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Managing Entrepreneurship and Small Business in Tourism

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(Publishers of Educational Books)

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MRP ₹ 280/-

Content

**MANAGING ENTREPRENEURSHIP
AND SMALL BUSINESS IN TOURISM**

Question Paper—June-2023 (Solved)	1-2
Question Paper—Exam Held in March-2022 (Solved)	1
Question Paper—Exam Held in August-2021 (Solved)	1-2
Question Paper—Exam Held in February-2021 (Solved)	1-2
Question Paper—June, 2019 (Solved)	1
Question Paper—June, 2018 (Solved)	1
Question Paper—June, 2017 (Solved)	1

<i>S.No.</i>	<i>Chapterwise Reference Book</i>	<i>Page</i>
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

<i>S.No.</i>	<i>Chapterwise Reference Book</i>	<i>Page</i>
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
Solved
Sample Question
Papers**

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QUESTION PAPER

June – 2023

(Solved)

MANAGING ENTREPRENEURSHIP AND SMALL BUSINESS IN TOURISM

M.T.T.M.-8

Time: 3 Hours]

[Maximum Marks: 100

Note: Answer any five questions. All questions carry equal marks.

Q. 1. Discuss the role of Entrepreneurship in SSE and economic development.

Ans. Ref.: See Chapter-1, Page No. 4, 'Role of Entrepreneurship in SSE and Economic Development'.

Q. 2. Enumerate the various competencies relevant for entrepreneurship development.

Ans. Ref.: See Chapter-2, Page No. 12, 'Competencies: Major Entrepreneurship A Research Study' and Page No. 14, 'Developing Entrepreneurial Competencies'.

Q. 3. What is financial planning? Discuss its significance for small tourism business in India.

Ans. Ref.: See Chapter-7, Page No. 53, 'Financial Planning' and Page No. 55, 'Providing Bank Finance : The Indian Perspective'.

Q. 4. Analyse the importance of product/service design and technology in any tourism organisation.

Ans. Ref.: See Chapter-6, Page No. 45, 'Product, Service Design' and Page No. 47, 'Technology Determination'.

Q. 5. Write short notes on the following:

(a) Break-even analysis

Ans. Ref.: See Chapter-8, Page No. 76, 'Break-Even Analysis (BEA)'.

(b) Taxation in firms

Ans. Ref.: See Chapter-9, Page No. 96, 'Taxation and the Legal Forms of Organisation'.

(c) Market demand analysis

Ans. Ref.: See Chapter-5, Page No. 39, 'Market Demand Analysis'.

Q. 6. Describe the various forms of ownership of business enterprises along with their advantages and disadvantages.

Ans. Ref.: See Chapter-9, Page No. 93, 'Forms of Ownership : Advantages and Disadvantages'.

Q. 7. What is the significance of financial management for business enterprise ? Discuss the factors which would ensure good financial management and favourable growth of a large size tour company.

Ans. Ref.: See Chapter-10, Page No. 103, 'Growth Strategy', 'The Financial Implications' and Page No. 105, 'Managing Liabilities'.

Q. 8. What factors do influence the choice of technology in establishing a new business? Elaborate with an example of a tourism business.

Ans. Ref.: See Chapter-6, Page No. 52, Q. No. 2 and Page No. 47, 'Technology Determination'.

Q. 9. How can you motivate your employees? Elaborate with relevant examples.

Ans. Ref.: See Chapter-11, Page No. 112, 'Working Conditions and Working Relations', 'Relationship with Employee' and 'Improving Personnel Relations'.

Q. 10. What are the HRD problems faced by tourism entrepreneurs ? Discuss with suitable examples.

Ans. Following are the HRD problems faced by the tourism entrepreneurs:

- Tourism industry is facing an acute shortage of skilled manpower and there are many obstacles as far as development of Human Resources in the tourism industry is concerned. The people working in the tourism industry are highly uneducated, unmotivated, unskilled and unproductive; and these are due to the unattractive salaries and working hours.
- There is no equal treatment for all types of employees. Gender inequality is manifested

- in the sectors. Such circumstances avail due to the fact that women have lower access to land, capital and education than men. Women tend to work at home or family enterprises are unprotected by law, and women face discrimination and overload of work at business enterprises and family life. Tourism sector comprises mostly small and medium sized enterprises and the HR practices are not standardized. Lack of professional approach, vision, clear career path, secured and long term employment, growth opportunities, learning, development and quality of work life is resulting in high employee dissatisfaction.
- Poor perceived image of Hospitality and tourism sector and inadequate and inefficient training and education programs are also discouraging the competent and talented people to leave the industry which is resulting in less and poor supply of manpower.
 - The HR practices lack professionalism in most of the organizations in the industry. Due to this a good manpower planning, job description and specification and proper career planning is required at all the levels of the organizations.
 - The quality of the training courses for the development of HR in Tourism Management is very theoretical in nature and does not fulfil the industrial requirement which leads to the gap between application of theory into practice.
 - One of the largest factors is the poor image the tourism industry portrays to potential employees. While it is encouraging to see many of the multinational organizations adopting a clear strategic human resource approach, providing enhanced work-life balance for staff, the reality is that the hospitality industry is dominated by small business and very little progress has been made. This leads to failure of the tourism industry to attract a professional workforce and the gap between demand and supply of professionals in the industry expands.

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Sample Preview of The Chapter

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MANAGING ENTREPRENEURSHIP AND SMALL BUSINESS IN TOURISM

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 IN TOURISM

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 (SSSBs): 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 (SSSBs).

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 IN TOURISM

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