their capabilities that they convert 50% chances into 100% success. They avoid situations with higher risks as they hate failure as anyone would do; they dislike lower risk situations as business ceases to be a game/fun! Risk as such more than a financial stake, becomes a matter of personal stake, where less than expected performance causes displeasure and distress.

### 9.8 STARTUP INDIA SCHEME

The Startup India Scheme is a flagship initiative of the Government of India with an objective to carve a strong ecosystem for nurturing innovation and startups in the country. This drive will lead towards sustainable economic growth and generate large-scale employment opportunities. The Government of India aims to empower startups to grow through innovation and design. The scheme specifically aims to:

- (i) trigger an entrepreneurial culture and inculcate entrepreneurial values in the society at large and influence the mindset of people towards entrepreneurship,
- (ii) create awareness about the charms of being an entrepreneur and the process of

entrepreneurship, especially among the youth,

- (iii) encourage more dynamic startups by motivating educated youth, scientists and technologists to consider entrepreneurship as a lucrative, preferred and viable career, and
- (iv) support the early phase of entrepreneurship development, including the pre-startup, nascent, as well as, early post startup phase and growth enterprises.
- (v) Broad base the entrepreneurial supply by meeting specific needs of under represented target groups, like women, socially and economically backward communities, scheduled castes and scheduled tribes; under represented regions to achieve inclusiveness and sustainable development to address the needs of the population at the bottom of the pyramid.

As per the notification dated February 17, 2017, issued by the Ministry of Commerce and Industry, a startup means:

- (i) An entity incorporated or registered in India.
- (ii) Not older than five years.
- (iii) Annual turnover does not exceed ₹ 25 crore in any preceding year.
- (iv) Working towards innovation, development or commercialisation of products/service/ processes driven by technology or IPRs and patent.



### 9.8.1 Startup India Initiative: Action Points

**(i) Simplification and hand-holding:** In order to make compliance for startups, friendly and flexible, simplifications are announced.

**(ii) Startup India Hub:** The objective is to create a single point of contact for the entire startup ecosystem and enable knowledge exchange and access to funding.

**(iii) Legal support and fasttracking Patent Examination:** The scheme for Startups Intellectual Property Protections (SIPP) is envisaged to facilitate protection of patents, trademarks and designs of innovative and interested startups.

**(iv) Easy exit:** In the event of a business failure and wind up of operations, procedures are being adopted to reallocate capital and resources towards more productive avenues. This will promote experimentation with new and innovative ideas, without fearing complex and long drawn exit process.

**(v) Harnessing private sector for incubator setup:** To ensure professional management of government sponsored/funded incubators, the government envisages setting up of incubators across the country in PPP mode.

**(vi) Tax exemption:** The profits of startup initiatives are exempted for income tax for a period of three years.

### 9.8.2 Ways to fund startup

In addition to the government plans that offer startup capital and bank loans, the funding for startups can also be availed in the following ways:

**(i) Boot strapping:** Commonly known as self financing, it is considered as the first funding option because by stretching out your personal savings and resources, you are tied to your business. Also, at a later stage, investors consider it as your merit. However, it is a good option of funding only if the initial requirement is small and handy.

**(ii) Crowdfunding:** It is the pooling of resources by a group of people for a common goal. Crowdfunding is not new to India. There are many instances of organisations reaching out to common people for funding. However, the emergence of platforms that promote crowdfunding is fairly recent to India. These platforms help startups or small businesses to meet their funding requirements.

**(iii) Angel investment:** Angel investors are individuals with surplus cash who have keen interest to invest in upcoming startups. They also offer mentoring or advice alongside capital.

**(iv) Venture capital:** There are professionally managed funds which are invested in companies that have huge potential. Venture capitalists provide expertise, mentorship and act as a litmus test of where a business organisation is going, evaluating business from sustainability and scalability point of view.



**(v) Business incubators and accelerators:** Early stage business can consider incubator and accelerator programmes as a funding option. These programmes assist hundreds of startup businesses every year. These two are generally used interchangeably. However, incubator is like a parent who nurtures the business (child), whereas, accelerator helps to run or take a giant leap in business. Incubators and accelerators ably connect the startups with mentors, investors and fellow startups using this platform.

**(vi) Microfinance and NFBCs:** Micro finance is basically access to financial services to those who either do not have access to conventional banking services or have not qualified for a bank loan. Similarly, NBFCs (Non Banking Financial Corporation) provides banking services without meeting legal requirement/definition of a bank.

## 9.9 INTELLECTUAL PROPERTY RIGHTS (IPR)

Over the past two decades, intellectual property rights have grown to a stature from where it plays a major role in the development of global economy. Intellectual property is everywhere, i.e., the music you listen to, the technology that makes your phone work, the design of your favourite car, the logo on your sneakers, etc. It exists in all the things you can see—all are the products of human creativity and skill, such as inventions, books, paintings, songs, symbols, names, images, or

designs used in business, etc. All inventions of creations begin with an 'idea'. Once the idea becomes an actual product, i.e., Intellectual Property, one can apply to the authority concerned under the Government of India for protection. Legal rights conferred on such products are called 'Intellectual Property Rights' (IPR). Hence Intellectual property (IP) refers to products of human mind, hence, just like other types of property, the owners of IP can rent, give or sell it to other people.

Specifically, Intellectual property (IP) refers to the creations of the human mind, like inventions, literary and artistic works, symbols, names, images and designs used in business.

In history, you must have come across the historic 'Battle of Haldighati', which took place between the then Rajput ruler, Rana Pratap Singh of Mewar, Rajasthan and the Mughal emperor Akbar in 1567 A.D. A similar Battle of Haldighati was hotly contested in the year 1997. The issue was the patent granted by the US Patent Office on turmeric (haldi) to University of Mississippi medical centre in 1995 for its wound healing properties; implying that this was a new invention, when we have been using haldi since times immemorial for healing injuries. The Government of India vehemently opposed this patent, and ultimately, India won this battle—the patent was cancelled!

Intellectual property is divided into two broad categories: industrial property, which includes inventions (patents), trademarks, industrial designs and geographical indications, while the other is copyrights, which includes literary and artistic works, such as novels, poems, plays, films, musical works, artistic works, such as drawings, paintings, photographs and sculptures and architectural designs.

The most noticeable difference between intellectual property and other forms of property is that intellectual property is intangible i.e., it cannot be defined or indentified by its own physical parameters. The scope and definition of intellectual property is constantly evolving with the inclusion of newer forms. In recent times, geographical integrated circuits and undisclosed indications, protection of plant varieties, information have been brought under the protection of semi-conductors and umbrella of intellectual property. The following types of Intellectual Property Rights are recognized in India: Copyright, Trademark, Geographical Indication, Patent, Design, Plant Variety, Semiconductor Integrated Circuit Layout Design. In addition to this, traditional knowledge also fall under IP. You must have often taken homely remedies passed on from your grandparents and great-grandparents as cure for an ailment. These homely remedies are traditional medicines that have been practiced in India for past several centuries. They are also known as 'Traditional Knowledge'. Some

examples of Indian traditional medicinal systems are Ayurveda, Unani, Siddha and Yoga. Traditional Knowledge (TK) means the knowledge, systems, innovations and practices of local communities across the globe. Such wisdom has been developed and accumulated over the years and has been used and passed down through several generations. A Traditional Knowledge Digital Library (TKDL) has been developed by Government of India, which is essentially a digital knowledge repository of Traditional Knowledge that has existed in our ancient civilization, especially about medicinal plants and formulations used in Indian systems of medicine. This rich body of knowledge helps prevents wrongful patenting of our traditional knowledge.

Another type of IP is Trade Secrets. You must have heard about the popular beverage, Coca Cola. But do you know that the recipe of this beverage is only known to three people in the whole world? This secret information is termed as a 'Trade Secret'. A trade secret is basically any confidential information which provides a competitive edge. Trade secrets in India are protected under the Indian Contract Act, 1872.

### **9.9.1 Why Is IPR Important for Entrepreneurs?**

It encourages creation of new, path-breaking inventions, such as cancer cure medicines. It incentivises inventors, authors, creators, etc., for their work. It allows the work created

by a person to be distributed and communicated to the public only with his/her permission. Therefore, it helps in the prevention of loss of income. It helps authors, creators, developers and owners to get recognition for their works.

With the establishment of the World Trade Organisation (WTO), the importance and role of intellectual property protection has been crystallised in the Trade-Related Intellectual Property Systems (TRIPS) Agreement. With the establishment of WTO, and India being a signatory to the agreement on TRIPS, several legislations were passed for the protection of intellectual property rights to meet the international obligations. These included Trade Mark Act 1999, the Geographical Indications of Goods (Registration and Protection) Act 1999, Designs Act 2000 and Protection of Plant Varieties and Farmers' Rights Act 2001, the Patents Act 2005 and the Copyright (Amendment) Act 2012.

### 9.9.2 Types of IPs

IPRs are extremely essential for fostering creativity and contribute towards the economic growth of a nation. Such rights allow creators and inventors to have control over their creations and inventions. These rights create incentives for artists, entrepreneurs and inventors to further commit the necessary resources to research, develop, and market new technology and creative works. The changing global economy is creating

unprecedented challenges and opportunities for continued progress in human development. There are business opportunities to market or sell IP worldwide. Geographical borders present no impediments—consumers enjoy near immediate access to almost everything. At such exciting times, it is critical that we are aware about the importance of IPRs and how it affects daily life. Under the umbrella of intellectual property, three different facets come into play, which are:

- (i) **Law :** Intellectual Property Rights are legal rights conferred upon the creator/IP owner to prevent others from using the protected subject matter. It is a legal watch guard of knowledge.
- (ii) **Technology:** The pre-requisite of intellectual property is that, the creation has to be original. The creator has to bring something novel into existence. IPR with respect to technology covers various aspects of information technology, automobiles, pharmaceuticals, biotechnology etc.
- (iii) **Business and Economics:** The basics of IPRs help in the development of the industry and in the success of businesses. IPRs provide rights to the proprietors of the businesses.

Let's understand each IP now.

#### Copyright

Copyright is the right to "not copy". It is offered when an original idea is expressed by the creator or author. It

What is protected under Copyright?	
Literary work	Pamphlets, Brochures, Novels, Books, Poems, Song Lyrics, Computer Programme
Artistic work	Drawings, Paintings, Sculpture, Architectural Drawings, Technical Drawings, Maps, Logos
Dramatic work	Including Dance or Mime, Screenplay, Musical Work, Sound Recording, Cinetographic films

is a right conferred upon the creators of literary, artistic, musical, sound recording and cinematographic film. The copyright is an exclusive right of the creator to prohibit the unauthorized use of the content which includes reproducing and distributing copies of the subject matter. The unique feature of copyright is that, the protection of work arises automatically as soon as the work comes into existence. The registration of the content is not mandatory but is essential to exercise exclusive rights in case of an infringement.

### Trademark

A trademark is any word, name, or symbol (or their combination) that lets us identify the goods made by an individual, company, organization, etc. Trademarks also let us differentiate the goods of one company from another. In a single brand or logo, trademarks can let you know many things about a company's reputation, goodwill, products and services. A trademark helps in distinguishing similar products in the market from its competitors. A competitor cannot use

the same, or similar trademark to sell their product in the market as the same fall under the concept of deceptive similarity which may be defined as phonetic, structural or visual similarity. Trademark may be categorized as Conventional and Non-Conventional trademark -

- (i) Conventional Trademark: Words, colour combination, label, logo, packaging, shape of goods, etc.
- (ii) Non-Conventional Trademark: Under this category those marks are considered which were not considered distinctive previously but started getting recognition with the passage of time i.e. sound mark, dynamic mark, etc.

Besides these, smell and taste are also considered for protection as trademarks, in some parts of the world, but they are not recognized as trademarks in India. The registration of trademark is not mandatory under the Trademark Act 1999, but registration of trademark helps establish exclusive rights over the mark. To register the mark you can visit <http://www.ipindia.nic.in> which is the website of the Indian Trademark Registry.

### Geographical Indication

A Geographical Indication (GI) is primarily an indication which identifies agricultural, natural or manufactured products (handicrafts, industrial goods and food stuffs) originating from a definite geographical territory, where a given quality, reputation or other characteristic are essentially attributable to its geographical origin. GIs are part of our collective and intellectual heritage that need to be protected and promoted. Goods protected and registered as GI are categorized into agricultural products, natural, handicrafts, manufactured goods and food stuffs. Naga Mircha, Mizo Chilli, Shaphee Lanphee, Moirang phee and Chakhesang Shawl, Bastar Dhokra, Warli Paintings, Darjeeling Tea, Kangra Painting, Nagpur Orange, Banaras Brocades and Sarees, and Kashmir Pashmina are some of the examples of GIs. The importance of GIs has increasingly grown over the past few decades. GI represents collective goodwill of a geographical region, which has built itself over centuries. Today, consumers are paying more and more attention to the geographical origin of products and accord much care to the specific characteristics present in the products that they purchase. In some cases, there is a difference between "place of origin" and "geographical indications" which suggests to consumers, that the product will have a particular quality or characteristic, that they may value.

### Patent

A patent is a type of IPR which protects the scientific inventions (products and or process) which shows technical advancement over the already known products. A 'patent' is an exclusive right granted by the Government which provides the exclusive 'right to exclude' all others and prevent them from making, using, offering for sale, selling or importing the invention.

For an invention to be patentable, it must be new, non-obvious to any person who is skilled in the relevant field of technology and must be capable of industrial application.

- (i) It must be new, i.e. it should not already exist in the current knowledge anywhere in the world, i.e. not in public domain in any form, before the filing of patent application (Novelty).
- (ii) It must be non-obvious to any person who is skilled in the relevant field of technology. That is, the standard is a person reasonably skilled in such field of study (Inventive Step).
- (iii) Finally, it must be capable of industrial application, i.e. capable of being used or manufactured in the industry.

Patent can only be filed to get rights over an invention and not discovery. Newton saw the apple fall and discovered gravity which is considered to be a discovery. On the other hand, the father of telephone Alexander Graham Bell invented telephone.



Thus when we use our ability to create something novel, or something unique into existence, it is called an invention, whereas the process of highlighting the existence of an already existing thing is called discovery.

#### **What cannot be patented?**

Scientific principles, contrary to well established natural laws, formulation of abstract theory, frivolous inventions, prejudicial to morality or injurious to public health, method of agriculture or horticulture, method of treatment, admixtures, traditional knowledge, incremental inventions without increase in efficacy and inventions related to atomic energy are some of the inventions not patentable under Sections 3 & 4 of the Patents Act, 1970.

The purpose of patent is to encourage innovation in the scientific field. A patent grants exclusive rights to the inventor for a period of 20 years, during which anybody else who wishes to use the patented subject-matter needs to seek permission from the patentee, by paying certain costs for the commercial use of such an invention. This process of seeking exclusive rights of the patentee for a fee is called Licensing.

Patent creates a temporary monopoly. Once the term of a patent expires, the invention is in public domain which means it is free for use by people. This prevents the patentee from involving in anti-competitive practices like creating monopoly etc.

#### **Design**

A 'design' includes shape, pattern, and arrangement of lines or colour combination that is applied to any article. It is a protection given to aesthetic appearance or eye-catching features. The term of protection of a design is valid for 10 years, which can be renewed for further 5 years after expiration of this term, during which a registered design can only be used after getting a license from its owner and once the validity period is over, the design is in public domain.

#### **Plant Variety**

Plant Variety is essentially grouping plants into categories based on their botanical characteristics. It is a type of variety which is bred and developed by farmers. This helps in conserving, improving and making available plant genetic resources. For example, hybrid versions of potatoes. Such protection promotes investment in R&D, recognizes Indian farmers as cultivators, conservers and breeders as well as facilitates high quality seeds and planting material. This leads to the growth of the seed industry.

#### **Semiconductor Integrated Circuits Layout Design**

Have you ever seen a computer chip? Are you aware of integrated circuits also known as 'ICs'? A semiconductor is an integral part of every computer chip. Any product that contains transistors and other circuitry elements used and formed on a semiconductor material, as an insulating material, or



inside the semiconductor material. Its design is to perform an electronic circuitry function.

### IP and Business

We have already discussed the importance of intellectual property and the ways to protect it as intellectual property rights. Let us now see how this helps a business. Recall the old proverb 'necessity is the mother of all inventions'? If we were to trace the development of a wheel from the Stone Ages, the round wheel was invented as there was felt a need to increase the efficiency of work. This wheel underwent various technological advancements, and today, we know successful business tyre giants like CEAT, JK Tyres, Bridgestone, etc.

Whether a business is establishing its presence in the marketplace or is already well-entrenched, protecting and managing its intellectual property is critical in taking the business ahead. Any business has to continuously

innovate and think ahead, otherwise it will simply stagnate and wither away. It is equally essential to respect others' IP, not only on ethical grounds, but also legal. After all, respect for others' IP begets respect for one's IP. Start-up is an entrepreneurial venture that capitalizes on developing, improving and innovating new products, processes and services for the target audience. Start-ups today are responsible for several disruptive technologies that have changed the very way we think and live. With 20,000+ start-ups, India is said to have the third largest start-up ecosystem in the world. The Start-up India initiative seeks to capture the entrepreneurial streak in Indians, and create a nation of job-creators, not job-seekers. Intellectual property rights can be critical in aiding new ventures monetise their ideas and establish competitiveness in the market by extending the protective umbrella offered by IPRs.

### Key Terms

Small scale industries	Cottage industries	Tiny industries
Micro business industries	Khadi industries	Entrepreneurship

### SUMMARY

**Role of small business in India:** Small Scale Industries play a very important role in the socio-economic development of the country. These industries account for 95 per cent of industrial units, contributing up to 40 per cent of the gross industrial value added and 45 per cent of the total exports. SSIs are the second largest employers of human resources, after agriculture and produce a variety of products for the economy. These units contribute to the balanced regional development of the country by using locally available material and indigenous technology. These provide ample

scope for entrepreneurship; enjoy the advantage of low cost of production; quick decision making, and have quick adaptability and are best suited to customised production.

**Role of small business in rural India:** Small business units provide multiple source of income, in wide range of non-agricultural activities and provide employment opportunities in rural areas, especially for the traditional artisan and weaker sections of the society.

**Governmental assistance to small industries:** Some of the major institutions providing support include National Bank for Agriculture and Rural Development, Rural Small Business Development Centre, National Small Industries Corporation, Small Industries Development Bank of India (SIDBI), the National Commission for Enterprises in Unorganised Sector (NCEUS), Rural and Women Entrepreneurship Development (RWE), World Association for Small and Medium Enterprises (WASME), Scheme of Fund for Regeneration of Traditional Industries (SFURM) and the District Industries centre (DIC).

**Entrepreneur:** The terms 'entrepreneur,' 'entrepreneurship' and 'enterprises' can be understood by drawing an analogy with the structure of a sentence in English language. Entrepreneur is the person (the subject), entrepreneurship is the process (the verb) and enterprise is the creation of the person and the output of the process (the object).

## EXERCISES

### Short Answer Questions

1. What are the different parameters used to measure the size of business?
2. What is the definition used by Government of India for Small Scale Industries?
3. How would you differentiate between an ancillary unit and a tiny unit?
4. State the features of cottage industries.

### Long Answer Questions

1. How do small scale industries contribute to the socio-economic development of India?
2. Describe the role of small business in rural India.
3. Discuss the problems faced by small scale industries.
4. What measures has the government taken to solve the problem of finance and marketing in the small scale sector?
5. What are the incentives provided by the Government for industries in backward and hilly areas?

### Projects/Assignments

1. Prepare a questionnaire to find out the actual problems faced by an owner of a small scale unit. Prepare a project report on it.
2. Survey about five small scale units in your vicinity and find out if they have received any assistance by the institutions setup by the Government.