

Managing Entrepreneurship and Small Business

By: Subhash G. Deo

This reference book can be useful for
BBA, MBA, B.Com, BMS, M.Com, BCA, MCA
and many more courses for Various Universities



NEERAJ
PUBLICATIONS
www.neerajbooks.com

Published by:



NEERAJ PUBLICATIONS

(Publishers of Educational Books)

Sales Office : 1507, 1st Floor,

Nai Sarak, Delhi-110 006

E-mail: info@neerajbooks.com

Website: www.neerajbooks.com

© **Reserved with the Publishers only.**

Typesetting by: Competent Computers

Terms & Conditions for Buying E-Book

- The User must Read & Accept the Terms and Conditions (T&C) carefully before clicking on the accept option for Buying the Online Soft Copy of E-books. Under this Particular Facility you may buy only the Online Soft Copy of E-books, no Hard Copy or Printed Copy shall be provided under this facility.
- These E-Books are valid for 365 days online reading only (From the Date of Purchase) and no kind of Downloading, Printing, Copying, etc. are allowed in this facility as these products are just for Online Reading in your Mobile / Tablet / Computers.
- All the online soft copy E-books given in this website shall contain a diffused watermark on nearly every page to protect the material from being pirated / copy / misused, etc.
- This is a Chargeable Facility / Provision to Buy the Online Soft Copy of E-books available online through our Website Which a Subscriber / Buyer may Read Online on his or her Mobile / Tablet / Computer. The E-books content and their answer given in these Soft Copy provides you just the approximate pattern of the actual Answer. However, the actual Content / Study Material / Assignments / Question Papers might somewhat vary in its contents, distribution of marks and their level of difficulty.
- These E-Books are prepared by the author for the help, guidance and reference of the student to get an idea of how he/she can study easily in a short time duration. Content matter & Sample answers given in this E-Book may be Seen as the Guide/Reference Material only. Neither the publisher nor the author or seller will be responsible for any damage or loss due to any mistake, error or discrepancy as we do not claim the Accuracy of these solution / Answers. Any Omission or Error is highly regretted though every care has been taken while preparing these E-Books. Any mistake, error or discrepancy noted may be brought to the publishers notice which shall be taken care of in the next edition. Please consult your Teacher/Tutor or refer to the prescribed & recommended study material of the university / board / institute / Govt. of India Publication or notification if you have any doubts or confusions before you appear in the exam or Prepare your Assignments before submitting to the University/Board/Institute.
- Publisher / Study Badshah / shall remain the custodian of the Contents right / Copy Right of the Content of these reference E-books given / being offered at the website www.studybadshah.com.
- The User agrees Not to reproduce, duplicate, copy, sell, resell or exploit for any commercial purposes, any portion of these Services / Facilities, use of the Service / Facility, or access to the Service / Facility.
- The Price of these E-books may be Revised / Changed without any Prior Notice.
- The time duration of providing this online reading facility of 365 days may be alter or change by studybadshah.com without any Prior Notice.
- The Right to accept the order or reject the order of any E-books made by any customer is reserved with www.studybadshah.com only.
- All material prewritten or custom written is intended for the sole purpose of research and exemplary purposes only. We encourage you to use our material as a research and study aid only. Plagiarism is a crime, and we condone such behaviour. Please use our material responsibly.
- In any Dispute What so ever Maximum Anyone can Claim is the Cost of a particular E-book which he had paid to Study Badshah company / website.
- If In case any Reader/Student has paid for any E-Book and is unable to Access the same at our Website for Online Reading Due to any Technical Error/ Web Admin Issue / Server Blockage at our Website www.studybadshah.com then He will be send a New Link for that Particular E-Book to Access the same and if Still the Issue is Not Resolved Because of Technical Error/ Web Admin Issue / Server Blockage at our website then His Amount for that Particular Purchase will be refunded by our website via PayTM.
- All the Terms, Matters & Disputes are Subjected to "Delhi" Jurisdiction Only.

CONTENTS

S.No.		Page
1.	Entrepreneurship and Small Scale Enterprises	1
2.	Entrepreneur and Entrepreneurship	10
3.	Institutional Interface for Small Scale Industries	20
4.	Opportunity Scanning and Identification	28
5.	Market Assessment for SSE	37
6.	Choice of Technology and Selection of Site	45
7.	Financing New/Small Enterprises	53
8.	Preparation of the Business Plan	64
9.	Ownership Structures and Organisational Framework	85
10.	Financial Management Issues in SSE	100
11.	Organisational Relations in SSE: Human Resources	107
12.	Strategies for Stabilisation and Growth	115
13.	Management Performance Assessment and Control	122
14.	Management Family Enterprises	131

Sample Preview of The Chapter

Published by:



**NEERAJ
PUBLICATIONS**

www.neerajbooks.com

MANAGING ENTREPRENEURSHIP AND SMALL BUSINESS

Entrepreneurship and Small Scale Enterprises



INTRODUCTION

In this chapter, we start our study of entrepreneurship with definition of a small scale enterprise, and its characteristics. Next we discuss the roles of small scale enterprises and entrepreneurship in the economic development of a country. Finally, we identify problems and support needs of such small scale enterprises and the entrepreneurs.

In our study of **Management in Tourism** we have already come to know the basics of entrepreneurship and small scale industries. Many of us at some stage wish to set up our own enterprise. It is very common in tourism for people working in various capacities, after having some experience, to start their own business. Therefore, we now take up study of small scale enterprises and entrepreneurship in more detail.

Small Scale Enterprises (SSEs) form an important and crucial segment of the industry sector. It produces nearly 40% of total industrial output and almost 35% of the total direct exports. With their unique economic and organisational characteristics, SSEs play a key economic, social and political role in employment generation, resource utilisation and income creation. The industrial revolution recognised the role of an individual, for the first time, in contributing to SSE development. However, only the last three decades have seen attempts being made to encourage SSEs as part of national development plans. India is among the first few developing countries to give a significant role to the SSEs in economic development right from the First Five Year Plan.

In India, like in most developing countries, very few new job-seekers can get employment in agriculture. The paucity of capital then seriously restricts the number of new non-farm jobs that can

be created, because investment cost per job is high in today's industry. An effective development policy must strive for growing use of labour, relative to the capital employed such that it is economically viable. Such efficient substitution of labour for capital is possible in many manufacturing and service activities. Many developing countries, however, often prefer capital-intensive methods. There are a number of reasons for this. (1) the prestige and promotion of advanced technologies, (2) ignorance of alternative labour-intensive methods. (3) preference by the elite or the new rich for imported or import-equivalent goods, (4) difficulties in dealing with large numbers of inexperienced workers, and (5) government policies that favour the use of capital. These factors also affect non-manufacturing activities, including tourism.

Small Scale Enterprises (SSEs) are commonly more labour-intensive than larger organisations. SSEs include (1) small but relatively modern manufacturing industry; (2) organised non-manufacturing activity, such as, construction, transportation and trading; and (3) traditional or "informal" activity. In India the concentration has been mainly on **Small Scale Industries (SSIs)** and therefore government policies and programmes to help and promote 'small' refer to 'industry' and not the broader range of "enterprises".

In last decade, there has been a vast rise in service organisations and varieties of services. STD booths or PCO's, health and beauty clinics, etc. can be seen in our neighbourhood now with addition of electronic services like, e-mail, Internet, photocopy, etc. Tourism industry by and large is made up to such small offering different types of services.

We shall now study various aspects of small scale enterprises and the services they offer.

CHAPTER AT A GLANCE

'SMALL SCALE': DEFINITION

Every country has its own parameters while defining the Small Scale Sector. Mostly, Small Scale Sector is

2/NEERAJ : MANAGING ENTREPRENEURSHIP AND SMALL BUSINESS

defined in terms of investment ceilings on the original value of the installed plant and machinery. In India the related parameters are:

(1) Small Scale Industrial Undertakings: The following requirements are to be complied with by an industrial undertaking for being graded as small scale industrial undertaking:

- (a) An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms or on lease or by hire-purchase does not exceed Rs. 60 lakhs (Rupees sixty lakhs).
- (b) In case of an industrial undertaking referred above, the limit of investment in fixed assets in plant and machinery shall be Rs. 75 lakhs (Rupees seventy-five lakhs) provided the unit undertakes to export at least 30 per cent of the annual production by the end of third year from the date of its commencing production.

(2) Ancillary Industrial Undertakings: The following requirements are to be complied with by an industrial undertaking for being regarded as ancillary industrial undertaking:

An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services, and the undertaking supplies or renders or proposes to supply, or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase does not exceed Rs. 75 lakhs (Rupees seventy-five lakhs).

(3) Tiny Enterprises: Investment limits in plant and machinery in respect of 'Tiny Enterprises' is Rs. 5 lakhs (Rupees five lakhs) irrespective of location of the unit.

(4) Women Entrepreneurs: A Small Scale Industrial Unit/Industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51% as Partners/Shareholders/Director of Private Limited Company/Member of Cooperative Society.

(5) Small Scale (Industry related) Service and Business Enterprises (SSSBEs): SSSBE Industry related service/business enterprises with investment up to Rs. 5 lakhs in fixed assets, excluding land and

building, are called Small Scale Service/Business Enterprises (SSSBEs).

Small business opportunities exist in almost all sectors of the economy. In the **manufacturing** sector there are various products made by the SSEs e.g. handicrafts, handlooms, carpets, textiles, bakery products, furniture, etc. In **merchandising** sector a majority of the wholesalers or retailers are in the small scale. Recently there has been spectacular growth of SSEs in the service sector for many reasons—the increase in demand being the major one. For example, a guide may be able to serve a group of 20 or 25 tourists. But, if more tourists come, there is need of more guides; when more people travel we need more travel agencies, more tour operators, more hotels and taxis, etc. If people spend more money on leisure and travel there is need of these services in larger numbers.

The fact is, in tourism in spite of the presence of large players small enterprises continue to grow and may either give tough competition or work in collaboration with the large players depending on the nature of related tourism and the destination.

CHARACTERISTICS AND RELEVANCE OF SMALL SCALE ENTERPRISES

Small Scale Enterprises show many characteristics that make them crucial in accelerated economic growth:

- (1) Their **flexibility** is ideally suited to constantly changing environment. They can **adapt** quickly to diverse factors that play a major part in daily management.
- (2) They are mostly **labour-intensive**, and hence, offer an economic solution by generating employment opportunities in urban and rural areas with relatively low capital investment.
- (3) Decentralisation and dispersal of industries lead to a **balanced growth of the economy** in all regions. SSEs use indigenous raw material and produce intermediate and capital goods. Thus, they help in faster economic growth in a transitional economy.
- (4) Lastly, as they are mostly started by individuals they are the best **outlet for expression of the entrepreneurial spirit**. As the entrepreneur is his own boss, decision-making process is fast and many times quite innovative.

The main advantages of SSEs are as listed below:

- (1) Utilisation of locally available human and material resources and expertise/experience.
- (2) Generating jobs at relatively low capital cost.
- (3) Diversification the industrial structure.

- (4) Preventing monopolies of larger industrial groups.
- (5) Ensuring more equitable income distribution with their larger number throughout the country.
- (6) Attracting and putting to use indigenous entrepreneurship; nowadays also promoting women entrepreneurs.
- (7) Developing a pool of skilled and semi-skilled workers to form the basis of possible industrial expansion in future.
- (8) Improving forward and backward linkages, and reducing regional imbalances.
- (9) Optimum opportunities for quickly adapting appropriate technologies managerial techniques.
- (10) Export-oriented units lead to a favourable balance of trade.

RELATIONSHIP OF SMALL TO LARGE

The Industrial Revolution became successful largely because of small scale industries (SSIs) having a modest capital, a few workers owned and managed by a single individual or family. In fact, large firms came around very slow. As late as 1900, the hundred largest British industrial organisations accounted for only 10 per cent to 15 per cent of manufacturing value added, and the same was true in the other nations of Western Europe and North America. The explosive growth of large scale units happened on the next half century. The large firms are today the dominant mode. Typically, the hundred largest manufacturing enterprises in developed economies today own at least half of total manufacturing assets, with a comparable figure for value added. However, their share of employment is much smaller, relative to their output.

However, even now, many small manufacturers continue to operate in these economies, showing a somewhat skewed distribution of manufacturing enterprises with the model size being close to the smallest and a long rightward tail stretching towards the giants. Most of the small units are service-oriented, or manufacture for a circumscribed or specialised niche in the market. Many make intermediate products for large factories; such sub-contracting relationship is particularly seen in the economic history of Japan.

As industrialisation takes place at a faster pace, small firms naturally shift from activities that compete with large units to the complementary ones for their survival.

Apart from the small units engaged in sub-contracting, many other SSIs continue to exist in diverse

activities. This is because they have clear and distinct advantages in organisation and marketing flexibility. More profoundly, that is way of the process by which firms grow. Even if, there are no direct or implicit government restrictions, and the ultimate size of the modern corporation may be unlimited financial, organisational and marketing constraints do adversely influence its rate of growth. Consider the financial side. Past profits restrict future growth. For organisation, too quick expansion, rather than excessive size, can cause characteristic forms of managerial inefficiency. Enterprises do play a crucial role in developing skills, more so in developing countries, but there is an obvious limit to the number of people who can be thus effectively trained in any given time duration.

In case of marketing, in many instances even large firms have to depend on small enterprises for their products distribution. As an example, a large Five star hotel chain, gets ample business through small travel agencies and tour operators. Also, a hotel, to satisfy needs of uses its customers the services of small car rental companies, guides, etc.

The most important reason for encouraging SSIs is in their employment generation potential. These days interest in SSEs in developing countries comes largely because of a serious concern about unemployment. Big organisations modelled on western industrial outfits have certainly increased industrial production and productivity levels in many developing countries, but without reducing unemployment correspondingly. Thus the rising output is often associated with widening poverty. A capital-intensive bias in large units growth is held partly responsible for this. Small firms are claimed to be more labour-intensive without necessarily being much expensive or unprofitable.

SSIs also obviously put to better use indigenous organisational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early states of economic development. They offer opportunities to these entrepreneurs to acquire experience. The more successful among them grow larger and become more capital-intensive, and in the process fulfil a critical incubating function.

However, we must differentiate between managerial and entrepreneurial abilities. The latter often gets ignored in development planning and policies, mostly because it is hard to define. Yet its importance is obvious in performance comparisons among countries and sectors where individual or collective initiative is encouraged, and on the other hand where bureaucratic constraints discourage it.

4/NEERAJ : MANAGING ENTREPRENEURSHIP AND SMALL BUSINESS

SSEs certainly make available productive outlets for the talents and energies of enterprising, independent persons. Many of these are likely to fulfil their potential in a large organisation. Small firms often shine by serving limited or specialised markets that are not attractive to large companies. They become a seed bed for entrepreneurial talent and a testing place for new industries. They lead to dynamism and offer competition within an healthy economy.

REGIONAL BALANCE AND RURAL DEVELOPMENT

In developing countries like India, industry is mostly concentrated in a few places. Because of this regional imbalances get aggravated between:

- (1) the urban core and the peripheral areas, with the latter remaining largely underdeveloped,
- (2) urban and rural populations with migration of the more vigorous rural people towards cities and depletion of rural society and growth in urban unemployment, and
- (3) major regions within a nation, causing political tensions.

Large and small industries both become cause of these imbalances, the latter when stimulated by or is dependent on the former. However, SSI normally has more vocational flexibility; it needs less infrastructure and often serves a small geographic market. Its somewhat labour-intensive technology is suitable for the lower wage rates prevailing outside the industrial centres. Comparative studies indicate that the profitability of SSI is higher in medium-size towns, away from the metropolis. Thus establishing SSI in outlying towns suits individual entrepreneurs and is helpful to the society as a whole.

A critical problem in the rural areas of developing countries like India is underemployment. Particularly in the slack agricultural seasons rural incomes sink lower and migration to the cities rises. There is thus need of more non-farm jobs and, if these are industrial jobs, they will mostly be in the small scale sector, because of infrastructure, market radius, and labour skills required. Agricultural processing industries generate jobs and give more returns to farmers. However, their peak demand for labour is likely to coincide with the peak agricultural season instead of complementing it. Other kinds of small scale production, like black-smithing, brick-making, lime kilns, tailoring, carpentry and furniture-making, are crucial to rural development. These days, **rural tourism is also emerging as a new trend.** In countries

like India most of the tourist spots are in the midst of rural economy, and small enterprises in tourism can provide good boost to rural economy. Handicraft, performing arts, local cuisine, adventure, experiencing rural life, ethnic tourism, etc. are the segments of such rural tourism.

SSIs, like big industries, can certainly pollute or otherwise affect the environment badly. But, their smaller size and dispersion, lack of massive infrastructure, and mostly simpler processes cause less and easily treatable environment losses.

ROLE OF ENTREPRENEURSHIP IN SSE AND ECONOMIC DEVELOPMENT

Effectiveness of a small enterprise depends upon the entrepreneurial and managerial capabilities of those who lead it. Due to its size and special operating characteristics, a small enterprise needs a unique **management approach.** Small enterprises are normally managed in a personalised way. The owner is also its manager until it grows to a higher level. The owners look after all aspects of managing the business and generally there is no sharing in the decision-making process. The scope and scale of operations of small enterprises are mostly limited to serving a local or regional market rather than a national or international market. They also commonly have a very small share of given market. These unique characteristics must, therefore, be considered while planning for small enterprises development on a national scale.

The entrepreneurial spirit, as observed by experts involves not only for monetary benefits but also a **high need for achievement** and all the **motivations** found in a high achiever. **Long-term involvement with a goal** which the entrepreneur sets up for himself calls for persistence with the enterprise even in the face of difficulties, obstacles and hardships.

Because the entrepreneur starts from scratch, he has to be aware of all the factors involved and **take calculated risks** based on this knowledge. A **tendency or inclination to analyse the environment** on a continuing basis holds the entrepreneur in good stead. He has also to be positive and optimistic as he has no one to depend on but himself when doubts and uncertainties come.

Management and entrepreneurial skills have, therefore, to be blended in the small enterprise owner's personality as these will mean the difference between success and failure. The ideal entrepreneur is a person who is **both efficient and effective.** Without the latter quality he may just be a good manager. He must develop