

PROMOTING ENTREPRENEURSHIP IN INDIA

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Abstract

Entrepreneurship is an important economic activity. It plays a vital role in the economic development of any country. Entrepreneurs are called the 'wheels of the economy'. Entrepreneurs take risks, use the existing resources, create employment and accelerate the economic development. They undertake the important activity of innovation, create new products and services thereby opening the doors for new ventures and markets. They generate wealth and contribute greatly in the National Income. India is a country with a large population and waste natural resources. To map the benefits of this situation India needs promising entrepreneurs who can act as partners with the government and contribute in the economic growth of the country. The objective of this paper is to study the challenges faced by Indian entrepreneurs and the steps required to promote entrepreneurship in India.

Key Words: Entrepreneurship, Economic Growth, Business Environment, Finance, Taxation, Networks, Information, Support System

INTRODUCTION

Entrepreneurship activity has gained much significance during the last two decades. Entrepreneurial activity is playing its role in accelerated economic growth in the global economy as well as in Indian economy. The large number of educated youth has created a lot of scope for entrepreneurs in Indian economy. Our large population presents big consumer markets and opens scope for entrepreneurs in service, manufacturing and trading industry. Impressed by the lucrative opportunities many Indian men and women have entered in the field of entrepreneurship and are contributing in the development of economy. In the absence of a systematic support system most of the entrepreneurs face diverse problems like how to start a business, how to run and manage the business, how to arrange finances and how to deal with taxation issues etc. Although we have many success stories but it is an established fact that all entrepreneurs face various issues at all stages of enterprise. With proper support system and suitable and facilitating business environment, we can promote entrepreneurship and accelerate our economic growth.

OBJECTIVES OF THE STUDY

This paper is a literature review to examine following issues related to promotion of entrepreneurship in India:

- Role of entrepreneurship in Indian Economy
- Scope of entrepreneurship development in India
- Challenges faced by Indian entrepreneurs
- Suggestions to promote entrepreneurship in India

ENTREPRENEURSHIP

An entrepreneur is a person who starts a business. All the risks associated with the setting up and running the business are borne by the entrepreneur and in return he enjoys all the rewards. Entrepreneurship is the process of setting up a business. Entrepreneurship, land, labour and capital are integral elements in the production process. In the words of Shane and Venkataraman, "Entrepreneurship is the process by which opportunities to create future goods and services are discovered, evaluated and exploited." According to J.G. Burch, "Entrepreneurship is a process of giving birth to a new business." From an economic function perspective, risk taking, innovation and entering into new business activities are three important features of entrepreneurship. According to Robert E. Nelson, an entrepreneur is a person who is able to look at the environment, identify opportunities to improve the environment resources and implement action to maximize those opportunities.

For the purposes of this study Entrepreneurship may be defined as application of professional knowledge, skills and competencies to implement a new idea by starting an enterprise to generate wealth, employment and social goods.

ROLE OF ENTREPRENEURSHIP IN INDIAN ECONOMY

India is a developing economy. The growth of the economy requires greater participation of non government payers. In this sense the entrepreneurs are like assets. The more and more successful entrepreneurial activity can be an instrument of economic growth and development. The role and importance of entrepreneurship can be explained by what it does for the society. Some of the benefits offered by entrepreneurship may be summed up as:

- Locating and exploiting the opportunities.
- Converting the resources into National Income and wealth in the form of goods and services.
- Creates job opportunities and helps in solving unemployment issues which is the root cause of all socio- economic problems.
- Earn profits and pay taxes. The employees also pay taxes. Government reinvest this income for the welfare of the society.
- Stimulate employment through innovation.
- Does philanthropy and contributes to society welfare.
- Helps in ensuring balanced regional development.

Thus the role of entrepreneurs in India can be viewed as wealth creators and employment generators. Through continuous innovation activities they act as 'agent of change'.

SCOPE OF ENTREPRENEURSHIP DEVELOPMENT IN INDIA

Entrepreneurship has been 'embedded in the Indian genes and is a part of its tradition'. To quote the renowned economist, T.N. Srinivasan, 'India has been an entrepreneurial society...we had the entrepreneurial skill but suppressed it for too long a time... and now it is thriving.' The entrepreneurial spirit is an ongoing characteristic of India's history, particularly visible in a number of communities engaged primarily in trading.

As per the study conducted by National Knowledge Commission, The Entrepreneurship 'Pyramid' in India (in terms of sectors and numbers of people engaged) is made up of the following:

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| <i>Level 1:</i> | Agriculture and other activities: Crop production, Plantation, Forestry, Livestock, Fishing, Mining and Quarrying. |
| <i>Level 2:</i> | Trading services: Wholesale and retail trade; Hotels and Restaurants |
| <i>Level 3:</i> | Old economy or traditional sectors: Manufacturing, Electricity, Gas and Water supply |
| <i>Level 4:</i> | Emerging sectors (including knowledge intensive sectors): IT, Finance, Insurance and Business services, Construction, Community, Social & Personal Services, Supply Chain, Transport-Storage-Communications etc. |

Levels 2 and 3 (Trading and Manufacturing) of the above pyramid comprise the traditional areas of Entrepreneurship. Level 4, on the other hand, is an emerging/modern sector of Entrepreneurship with high growth rates. In future we may expect a broadening of Levels 3 and 4 with the activities from Levels 1 and 2 migrating to the other levels. Such trends are already being seen

CHALLENGES FACED BY INDIAN ENTREPRENEURS

A prerequisite for nurturing Entrepreneurship is the creation of a favourable business environment. This goal is at the heart of India's economic liberalization initiatives. The key parameters of a conducive business environment include smooth flow of information; ease of starting a business and obtaining various clearances and permits; ease of filing taxes; an efficient legal system; enabling legislations and regulations; absence of corruption; and world-class infrastructure facilities.

I. Access to Relevant Information

An entrepreneur starting a business requires access to reliable information on various aspects of business such as regulatory issues, statutory compliances, registration processes, available sources of finance, infrastructure and so on. However in India, this information is largely diffused and dispersed. The lack of readily available information compels new entrepreneurs to employ intermediaries to advise them on essential aspects of starting a business, thereby incurring additional costs

II. Starting and Operating Business

Difficulty and delays in meeting various government requirements such as registration of company, obtaining licences and registering property still confront entrepreneurs. The official costs of starting a business are high and the process quite complex, involving no less than 13 procedures. A large number of separate registrations – Tax Account Number (TAN), Permanent Account Number (PAN), Value Added Tax (VAT), Employees Provident Fund Organization (EPFO), Employees State Insurance Corporation (ESIC), among others – are required for any business to start operations

Apart from these initial procedural hurdles, an entrepreneur also has to obtain other *permits and clearances*, both at the central and state levels. These include land use approvals, building permits, power connections, water and sewerage connections

III. Finance

Access to credit is considered to be one of the key problems faced by entrepreneurs in India. This problem is particularly acute at the start-up stage, where bank finance is hard to obtain. Despite new sources of finance such as venture capital, angel funding and private equity becoming increasingly popular, institutional finance is still not able to meet the current entrepreneurial demands

IV. Corruption

As per a Study by NKC Almost 60% of the entrepreneurs interviewed said they faced corruption at some time during their entrepreneurial journey while dealing with governmental procedures and officials. That is a very disturbing statistic.

V. Taxation

Entrepreneurs also faced problems relating to cumbersome tax procedures as well as multiplicity of taxes. According to the World Bank-IFC Report, *'Doing Business 2008'*, India's tax regime requires 60 separate payments every year.168 Collection of taxes through different government agencies also increases the problems of complying with tax regulation. There also exists a multiplicity of taxes. In addition to service tax, CENVAT and custom duties that are imposed by the central government, state and local levels of governments levy respective state VAT/sales tax, entertainment tax and entry tax.

VI. Legal System

Procedures of law such as the slow pace of enforcing contracts as well as the current bankruptcy and labour law procedures is a bottleneck. Another legal issue is that of unlimited liability for promoters in partnership concerns and proprietorship businesses due to the absence of Limited Liability Partnerships (LLPs) as a legal entity in India.

VII. Infrastructure

The reliability and availability of world-class infrastructure services is critical for the growth of Entrepreneurship. India's physical infrastructure – roads/highways, railways, ports, airports, power, telecom – is seen as a bottleneck to the smooth operation of all economic activity.

VIII. Role of Government

The government has some very significant policies to help entrepreneurs; the implementation of these policies is extremely poor. Some were of the view that government schemes and initiatives are not publicized adequately. Others said that corruption and red-tapism result in the schemes not reaching the targeted people. Currently, there are a number of policies and schemes in place to promote and assist entrepreneurs in India, at central and state levels. The Ministry of Micro, Small and Medium Enterprises also provides a package of incentives and subsidies for the promotion of micro and small enterprises. The challenge is to make the policies into catalysts for driving Entrepreneurship in India.

SUGGESTIONS TO PROMOTE ENTREPRENEURSHIP IN INDIA

A comprehensive campaign to raise the tempo of Entrepreneurship in India will necessarily need the concerted efforts of a number of agencies. Enhancing Entrepreneurship involves the community, family, academia, financial players, government, industry, and potential entrepreneurs themselves.

I. Advice to Entrepreneurs:

Based on the experiences of successful entrepreneurs, following points may be considered by aspiring entrepreneurs:

- Increase networks with other entrepreneurs to encourage sharing of ideas and experiences, and to mentor upcoming entrepreneurs.
- Document failures as much as successes and learn from each experience.
- Invest in people and build teams that follow inclusive approaches (address the needs of talent at all levels), develop incentives and bolster human resources – ‘translate business strategy into talent strategy’.
- Understand the product and markets well.
- Conduct extensive background research, especially on marketing and financial aspects.
- Focus on quality – “Cost is forgotten, quality never.”
- Match the skills, mindsets and beliefs with the business venture– focus on core strength and excel.
- Do not cling on to the venture, – especially in up-scaling – hire individuals who are better than you; if you are responsible, give autonomy and divest authority.
- Be open to ideas. Take informed risks.
- Hard work, persistence, perseverance, confidence – these are the must qualities’ for every entrepreneur.
- Be honest – never compromise on ethics or offer bribes.
- Build strong foundations and then grow; take incremental steps.
- A history of paying taxes and having a decent balance sheet helps when you approach lending institutions.
- Possess ‘ferocious ambition’ and believe that the ‘sky’s the limit’.
- Develop clear business plans and targets for growth.
- Undertake information disclosures and participate in the development of the rating processes of banks, to enable better risk management for finance.

II. What the Government Can Do

Government should encourage a suitable business environment; ensure simplified start-up processes; improve the delivery time; reduce corruption; collate informational needs of start-ups; improve corporate governance norms; create an environment that will reduce risk; and encourage more seed funds and corporate players to provide start-up funding. In particular:

- Create up-to-date information sources for start-up entrepreneurs in the form of source books, web portals and ‘one stop shops’ and widen dissemination of all relevant information.
- Introduce a Single Unique Company Number to be used by new businesses for company, social security and tax registrations.
- Improve the current Single Window System of getting clearances and introduce a Single Composite Application Form.
- Ease the process of filing taxes by reducing the frequency of tax payments and multiplicity of procedures.
- Create specialized commercial courts for speedy enforcement of contracts.
- Reform bankruptcy laws to ease the process of closing down businesses.
- Speed up development of world-class infrastructure.
- Ensure proper publicity and implementation of various promotional schemes and policies.
- Set up a Public Fund for new entrepreneurs using innovative PPP mechanisms.
- Explore venture debt instruments with the help of innovative PPP mechanisms, through SIDBI and similar institutions.
- Establish a secondary market for trade in stocks of smaller companies.
- Develop a comprehensive Incubation Policy at the national level, which would increase quantity, enhance quality and increase access to financing.

III. How can Chambers of Commerce/Industrial Associations/Other Networks help?

- Chambers need to take active steps to give prominence to regular entrepreneurial meetings, discussions and networking
- Chambers need to go beyond mid-size and large companies to reach out to young entrepreneurs.
- Provide platforms for discussing entrepreneurial best practices and experiences by holding nationwide workshops.

IV. Role of Educational Institutions/R&D Centres

- Develop content, learning methods, pedagogy, examination systems and curricula that encourage critical and lateral thinking; incorporate case studies of real life situations in the curriculum so that students are able to get a 'concrete feel' of the outside world;
- Make Entrepreneurship a core subject in business schools, including topics relating to business ethics, early enterprise management, relevant aspects of scaling-up, Indian corporate law and relevant international laws in curricula, explore possibilities of establishing entrepreneurship schools at the undergraduate and postgraduate levels
- Enable research organizations to invest through knowledge, positioning inventions and innovations as equity in the new enterprises.

V. Role of the Financial Community

- Banks must consider Entrepreneurship as a major business opportunity.
- Explore innovative options such as venture debt, soft loans etc for start-ups
- Implement significant policy initiatives, including relevant RBI recommendations which facilitate ease of credit flow to small entrepreneurs.
- Scale up and publicise best practices in financial innovations for Entrepreneurship

CONCLUSION

Entrepreneurship has become very important in the present economic scenario. With globalisation and rise of Indian Economy it is very important to encourage Entrepreneurship in India as it not only helps in creating vast job opportunities but also helps in collection of large revenues. So the prime objective of the government should be to promote a suitable environment for entrepreneurship. The key parameters of a conducive business environment include the smooth flow of information, ease of starting a business and obtaining various clearances and permits, ease of filing taxes, an efficient legal system, enabling legislations and regulations, absence of corruption and world class infrastructure facilities.

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- www.ediindia.org/ - The Entrepreneurship Development Institute of India (EDI), setup in 1983 fosters entrepreneurship through various programmes and courses.
- <http://www.knowledgecommission.gov.in> - The National Knowledge Commission is a high-level advisory body to the Prime Minister of India, with the objective of transforming India into a knowledge society
- <http://niesbud.nic.in/> - An apex body established by the Ministry of Industries, Govt. of India for coordinating, training and overseeing the activities of various institutions/ agencies engaged in Entrepreneurship Development Particularly in the area of small industry and small business.
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