
**BLOCK 1: ENTREPRENEURSHIP
AND INSTITUTIONAL ROLE**

UNIT 01: ENTREPRENEURIAL TRAITS, TYPES AND SIGNIFICANCE; ENTREPRENEURSHIP SKILLS

STRUCTURE:

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1.1 INTRODUCTION

Entrepreneurs are fearless leaders who take measured risks for immeasurable opportunities. They dare to dream; but more so, they dare to take action. In the continual effort to launch and then grow their businesses, they seek out information that assists them with every aspect of business management, from marketing to money, sales, human resources, and more.

1.2 OBJECTIVES

Present unit aims at entrepreneurial traits, types and significance; entrepreneurship skills. After going through this unit you will be able to:

- Define the concept of entrepreneurship and entrepreneur;
- Understand the traits of a entrepreneur;
- Differentiate the different types of entrepreneurs;
- Comprehend the personality types of entrepreneurs;
- Match your personality with the required personality of entrepreneur.

1.3 ENTREPRENEURSHIP

The term **entrepreneur** is a loanword from French, and is commonly used to describe an individual who organizes and operates a business or businesses, taking on financial risk to do so.

The term was first defined by the Irish-French economist Richard Cantillon as the person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise.

The term first appeared in the French Dictionary "Dictionnaire Universel de Commerce" of Jacques des Bruslons published in 1723. Over time, scholars have defined the term in different ways. Here are some prominent definitions.

- **Peter Drucker (1964):** *An entrepreneur searches for change, responds to it and exploits opportunities. Innovation is a specific tool of an entrepreneur hence an effective entrepreneur converts a source into a resource.*
- **Albert Shapero (1975):** *Entrepreneurs take initiative, accept risk of failure and have an internal locus of control.*
- **W.B. Gartner (1985):** *Entrepreneur is a person who started a new business where there was none before.*

"Entrepreneurs use personal initiative, and engage in calculated risk-taking, to create new business ventures by raising resources to apply innovative new ideas that solve problems, meet challenges, or satisfy the needs of a clearly defined market."

Entrepreneurship is the act and art of being an entrepreneur or one who undertakes innovations or introducing new things, finance and business acumen in an effort to transform innovations into economic goods. This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity. The most obvious form of entrepreneurship is that of starting new businesses (referred as Start-up Company); however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization it is referred to as intra-preneurship and may include corporate venturing, when large entities spin-off organizations.

1.3.1 Defining Entrepreneurship

Some experts think of entrepreneurs as people who are willing to take risks that other people are not. Others define them as people who start and build successful businesses.

Thinking about the first of these definitions, entrepreneurship doesn't necessarily involve starting your own business. Many people who don't work

for themselves are recognized as entrepreneurs within their organizations. Entrepreneurship can be defined by describing what entrepreneurs do as;

"Entrepreneurship involves bringing about change to achieve some benefit. This benefit may be financial but it also involves the satisfaction of knowing you have changed something for the better. (Entrepreneurship: Creating a Venture by Lily Kretchman et al. Toronto: Wiley, 1991.)

"Entrepreneurship is essentially the act of creation requiring the ability to recognize an opportunity, shape a goal, and take advantage of a situation. Entrepreneurs plan, persuade, raise resources, and give birth to new ventures." (Entrepreneurship: The Spirit of Adventure by Richard Bodell et al. Toronto: Harcourt Brace Jovanovich, 1991.)

1.3.2 Entrepreneurial Traits

While – quite naturally – individual entrepreneurs have many unique traits that are not common to other entrepreneurs, all entrepreneurs do share a kindred spirit, a certain type of constitution and outlook, and a special drive and willingness. Rather than elaborating on the many differences within this broadly diverse demographic, it is more helpful to look at those aspects of similarity.

Here are few traits that are found within all entrepreneurs – and without which most people will fall short of what it takes to succeed in an entrepreneurial enterprise.

- 1. Confident:** Confidence is a hallmark of the entrepreneur. Not all of us are born with confidence, but that does not mean we are not capable of it. Many confident women and men gain their sense of self esteem and faith in their ability to greet challenges by acting – even when they lack the confidence – and then gaining strength and belief in themselves by seeing the results and gaining the praise and respect of others.
- 2. Feels a Sense of Ownership:** Taking responsibility for getting things done – and doing them with care and attention – means to act like an owner. Rather than viewing a problem as someone else's, the entrepreneur sees it as his or her own and takes pride in finding a solution, leaving things in better shape than they were before encountering them, and improving upon situations rather than leaving them unattended. While a sense of ownership makes for a stellar employee, the entrepreneur knows that the goal is not to be owned by the enslavement of too much responsibility. Rather than controlling situations in an attempt to possess them, the entrepreneur teaches other people how to take charge. In that way the clever entrepreneur uses individual accountability in the ultimate pursuit of profitability, teamwork, and overall success.

3. Able to Communicate: Entrepreneurs recognize that the most important part of any business is the human element. Human resources –whether in the form of clients, employees, or strategic partners – are what makes or breaks a business, and communication is the key to successful relationships with people.

The entrepreneur works to hone communication skills, whether those are written, spoken, or non-verbal messages conveyed through body language. And to support communication, he or she will take advantage of all available tools and resources. Those might include foreign language or public speaking classes, computer and telecom technology, search engine optimization or neurolinguistic programming as it relates to sales and marketing, or specialized writing such as that needed for grants, business proposals, mission statements, or policy manuals.

Above all, the entrepreneur develops a keen ability to listen and hear what others are trying to say, because the best communicators got that way by first being the best listeners.

4. Passionate about Learning: Entrepreneurs are often “autodidactic” learners, which means that much of what they know they learned not in a formal classroom setting but instead on their own by seeking out information, asking questions, and doing personal reading and research. They also are quick to learn from their own mistake, which means they are less prone to keep repeating them due to arrogance, ego, or blindness to one’s own faults, shortcomings, or errors in judgement. To teach is to learn. And to lead, train, and impart experience to others the entrepreneur is constantly striving to learn more and get better educated. Because of the passion for education, true entrepreneurs surround themselves with people who either know more than they do or know things that are different from what they know. They entertain the views of others and perspectives that may be unlike their own, for instance, in order to be better students of human nature.

In this way they continue to enrich themselves with knowledge while also making a concerted effort to grow that knowledge by sharing it with others who are also front row students of life’s valuable and unlimited lessons.

5. Team Player: Those who go into business for themselves but do not utilize teamwork wind up without the team but still have all the work to get done. They shoulder the whole burden for themselves, and wind up just trading their old job for a new and more demanding one – in an attempt to be self-employed. But the new venture carries greater personal and financial risks.

On the other hand, team players know how to succeed by employing the physics of interpersonal synergy and dynamic relationships. One twig can be easily snapped, but a bundle of those small twigs becomes stronger

than the sum of its individual parts and can be impossible to bend, much less break. The same goes for businesses, and successful entrepreneurs leverage teamwork to get the heavy lifting done without breaking stride.

- 6. System-Oriented:** Like mathematical formulas, good systems allow us to reproduce great results every time – with less and less exertion of energy or resources.

Entrepreneurs rely upon systems before they rely upon people, and they look for systembased solutions before searching for human resource solutions. If the person gets the job done but falls sick or leaves, the job is threatened. But if a system is created to get the job done, anyone can step in and follow the blueprint to get the desired result. Similarly, when troubleshooting and problem solving, the entrepreneur will first examine and study the system – because a flaw in the system will produce a flawed outcome each and every time. Designing, implementing, and perfecting systems is one of the most useful and rewarding skills of an entrepreneur.

- 7. Dedicated:** Entrepreneurs dedicate themselves to the fulfillment of their plans, visions, and dreams, and that tenacity of purpose generates electricity throughout the whole organization. One of the biggest reasons that companies fail is because they lose focus. Target a goal, clarify the objective, refine the brand, and narrow the margin of error. Regardless of what the effort might involve, an entrepreneur brings a single-minded dedication to the task by being committed to a positive outcome and ready and willing to do the needful.

No matter what that might mean in terms of rising to meet a challenge or acting above and beyond the call of duty, the entrepreneur shows steadfast dedication.

- 8. Grateful:** Being grateful for what we have opens us up to receive more, and one reason that is true is because those who are grateful appreciate what they are given. They respect it and nurture it. They do their best to make it grow instead of allowing it to dwindle away due to neglect. Entrepreneurs learn to take nothing for granted in this world. That gives them the agility and flexibility to adapt to changes and demands, while it also invests in them a thankfulness that reminds them that riches and wealth are not about “stuff”, but are about fulfillment, satisfaction, and the pleasure that comes from one’s accomplishments and contributions.
- 9. Optimistic:** A positive outlook is essential for the entrepreneur, who learns to see setbacks as bargain priced tuition for the valuable business lessons gained through firsthand experience. Past shortcomings, failures, or disappointments are relegated to the past so that they cannot continue to haunt the present or obstruct the future. And when things go right and business prospers, this further fuels the optimism and positive mindset of an entrepreneur, helping to give impetus and momentum for greater accomplishments and increased hopefulness.

10. Gregarious: Because business is all about people, entrepreneurs tend to be socially outgoing. They get excited about sharing ideas, products, and services, and that excitement is contagious to their employees, clients, friends, and other contacts both within and beyond the business sphere. But women and men who work hard as entrepreneurs also relish the unique opportunity to have fun doing something that they love as their primary vocation.

Human resource experts, career counselors, and business psychologists all agree that those who do jobs they enjoy and are good at have higher rates of success and broader measures of satisfaction. Entrepreneurs know that firsthand, from their own experience, and they tend to be a fun-loving group of people both on and off the job.

11. A Leader by Example: Entrepreneurs not only lead themselves through self-motivation as self-starters who jump into tasks with enthusiasm, but they are also skilled at leading others. They know the importance of teamwork, and they understand the need to appreciate others, support them, and reward them accordingly. True leaders do not become indispensable, otherwise things fall apart in their absence and they can never rise to the highest level of entrepreneurial freedom and prosperity. Neither do they squander the potential of those working under their guidance.

As renowned business consultant and retired United States Air Force Major General Perry M. Smith once wrote, “Leaders who share their power and their time can accomplish extraordinary things. The best leaders understand that leadership is the liberation of talent; hence they gain power not only by constantly giving it away, but also by not grabbing it back.”

12. Not Afraid of Risk or Success: Many people could be successful if they only took chances. And many people who do take chances and become somewhat successful find the realization of their dreams an overwhelming possibility, so they sabotage their continued success by retreating back into a comfort zone of smallness. As discussed earlier, the employee mindset is preoccupied with a need for security. Those who cling to what is familiar to them – even if it means the denial of their dreams – lack the perseverance and ambition that the real entrepreneur exhibits. Entrepreneurs are not immune to fear. But they prioritize their approach to life so that the fear of failure, frustration, boredom, drudgery, and dissatisfaction far outweighs the lingering fear of success.

13. Manage money wisely: The lifeblood of any business enterprise is cash flow. You need it to buy inventory, pay for services, promote and market your business, repair and replace tools and equipment, and pay yourself so that you can continue to work. Therefore, all home business owners must become wise money managers to ensure that the cash keeps flowing and the bills get paid. There are two aspects to wise money management.

- The money you receive from clients in exchange for your goods and services you provide (income)
- The money you spend on inventory, supplies, wages and other items required to keep your business operating. (expenses)

14. Able to Ask for the sale: A home business entrepreneur must always remember that marketing, advertising, or promotional activities are completely worthless, regardless of how clever, expensive, or perfectly targeted they are, unless one simple thing is accomplished--ask for the sale. This is not to say that being a great salesperson, advertising copywriting whiz or a public relations specialist isn't a tremendous asset to your business.

However, all of these skills will be for naught if you do not actively ask people to buy what you are selling.

15. Remember it's all about the customer: Business is not about the products or services that they sell or deliver. Business is not about the prices that you charge for your goods and services. Business is not about competition and how to beat them. Business is all about customers, or clients, period. After all, your customers are the people that will ultimately decide if your business goes boom or bust. Everything you do in business must be customer focused, including your policies, warranties, payment options, operating hours, presentations, advertising and promotional campaigns and website. In addition, you must know who your customers are inside out and upside down.

16. Project a positive business image: Entrepreneurs have but a passing moment to make a positive and memorable impression on people with whom they intend to do business. Business owners must go out of their way and make a conscious effort to always project the most professional business image possible.

The majority of home business owners do not have the advantage of elaborate offices or elegant storefronts and showrooms to wow prospects and impress customers. Instead, they must rely on imagination, creativity and attention to the smallest detail when creating and maintaining a professional image for their home business.

17. Level the playing field with technology: Entrepreneurs should avoid getting overly caught up in the high-tech world, but they should also know how to take advantage of using it.

One of the most amazing aspects of the internet is that a one or two person business operating from a basement can have a superior website to a \$50 million company, and nobody knows the difference. Make sure you're keeping up with the high-tech world as it suits your needs. The best technology is that which helps you, not that which impresses your neighbors.

18. Become known as an expert: When you have a problem that needs to be solved, do you seek just anyone's advice or do you seek an expert in the field to help solve your particular problem? Obviously, you want the most accurate information and assistance that you can get. You naturally seek an expert to help solve your problem. You call a plumber when the hot water tank leaks, a real estate agent when it's time to sell your home or a dentist when you have a toothache.

Therefore, it only stands to reason that the more you become known for your expertise in your business, the more people will seek you out to tap into your expertise, creating more selling and referral opportunities.

In effect, becoming known as an expert is another style of prospecting for new business, just in reverse. Instead of finding new and qualified people to sell to, these people seek you out for your expertise.

19. Be accessible: We're living in a time when we all expect our fast food lunch at the drive-thru window to be ready in mere minutes, our dry cleaning to be ready for pick-up on the same day, our money to be available at the cash machine and our pizza delivered in 30 minutes or it's free. You see the pattern developing--you must make it as easy as you can for people to do business with you, regardless of the home business you operate.

1.4 TYPES OF ENTREPRENEURS

The ability of entrepreneurs to innovate is thought to relate to innate traits such as extroversion and a proclivity for risk-taking. According to Schumpeter, the capabilities of innovating, introducing new technologies, increasing efficiency and productivity, or generating new products or services, are characteristic qualities of entrepreneurs. Entrepreneurs are catalysts for economic change, and researchers argue that entrepreneurs are highly creative individuals with a tendency to imagine new solutions by finding opportunities for profit or reward.

Largely due to the influence of Schumpeter's heroic conceptions of entrepreneurs, it is widely maintained that entrepreneurs are unusual individuals.

In line with this view, there is an emerging research tradition investigating the genetic factors that are perceived to make entrepreneurs so distinctive (Nicolaou and Shane, 2009).

However, there are also critical perspectives that attribute these research attitudes to oversimplified methodological and/or philosophical assumptions (Gartner, 2001). For example, it has been argued that entrepreneurs are not that distinctive, but that it is in essence unrealistic preconceptions about "non-entrepreneurs" that maintain laudatory portraits of "entrepreneurs" (Ramoglou, 2011).

1.4.1 Types of Entrepreneurs on the basis of their Personality

There are following key types of personality and understanding each will help you know about entrepreneur.

1. The Improver: If you operate your business predominately in the improver mode, you are focused on using your company as a means to improve the world. Your overarching motto is: morally correct companies will be rewarded working on a noble cause. Improvers have an unwavering ability to run their business with high integrity and ethics.

2. The Advisor: This business personality type will provide an extremely high level of assistance and advice to customers. The advisor's motto is: the customer is right and we must do everything to please them. Companies built by advisors become customer focused. Advisors can become totally focused on the needs of their business and customers that they may ignore their own needs and ultimately burn out.

3. The Superstar: Here the business is centered around the charisma and high energy of the Superstar CEO. This personality often will cause you to build your business around your own personal brand. The people with this type of trait can be too competitive and workaholics.

4. The Artist: This business personality is the reserved but highly creative type. Often found in businesses demanding creativity such as web design and ad agencies.

As an artist type you'll tend to build your business around the unique talents and creativities you have. Artist may be overly sensitive to customer's responses even if the feedback is constructive.

5. The Visionary: A business built by a Visionary will often be based on the future vision and thoughts of the founder. You will have a high degree of curiosity to understand the world around you and will set-up plans to avoid the landmines. Visionaries can be too focused on the dream with little focus on reality. Action must precede vision.

6. The Analyst: If you run a business as an Analyst, your company is focus on fixing problems in a systematic way. Often the basis for science, engineering or computer firms, Analyst companies excel at problem solving. Be aware of analysis paralysis. Work on trusting others.

7. The Fireball: A business owned and operated by a Fireball is full of life, energy and optimism. Your company is life-energizing and makes customers feel the company has a get it done attitude in a fun playful manner. The people with this type of trait may over commit to teams and act to impulsively and need balance impulsiveness with business planning.

8. The Hero: You have an incredible will and ability to lead the world and your business through any challenge. You are the essence of entrepreneurship and can assemble great companies. These people are promising and using force full tactics to get way and will not work long term.

9. The Healer: If you are a Healer, you provide nurturing and harmony to your business. You have an uncanny ability to survive and persist with an inner calm. Because of your caring, healing attitude toward your business, you may avoid outside realities and use wishful thinking.

Each personality type of entrepreneur can succeed in the business environment if one stays true to their own character. Knowing firmly what your strong traits are can act as a compass for your small business. If you are building a team, this insight is invaluable. For the solo business owners, understand that you may need outside help to balance your business personality.

1.5 ENTREPRENEURIAL SKILLS

Regardless of how you define an "entrepreneur," one thing is certain: becoming a successful entrepreneur isn't easy. So, how does one person successfully take advantage of an opportunity, while another, equally knowledgeable person does not? Do entrepreneurs have a different genetic makeup? Or do they operate from a different vantage point that somehow directs their decisions for them?

Though many researchers have studied the subject, there are no definitive answers. What we do know is that successful entrepreneurs seem to have certain traits in common.

We've gathered these traits into four categories:

- Personal characteristics.
- Interpersonal skills.
- Critical and creative thinking skills.
- Practical skills.

We'll now examine each category in more detail, and look at some of the questions need to address if one want to become a successful entrepreneur.

1. **Personal Characteristics:** First, examine your personal characteristics, values, and beliefs. Do you have the mindset that's typical of successful entrepreneurs?
 - **Optimism:** Are you an optimistic thinker? Optimism is truly an asset, and it will help get you through the tough times that many entrepreneurs experience as they find a business model that works for them.
 - **Vision:** Can you easily see where things can be improved? Can you quickly grasp the "big picture," and explain this to others? And can you create a compelling vision of the future, and then inspire other people to engage with that vision?
 - **Initiative:** Do you have initiative, and instinctively start problem-solving or business improvement projects?
 - **Desire for Control:** Do you enjoy being in charge and making decisions? Are you motivated to lead others?

- **Drive and Persistence:** Are you self-motivated and energetic? And are you prepared to work hard, for a very long time, to realize your goals?
 - **Risk Tolerance:** Are you able to take risks, and make decisions when facts are uncertain?
 - **Resilience:** Are you resilient, so that you can pick yourself up when things don't go as planned? And do you learn and grow from your mistakes and failures?
2. **Interpersonal Skills:** As a successful entrepreneur, you'll have to work closely with people – this is where it is critical to be able to build great relationships with your team, customers, suppliers, shareholders, investors, and more.

Some people are more gifted in this area than others, but, fortunately, you can learn and improve these skills. The types of interpersonal skills you'll need include:

- **Leadership and Motivation:** Can you lead and motivate others to follow you and deliver your vision? And are you able to delegate work to others? As a successful entrepreneur, you'll have to depend on others to get beyond a very early stage in your business – there's just too much to do all on your own!
 - **Communication Skills:** Are you competent with all types of communication? You need to be able to communicate well to sell your vision of the future to investors, potential clients, team members, and more.
 - **Listening:** Do you hear what others are telling you? Your ability to listen can make or break you as an entrepreneur. Make sure that you're skilled at active listening and empathetic listening.
 - **Personal Relations:** Are you emotionally intelligent? The higher your EI, the easier it will be for you to work with others. The good news is that you can improve your emotional intelligence!
 - **Negotiation:** Are you a good negotiator? Not only do you need to negotiate keen prices, you also need to be able to resolve differences between people in a positive, mutually beneficial way.
 - **Ethics:** Do you deal with people based on respect, integrity, fairness, and truthfulness? Can you lead ethically? You'll find it hard to build a happy, committed team if you deal with people – staff, customers or suppliers – in a shabby way.
3. **Critical and Creative Thinking Skills:** As an entrepreneur, you also need to come up with fresh ideas, and make good decisions about opportunities and potential projects.

Many people think that you're either born creative or you're not. However, creativity is a skill that you can develop if you invest the time and effort.

- **Creative Thinking:** Are you able to see situations from a variety of perspectives and come up with original ideas?
 - **Problem Solving:** How good are you at coming up with sound solutions to the problems you're facing? Tools such as Cause & Effect Analysis, is just some of the problem-solving tool that you'll need to be familiar with.
 - **Recognizing Opportunities:** Do you recognize opportunities when they present themselves? Can you spot a trend? And are you able to create a plan to take advantage of the opportunities you identify?
4. **Practical Skills:** You also need the practical skills and knowledge needed to produce goods or services effectively, and run a company.
- **Goal Setting:** Do you regularly set goals, create a plan to achieve them, and then carry out that plan?
 - **Planning and Organizing:** Do you have the talents, skills, and abilities necessary to achieve your goals? Can you coordinate people to achieve these efficiently and effectively? And do you know how to develop a coherent, well thought-through business plan, including developing and learning from appropriate financial forecasts?
 - **Decision Making:** How good are you at making decisions? Do you make them based on relevant information and by weighing the potential consequences? And are you confident in the decisions that you make?

Core decision-making tools include Decision Tree Analysis, Grid Analysis, and Six Thinking Hats.

You need knowledge in several areas when starting or running a business. For instance:

- **Business Knowledge:** Do you have a good general knowledge of the main functional areas of a business (sales, marketing, finance, and operations), and are you able to operate or manage others in these areas with a reasonable degree of competence?
- **Entrepreneurial Knowledge:** Do you understand how entrepreneurs raise capital? And do you understand the sheer amount of experimentation and hard work that may be needed to find a business model that works for you?
- **Opportunity-Specific Knowledge:** Do you understand the market you're attempting to enter, and do you know what you need to do to bring your product or service to market?
- **Venture-Specific Knowledge:** Do you know what you need to do to make this type of business successful? And do you understand the specifics of the business that you want to start?

(This is where it's often useful to work for a short time in a similar business.)

1.6 RECOGNIZING THE ENTREPRENEUR WITHIN

Many different types of people are drawn to entrepreneurship and a wide variety of talents, aptitudes, and personal traits help to contribute to an entrepreneurial spirit, personality, and vision. The attitude, mindset, passion, and character that define the successful entrepreneur are sometimes hard to pinpoint, specify, or sum up in a profile.

But it is always easy to recognize in an individual or spot in action within the business arena. By examining some of the more predominant qualities of the true entrepreneur it is possible to emulate them, nurture and develop them, or to acknowledge whether or not we are actually suited to an entrepreneurial career.

Not everyone is cut out to be an entrepreneur, and it is important to understand that fact. Otherwise a man or woman may risk time, energy, effort, and money trying to go into business for themselves – only to discover that it is not what they want out of life or what they are best suited to do. People who take the wrong path because they lack insight or understanding can waste valuable months, years, and financial resources in pursuit of the wrong career path.

For others who are ideally fitted for an entrepreneurial career – and for whom it represents the fulfillment of their potential, desire, and personal and financial dreams – knowing how to verbalize, list, and define the fundamental essential temperament or nature of an entrepreneur can help tremendously.

Learning about the symptoms and traits of the entrepreneur can give added hope, fuel, and impetus as it resonates with what potential entrepreneurs already know about themselves and their personal aspirations. Having an inventory or checklist of particularly desirable qualities to refer to as a guideline can offer a way to better clarify our sense of purpose. It can help us reach objectives en route to greater attainment of higher goals and bigger benchmarks. And grasping in a practical and tangible way the disposition of the successful entrepreneur can give us a wonderfully inspiring boost of confidence, foresight, and determination when we realize that we, too, share that winning attitude.

1.7 SUMMARY

Armed with this information, assess your skills in each of these areas. The harder one work to build your skills, the more successful you're likely to be. Having said that, many successful business-owners are impulsive, uncomfortable with risk, or belligerent with colleagues and customers. Still others have little business knowledge, and have simply hired the talent they need to succeed.

One can succeed without some of these skills; however, the more you're missing the more likely you are to fail.

As you work through your analysis, you may feel that you're ready to take the plunge into your own venture. Alternatively, you may decide to wait and further develop your skills. You may even decide that entrepreneurship isn't for you. Whatever your choice, make sure that it feels right. Running a business isn't for everyone.

1.8 GLOSSARY

Enterprise	Enterprise involves measures to encourage individuals to become entrepreneurs and equip them with the necessary skills to make a business successful. In essence enterprise is about spotting opportunities, creating new ideas and having the confidence and capabilities to turn these ideas into working realities (Nixon, 2004)
Entrepreneurship	Entrepreneurship is an activity which leads to the creation and management of a new organisation designed to pursue a unique, innovative opportunity. Fundamentally, it is about using enterprise to create new business, new businesses and 'can-do' organisations and services.
Social entrepreneurship	Social entrepreneurship involves using entrepreneurial skills for the public good rather than for private profit, that is using imagination to identify new opportunities and determination to bring them to fruition.
Adding Value	Providing something extra, over and above your competitors, which makes your proposition more attractive than theirs e.g. personal service.
Asset	Anything of worth that is owned by the business. The assets of a business are money in the bank, accounts receivable, securities held in the name of the business, equipment, fixtures, property or buildings, merchandise for sale or being made, supplies and all things of value that the business owns.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a

Business Plan	business over a period of time. A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Capital	This has several meanings, but usually refers to the amount of money in the business belonging to the proprietors or shareholders.

1.9 ANSWER TO CHECK YOUR PROGRESS

1. Do you think you can be an entrepreneur? If so what will be your dream business you want to do?
2. Enlist the personality traits you can introspect in you and match these with the traits of entrepreneur discussed in the unit above.
3. Qualities of a leader are essential for a successful entrepreneur. Justify the answer with suitable examples from tourism industry.

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1.12 TERMINAL QUESTIONS

1. What is entrepreneurship? Define and explain the meaning of entrepreneurship.
2. Identify the differences between entrepreneurs and owner managers.
3. Explain the tasks and roles of entrepreneurs.
4. Define and explain the terms: entrepreneurship, enterprise and owner-management.
5. The characteristics of successful entrepreneurs – are entrepreneurs born or made? Justify the statement.

UNIT 02: DEFINITION, CHARACTERISTICS OF ENTREPRENEURIAL TYPES; ROLE OF ENTREPRENEUR IN ECONOMIC AND SOCIAL DEVELOPMENT

STRUCTURE:

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Defining Entrepreneur
 - 2.3.1 Decision Process Involved in Becoming an Entrepreneur
 - 2.3.2 Characteristics of Entrepreneur
 - 2.3.3 Motivation for Entrepreneurship
- 2.4 The Role of the Entrepreneur In Business
 - 2.4.1 Entrepreneurs and Economic Development
- 2.5 Countries and Entrepreneurship
 - 2.5.1 Entrepreneurship and National Happiness
 - 2.5.2 The Importance of Social Entrepreneurship for Development
- 2.6 Summary
- 2.7 Glossary
- 2.8 Answer to Check Your Progress
- 2.9 Bibliography
- 2.10 Suggested Readings
- 2.11 Terminal Questions

2.1 INTRODUCTION

Entrepreneurs mainly, but not only them, but also managers and leaders can be characterized by entrepreneurship, so it is very important to characterize entrepreneurs to understand the meaning of the concept.

Professor Howard Stevenson of Harvard, specializing in "entrepreneurship", answering the question "Why is it so easy (for small companies) to compete with large corporations?", "Because while they (large corporations) is studying the consequences entrepreneurs change the world".

Entrepreneurship can be regarded as "a condition that is one that creates new business in terms of risk taking expected profit". To explain this state of mind is required to answer at least few questions:

1. Who are the entrepreneurs and what make them work so hard, with no guarantee that they will be successful?
2. What are the variables that I determined to risk so much and make so many sacrifices to fulfill an ideal?
3. What are the characteristics of entrepreneurs?
4. What is role of entrepreneur in economic and social development?

Although it is very difficult to identify this category of people who are prone to such a state to create new business, taking risks in order to obtain profit, as we state some of the definition and then after their characteristics.

2.2 OBJECTIVES

Present unit aims at definition, characteristics of entrepreneurial types; role of entrepreneur in economic and social development entrepreneurial traits, types and significance; entrepreneurship skills. After going through this unit you will be able to:

- Define the concept of entrepreneurship and entrepreneur;
- Understand the characteristics of different entrepreneurial types;
- Know the roles of entrepreneur in economic development;
- Know the roles of entrepreneur in social development;
- Identify problems and support needs of small scale enterprises.

2.3 DEFINING ENTREPRENEUR

The concept of an entrepreneur is further refined when principles and terms from a business, managerial, and personal perspective are considered. In particular, the concept of entrepreneurship from a personal perspective has been thoroughly explored in this century. Third exploration is reflected in the following four definitions of an entrepreneur:

- **Definition I:** To an economist, an entrepreneur is one who brings resources, labor, materials, and other assets into combinations that make their value greater than before, and also one who introduces changes, innovations, and a new order.
- **Definition II:** To a psychologist, such a person is typically driven by certain forces the needs to obtain or attain something, to experiment, to accomplish, or perhaps to escape the authority of others.
- **Definition III:** To one businessman, an entrepreneur appears as a threat, an aggressive competitor, whereas to another businessman the same entrepreneur may be an ally, a source of supply, a customer, or

someone who creates wealth for others, as well as finds better ways to utilize resources, reduce waste, and produce jobs others are glad to get.

- **Definition IV:** Entrepreneur is "a person with leadership, which take risks to exploit certain opportunities, are based more on their forces, develop its strategy based almost entirely by personal interests".

In almost all of the above definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that includes:

1. Initiative taking,
2. The organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account,
3. The acceptance of risk or failure.

Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.

This definition stresses four basic aspects of being an entrepreneur regardless of the field.

First, entrepreneurship involves the creation process—creating something new of value. The creation has to have value to the entrepreneur and value to the audience for which it is developed. This audience can be any for example; (1) the market of organizational buyers for business innovation, (2) the hospital's administration for a new admitting procedure and software, (3) prospective students for a new course or even college of entrepreneurship, or (4) the constituency for a new service provided by a nonprofit agency.

Second, entrepreneurship requires the devotion of the necessary time and effort. Only those going through the entrepreneurial process appreciate the significant amount of time and effort it takes to create something new and make it operational. As one new entrepreneur so succinctly stated, "While I may have worked as many hours in the office while I was in industry, as an entrepreneur I never stop thinking about the business."

Assuming the necessary risks is the **third** aspect of entrepreneurship. These risks take a variety of forms, depending on the field of effort of the entrepreneur, but usually center around financial, psychological, and social areas.

The **fourth** part of the definition involves the rewards of being an entrepreneur. The most important of these rewards is independence, followed by personal satisfaction. For profit entrepreneurs, money becomes the indicator of the degree of success.

For the person who actually starts his or her own business, the experience is filled with enthusiasm, frustration, anxiety, and hard work. There is a high failure rate due to such things as poor sales, intense competition, lack of capital, or lack of managerial ability. The financial and emotional risk can also be very high. What, then, causes a person to make this difficult decision?

The question can be best explored by looking at the decision process involved in becoming an entrepreneur.

2.3.1 Decision Process Involved in Becoming an Entrepreneur

It starts with your abilities to recognize opportunities. You will need to conduct research to figure out whether or not you have uncovered a viable opportunity and have created an innovative idea. Once you are all fired up with your idea, you will need to communicate your vision to prospective partners and or investors. You will then conduct careful planning to figure out budgets, expenses and profits.

Your marketing plan is as important as your financial plan, so if you don't know the four P's of marketing (product, price, promotion, place / distribution) you better shop around for someone who does. You won't be able to do it all yourself of course, so you will need to use your team building skills to assemble the best help you can find. You will need to set clear goals for your team and yourself and then organize your priorities. You are going to be a very busy body as you research, plan, and set about raising start up capital.

The key distinction between managing a small business and becoming an entrepreneur and owning your own business lies in your willingness to take risks. An entrepreneur takes the risk of bringing a new untried product or service to the market. In addition to the risk involved in any small business, the entrepreneur is dealing with the risk of marketing this new innovation. It is the innovative aspect of the new product that distinguishes the entrepreneur from the small business manager.

Another way of looking at the process of becoming an entrepreneur is as follows:

- Examines needs, wants, and problems and looks for what can be done to improve the way needs/wants are met or problems overcome.
- Narrows the possibilities down to one specific opportunity.
- Thinks of an innovative idea.
- Researches the opportunity and idea thoroughly.
- Enlists the best sources of help that can be found.
- Plans the venture and looks for possible problems.
- Ranks the risks and possible rewards.
- Evaluates the risks and the possible rewards and makes a decision.
- Never hangs on to an idea, as much as it is loved, if research shows it wont work.
- Employs the necessary resources (if the decision is made to go ahead).
- Understands that any venture will take a great deal of long, hard work.
- Realizes a sense of accomplishment from successful ventures and learns from failed ones.

Important attributes that all entrepreneurs must possess are:

- They must respond to all challenges;
- They must learn from their mistakes;
- They must take personal initiative in all the things that they do.

If anything, entrepreneurship is a mindset, a single mindedness and dedication to the achievement of a set of personal objectives. It is a strong sense of self-confidence in ones own intuitiveness and natural capabilities. It is the capacity to think and plan and to be totally action oriented. Entrepreneurship lies in the attitudes, behavior and skills of the individual. It involves a way of looking at the world and dealing with problems and perceived needs. Entrepreneurs seek out opportunity; they take on new initiatives that bring about change and progress. They possess the spirit of adventure. They are drawn to the unknown, the untried, the new quest and the new adventure.

2.3.2 Characteristics of Entrepreneur

Characteristics are the main component of entrepreneurial competence. These are traits which make people more or less capable for entrepreneurship. In addition, thinking styles are discussed, because they match well with typologies (clusters of characteristics) for entrepreneurs.

As manager and leader, the entrepreneur is one of the characters which strongly influence business around the world including in each country. This explains the need to understand the profile of such a character, characteristics and mode of action in situations they face. In general, an entrepreneur is a person who creates new business, taking risks in achieving the objectives which they propose to make profits and growth by identifying some important opportunities. Entrepreneur manages important resources, which draws from different sources on a major power to persuade those who hold them. Many experts have sought to understand and describe the personality of the entrepreneur, because although many people have good ideas to start a business, but some turn these ideas into concrete business, becoming entrepreneurs. Entrepreneurs have the ability to provide development opportunities, preventing them some changes may occur in the environment, which seeks to exploit the personal interest. **Research has revealed several characteristics of entrepreneurs, including:**

1. **Confidence in personal abilities**, due to optimism that demonstrate success when targeting, which many times but can also lead to failure;
2. **The desire for immediate results**, which causes them to continuously monitor the results, which will confirm whether they have done right or wrong;
3. **Willingness to assume responsibilities**, preferring to control their own resources to achieve their objectives;

4. **Preference for a moderate risk**, which means they face no risk in any circumstances, but a calculated risk, but nevertheless in the eyes of others may seem like an impossible goal;
5. **High energy, above average**, which allows him to make incredible effort needed to start a business, business creation;
6. **Vision to enable the discovery times discovery future opportunities**, not to meditate on the successes or failures that have passed;
7. **Organizing skills**, which allows entrepreneurs to put together people who carry out certain tasks, to combined so as to implement the vision;
8. **The desire to achieve**, above money making entrepreneur motivation is more complex, expressing the first urge to go further, to do for others is impossible, the money represents only a confirmation of success ;
9. **High level of commitment**, which makes them hard to work for a company that creates success, removing barriers that seem insurmountable to others;
10. **Tolerance of ambiguity**, as an absolute necessity entrepreneurs, who often must make decisions based on uncertain information, or even contradictory;
11. **Flexibility**, which is the ability of entrepreneurs to adapt to changing customer demand, is a important characteristic of entrepreneurs.

2.3.3 Motivation for Entrepreneurship

Motivation has everything to do with wanting. How badly does a person want something? Motivation depends on ambition, (internally driven) motives and values of an individual. Someone with a great deal of knowledge about a certain task and the capabilities to perform it is not likely to use his knowledge and capabilities if he lacks the motivation for it. There are different motives for starting a business. Literature distinguishes between push and pull factors. Push factors refer to the situation that a person is being pushed into entrepreneurship. For example, unemployment can 'force' someone to start a business. A push factor is externally driven and leads a person to act. Other push factors are: discovering a niche in the market, being sure of customers and not being able to find a job (Boerboom, 1993).

Pull factors refer to the situation that a person is attracted to entrepreneurship. For example, someone who has always dreamed of his own business. A pull factor is internally driven. Therefore, motivation is divided into externally driven motives (push factors) and internally driven motives (pull factors). There are three internally driven motives, or needs, for starting a business. These are: a need for Autonomy, a need for Achievement and a need for Power (Brockhaus, 1982; Begley and Boyd, 1987; Nandram and Samson, 2000).

2.4 THE ROLE OF THE ENTREPRENEUR IN BUSINESS

Business development is argued to be a key capability for successful entrepreneurship – whether for the entrepreneur or the mature entrepreneurial organization.

Since the characteristics of successful entrepreneurs also appear to be the hallmark of spectacularly unsuccessful entrepreneurs, we actually do not know that much about the truly identifying traits of the successful entrepreneur and entrepreneurship.

What we do now is that neglect of seemingly trivial aspects of business administration, such as mastering multiple business skills, the shackles of high specialization, and ability to coordinate and integrate specialist knowledge, is an often occurring reason for entrepreneur's failure. Business development assures a focus on business administration rather than entrepreneurial drive as well as on the sustained lateral and vertical organizational coordination of the continuous development and implementation of growth opportunities. As such, business development may be an often occurring 'weakest link' in the running of a successful business.

Entrepreneurship is the most important aspect of economic development. Worldwide, these heroes of the new economy changed the business environment and their companies play an increasingly important role in the global economy. In an almost unbelievable pace, small business entrepreneurs have to show new products and services surpassed the old frontiers of the old technologies have created new jobs, opened new markets. It has never been greater interest in knowing that now to start entrepreneurship 21ST century.

The success of a business is due to many factors, but the greatest determinant of a business's success is the entrepreneur him/herself. Naturally the entrepreneur's diplomas, business knowledge and craftsmanship play an important role, but in our opinion the personality of the entrepreneur is even more important. "How strongly does the businessman believe in himself and the success of his business?" "How persistent is the upcoming pioneer when setbacks follow one after the other?" "How decisive can the entrepreneur be in changing threats into business opportunities?" These are just a few of the situations that businessmen must deal with, and there is no doubt that not everyone can cope with these situations.

So people who start up and run businesses need to know their own strengths and weaknesses because "entrepreneurship involves the ability to build a 'founding team' with complementary skills and talents" (Timmons, 1994, p. 7).

Self-knowledge through self-analysis is therefore of paramount importance. However, self-analysis demands honesty, discipline and an understanding of one's own personality in relation to one's behavior.

2.4.1 Entrepreneurs and Economic Development

What is the role of entrepreneurship in economic development? At a minimum the answer should be able to explain the role of entrepreneurs in the structural transformation of countries from low income, primary-sector based societies into high-income service and technology based societies. More broadly though, it should also be able to explain the role of entrepreneurs in the opposite pole of stagnating development (including conflict) and in high innovation-driven growth. Although economic development lacks a ‘general theory’ of entrepreneurship, which could encompass a variety of development experiences, much progress has been made in extending the understanding of entrepreneurship in the process of development.

Over the past fifty years or so the world has experienced a wide diversity of development experiences, from successful economic structural transformations (such as in East Asia), mixed-success transformations (as in many countries of the former Soviet Union), rapid innovation episodes—sometimes accompanied by high growth (such as in Finland, India, Ireland, and the US to an extent), but also growth stagnation, collapse and persistent conflict (as in many African countries). Although economic development theory can still be argued to lack a ‘general theory’ of entrepreneurship, one that could encompass a variety of development outcomes, progress has been made in extending the notion and understanding of entrepreneurship in economic development.

Despite the progress, entrepreneurship in economic development remains a relatively under-researched phenomenon. Lingelbach et al. (2005:1) recently pointed out ‘Entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today’. By surveying the current state of research, a secondary objective of this paper is to identify avenues for further research.

Over recent years policy makers have shown increasing interest in the role of entrepreneurship to generate economic growth and development. On one hand this has been stimulated by the rapid growth of the private sector in economies such as Brazil, China, India, and South Africa (described as ‘southern engines of growth’) and on the other by realisation of the need for private sector strength in many fragile and failed states, such as Somalia, DR Congo, and others (Naudé 2007). Understanding development—or the lack thereof—and identifying suitable policies to foster development may require that the dynamics of entrepreneurship in these environments be better understood. It is however not only to developing countries that the growing interest in entrepreneurship as a catalyst for growth has been seen. In the US calls have been made for more support to entrepreneurs, which is seen as indispensable for the US to regain a competitive lead in the world economy (see e.g. Schramm 2004; Baumol et al. 2007).

The influence of the role of entrepreneurship on economic development has been explained by a number of authors. Conditioned by a number of forces and factors (incl. legal, institutional, cultural, societal etc.), the role of entrepreneurship has been different across countries. Global development is entering a phase where entrepreneurship will increasingly play a more important role. There are at least three reasons for this, each particular to certain types of countries. Firstly, in the West, the managed economy of the 1970s-2010s, characterized by reliance on big business and mass production, has given way to a so-called entrepreneurial economy. Here knowledge-driven goods and services are now more flexibly provided by smaller firms, and the emergence of a creative class requires a less interfering but more facilitating state.

Secondly, in the emerging countries, most notably the BRICs – Brazil, Russia, India, China – impressive growth has been driven by a veritable entrepreneurial revolution. The need in these economies to sustain growth through sustainable access to resources, knowledge, markets, and low-carbon industrialization puts a premium on innovative entrepreneurship.

Finally, in the least developed countries, where aid dependency is high, donors have been shifting the emphasis in development cooperation towards private sector development. In many of these countries, including resource-poor North African countries, populations consist of many young people who see little prospects of gaining employment with decent wages. Promoting youth entrepreneurship here has become a vital policy objective of many development organizations and donors.

Economic development is the process of structural transformation of an economy towards a modern, technologically advanced economy based on services and manufacturing. This process involves not only qualitative changes to the nature of an economy, but also accompanying quantitative changes in terms of the productivity and output per person. If these qualitative and quantitative changes result in unambiguous improvements in human welfare, it is generally seen as economic ‘development’. In both the qualitative as well as the quantitative dimensions of economic development entrepreneurship could make a positive contribution to economic development. In the popular press entrepreneurship is depicted as important for economic development; seen to create jobs, ease fiscal burden, and provides competition.

1. Structural Economic Transformation, Innovation-Driven Growth, and Entrepreneurship: High economic growth and rising per capita income are relatively recent phenomena in human evolutionary history. Human society has on the whole, lived in a traditional, subsistence state. Hansen and Prescott (2002) distinguish between the pre-industrial era (termed ‘Malthusian’) and the post-industrial era (called the ‘Solow’, or ‘era of modern growth’). They argue that the transition from the Malthusian (subsistence) era to the Solow era

is characterized by a change in technology based on land, to a technology based on physical and human capital accumulation. The adoption of new technology first and foremost required specialization, which in turn required a sufficiently large market (Goodfriend and McDermott 1995:117). Once population growth and urbanization offered larger markets, as well as the conditions for reaping economies of scale, and people started investing in the quality of their offspring rather than the quantity (Galor and Moav 2001; 2002), economic growth took off. This process has recently been formalized in ‘unified growth models that are consistent with an epoch of Malthusian stagnation and the transition from Malthusian stagnation to sustained growth’ (Galor and Moav 2001:720). Once this take-off started, economic development entailed a transformation from the traditional sector, to the modern sector, as is formalized in dual economy models following Lewis (1954) and Ranis and Fei (1961).

Understanding the role of the entrepreneur in economic development and growth therefore entails an understanding of the role that the entrepreneur played in the Malthusian era, in the transition from Malthusian stagnation to growth, in transforming the economy structurally from a traditional, agricultural based economy to a modern industrial economy, and finally in sustaining growth based on innovation (knowledge capital). According to Murphy et al. (2006:12) it was the ‘advent of entrepreneurship’ that allowed per capita income to grow exponentially in the West from the 1700s.

2. Undermining Economic Development: There are various ways in which entrepreneurship is identified to undermine economic development, thus not all types of entrepreneurship are good for economic development. As a consequence there has even been an argument for a tax on entrepreneurship. Herein I will briefly review this literature. The most salient adverse effects of entrepreneurship can be due to either: (a) perverse allocation towards activities that are personally profitable but socially destructive or unproductive; and (b) low quality entrepreneurship that may have negative externalities.

(a) Perverse allocation of entrepreneurial talent: We have identified a view of entrepreneurship, associated with Baumol (1990), Murphy et al. (1991), Acemoglu (1995), Mehlum et al. (2003), Coyne and Leeson (2004), and others, that see entrepreneurship as a ubiquitous in society, but with different impacts on economic development, which will depend on whether entrepreneurial ability is allocated towards productive, or non-productive, destructive or evasive ends. The latter, perverse allocation—the ‘misallocation’ of entrepreneurial ability may hinder economic development (Acemoglu 1995; Mehlum et al. 2003). It is not only the absence of good institutions that may result in the inappropriate allocation of entrepreneurial ability.

Slow economic growth in itself may cause the wrong allocation of ability and entrepreneurship. For instance, it is well known that when

economic growth is low and employment opportunities in the formal sector are scarce, that self-employment will rise, and that this rise will include a large proportion of people with low levels of entrepreneurial ability. However, during periods of low economic growth the incentives for innovation, as in bringing new goods to market, will be low, since the demand for new goods tends to have an income elasticity of greater than one.

Entrepreneurs of high ability will therefore engage in rent-seeking activities rather than productive entrepreneurship, and this re-allocation of entrepreneurial talent will be greater in countries with higher levels of wealth or natural resources from which rents may be extracted (Murphy et al. 1991:520).

Thus in such circumstances the quality of the entrepreneurial pool in a country worsens from both the inflow of low-ability entrepreneurs as well as the outflow of high-ability entrepreneurs. This will lead to further restrictions from the side of credit markets, in the form of higher interest and/or collateral requirements—which may further push out talented entrepreneurs. The consequence is that poor countries may be caught in a self-reinforcing ‘entrepreneurial’ development trap.

(b) Low quality entrepreneurs: A central theme in the literature on entrepreneurship is that entrepreneurial ability/talent or ‘effectiveness’ matters. This ability is however difficult to observe and as such measures to facilitate the entry of entrepreneurs may also encourage entrepreneurs of low ability.

2.5 COUNTRIES AND ENTREPRENEURSHIP

It is expected that entrepreneurship will, in light of the above, contribute to growth and employment creation in advanced, emerging and least developed economies alike. This is a reasonable expectation – one that is supported by recent findings of historians, economists and management scientists. The importance of innovative, high-growth entrepreneurship is emphasized and the important role of the state to support entrepreneurs (differently through different phases of development) is required. Need for entrepreneurial solutions to intricate global challenges – such as climate change, migration, and terrorism.

There are two major caveats however. The first is that for entrepreneurs to play an appropriate role, the role of the state remains important, if not more so than before. Strong states, as regulators and gatekeepers, play a particularly vital role.

In the absence of appropriate ‘rules of the game’, entrepreneurship may result in undesirable social outcomes, including corruption, crime, speculation and financial crises, and may worsen the vulnerabilities of people during natural disasters. The second is that while entrepreneurship may raise

economic growth and material welfare, it may not always result in improvements in non-material welfare (or happiness). Promotion of happiness is increasingly seen as an essential goal.

2.5.1 Entrepreneurship and National Happiness

Do entrepreneurs contribute to national happiness? The answer is both yes and no. It is found that there exists an inverted U-shape relationship between national happiness and entrepreneurship: up to a certain level an increase in entrepreneurship will be associated with an increase in national level happiness, after which it would be associated with a declining level of happiness.

Why would an increase in entrepreneurship at first lead to an increase in national happiness? Entrepreneurs create jobs – and we know that unemployment is a major and significant cause of unhappiness. We also know that goods that entrepreneurs provide, such as health and experiential activities, raise happiness levels. Moreover there is now a robust body of evidence that entrepreneurs experience higher levels of job satisfaction than non-entrepreneurs and entrepreneurs' happiness can rub off on the happiness of non-entrepreneurs.

But more entrepreneurs may also be associated with lower national happiness. This could be when most entrepreneurs are not so by choice, but by necessity. When people turn to entrepreneurship by necessity, they essentially lose their 'agency' or free will as far as their employment is concerned, and this is experienced as a loss of happiness. There is a second way in which entrepreneurship may lower national happiness after some stage or level. This is when there is too many rather than too few entrepreneurs in a country. With too many entrepreneurs, levels of aspirations in a country may rise – it is well-known that with increasing material wealth (or opportunities) people's aspirations increase. When their performances fall short of these aspirations, their happiness will decrease.

Hence from certain levels of entrepreneurship happiness may decline when entrepreneurs and their societies' material aspirations start to outstrip their achievements. This will lead to a feeling of dissatisfaction and frustration – they become 'frustrated achievers'. More competitive-minded entrepreneurs may experience more negative states of mind than others and report lower levels of happiness.

In highly competitive and materialistic societies with high aspirations we see "family solidarity and community integration" breaking down.

Finally, in a very entrepreneurial society one may observe more income and wealth inequalities and more variability in entrepreneurial performance. People in more unequal societies tend to report lower levels of happiness than others.

Thus, entrepreneurship may spur economic development if appropriately supported by the country. And entrepreneurship may also make nations happier – but only up to a point. As nations become happier, their need for entrepreneurship seems to decline.

2.5.2 The Importance of Social Entrepreneurship for Development

Especially since Muhammad Yunus, founder of the Grameen Bank and a renowned example of a social enterprise, won the Nobel Peace Prize in 2006 there is increasing interest in social entrepreneurship for development yet the current academic literature does not provide a sufficient link between social entrepreneurship and economic development policies. What value is created by social entrepreneurship?

1. **Employment Development:** The first major economic value that social entrepreneurship creates is the most obvious one because it is shared with entrepreneurs and businesses alike: job and employment creation. Estimates range from one to seven percent of people employed in the social entrepreneurship sector. Secondly, social enterprises provide employment opportunities and job training to segments of society at an employment disadvantage (long-term unemployed, disabled, homeless, at-risk youth and gender-discriminated women).
2. **Innovation / New Goods and Services:** Social enterprises develop and apply innovation important to social and economic development and develop new goods and services. Issues addressed include some of the biggest societal problems such as HIV, mental ill-health, illiteracy, crime and drug abuses which, importantly, are confronted in innovative ways. An example showing that these new approaches in some cases are transferable to the public sector is the Brazilian social entrepreneur Veronica Khosa, who developed a home-based care model for AIDS patients which later changed government health policy.
3. **Social Capital:** Next to economic capital one of the most important values created by social entrepreneurship is social capital (usually understood as “the resources which are linked to possession of a durable network of ... relationships of mutual acquaintance and recognition”). Examples are the success of the German and Japanese economies, which have their roots in long-term relationships and the ethics of cooperation, in both essential innovation and industrial development. The World Bank also sees social capital as critical for poverty alleviation and sustainable human and economic development.
4. **Equity Promotion:** Social entrepreneurship fosters a more equitable society by addressing social issues and trying to achieve ongoing sustainable impact through their social mission rather than purely profit-maximization. In Yunus’s example, the Grameen Bank supports disadvantaged women. Another case is the American social entrepreneur

J.B. Schramm who has helped thousands of low-income high-school students to get into tertiary education.

To sum up, social enterprises should be seen as a positive force, as change agents providing leading-edge innovation to unmet social needs. Social entrepreneurship is not a panacea because it works within the overall social and economic framework, but as it starts at the grassroots level it is often overlooked and deserves much more attention from academic theorists as well as policy makers. This is especially important in developing countries and welfare states facing increasing financial stress.

2.6 SUMMARY

Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment or provide value for some product or service. The product or service may or may not be new or unique, but value must somehow be infused by the entrepreneur by receiving and locating the necessary skills and resources.

Although each of these definitions views entrepreneurs from a slightly different perspective, they all contain similar notions, such as newness, organizing, creating, wealth, and risk taking. Yet each definition is somewhat restrictive, since entrepreneurs are found in all professions education, medicine, research, law, architecture, engineering, social work, distribution and government.

2.7 GLOSSARY

Entrepreneurship	Entrepreneurship is an activity which leads to the creation and management of a new organisation designed to pursue a unique, innovative opportunity. Fundamentally, it is about using enterprise to create new business, new businesses and 'can-do' organisations and services.
Social entrepreneurship	Social entrepreneurship involves using entrepreneurial skills for the public good rather than for private profit, that is using imagination to identify new opportunities and determination to bring them to fruition.
Adding Value	Providing something extra, over and above your competitors, which makes your proposition more attractive than theirs e.g. personal service.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a business over a period of time.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at

	least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Companies	A Company is a type of business structure created and regulated by state law. What sets the company apart from all other types of businesses is that a company is an independent legal entity, separate from the people who own, control and manage it.
Fixed Assets	Assets such as machinery, land and buildings which the company do not intend to sell and which are intended for use within the business.
Franchise	The right to use the name of another company, and to sell its products or services in exchange for a royalty. The franchisee agrees to abide by the conditions set out in the franchiser's agreement.
Niche Markets	A small or little explored market which mass market corporate may miss, giving smaller companies the opportunity to design their offering to fit its particular requirements.
Shareholder	A person or entity that owns shares of stock in a company or mutual fund.
Social Enterprise	An enterprise whose primary aim is to meet some social rather than business need. Examples include charities, co-operatives and community businesses. Although generally run as not-for-profit enterprises, their success usually depends on application of the sound business practices described on this website.
Socio-Economic Background	Social class (grade A to E) which is of course related to ones income, is used to identify the kinds of people who buy your product and hence to target more of them.
Sole Trader	An individual running a business. All revenues and payments from the business are incorporated within the individual's personal financial and tax affairs.

2.8 ANSWER TO CHECK YOUR PROGRESS

1. Survey 10-12 small scale industries in your city. Classify them according to their area of operation. Discuss with them to find out what are the specific strengths that they have in comparison to a large scale enterprise, which make them contribution more in social and economic development of the country.
2. With reference to the industries surveys in question no 1 write down your observation for the role of entrepreneur in socio economic development of a country.

3. What characteristics do you see in yourself to be a successful entrepreneur?

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2.10 SUGGESTED READINGS

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- Larry Schweikart; Lynne Pierson Doti, *American Entrepreneur: The Fascinating Stories of the People Who Defined Business in the United States*. American Management Association, 2010
- Martin Ruef, *The Entrepreneurial Group: Social Identities, Relations, and Collective Action*. Princeton University Press, 2010

- Tim Burns, *Break the Curve: The Entrepreneur's Blueprint for Small Business Success*, International Thomson Business Press.
- William Lasher, *The Perfect Business Plan—Made Simple*, Doubleday Made Simple Books.

2.11 TERMINAL QUESTIONS

1. Present the contribution of small scale industry in the economic development of India. Justify your answer with the help of latest statistical data.
2. In context of Indian scenario the development of entrepreneurships is more important. Why?
3. Which are the characteristics of small enterprises enable them to contribute to the economic development process in a developing country? Discuss.

UNIT 03: THEORIES OF ENTREPRENEURSHIP; PREPARATION OF BUSINESS PLAN

STRUCTURE:

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Exploring Opportunities Through
- 3.4 Theories of Entrepreneurship
- 3.5 What Is A Business Plan?
 - 3.5.1 Why Do Most Business Plans Not Raise The Money?
 - 3.5.2 Great Opportunities – Where Do They Come From?
 - 3.5.3 Why Business Plans Are Important?
- 3.6 What Are The Steps In The Planning Process?
- 3.7 Summary
- 3.8 Glossary
- 3.9 Answer to Check Your Progress
- 3.10 Bibliography
- 3.11 Suggested Readings
- 3.12 Terminal Questions

3.1 INTRODUCTION

The creation of a country's wealth and dynamism depends upon the competitiveness of its firms and this, in turn, relies fundamentally on the capabilities of its entrepreneurs and managers. The essence of the modern firm lies in the specialization of functions. "The businessmen" that manage economic activity are, in the strictest sense, both managers and entrepreneurs, the latter in a double sense: the individual businessman (independent) and the "corporate entrepreneur" who, without participating significantly in terms of capital, controls the firm. Studying offers of business capabilities requires the differentiation between the functions of entrepreneur, manager and capitalist, although in many cases, the same person may perform all three.

3.2 OBJECTIVES

Present unit aims at theories of entrepreneurship; preparation of business plan. After going through this unit you will be able to:

- Understand the opportunities through entrepreneurship;
- Know the different theories of entrepreneurship;
- Comprehend the different aspects of business plan;
- Plan the steps in starting entrepreneurial business.

3.3 EXPLORING OPPORTUNITIES THROUGH ENTREPRENEURSHIP

The individual entrepreneur detects or creates business opportunities that he or she then exploits through small and medium-sized firms, normally participating in funding the capital for that firm, carries out the role of arbitrator or simply “sells the idea” of the business project. The “corporate entrepreneur” or the chief executive of large firms must also be considered. This figure is no longer limited to efficiently managing the firm’s assets and coordinating and controlling its activities; in the current climate, he or she must anticipate, articulate and manage change. In other words, they must reinvent the firm on a daily basis, creating new enterprise (spin-offs) and develop company networks. When discussing the figure of the corporate businessman, one must also consider the key shareholders that take an active part in the firm, along with managers that share in making up the firm’s basic competences. However, the manager’s function is first and foremost to supervise the process of combining resources, and efficiently manage the firm’s business portfolio. They have a key function when, as is normally the case, firms do not operate efficiently (Leibenstein, 1979), and instead are a long way short of their production boundaries.

A second but fundamental task of the manager is to build up a reputation and an atmosphere of trust that transforms a conflictive system (individuals with conflicting objectives) into a system of cooperation. Managers should create a climate of trust so that employees will not tend towards opportunist behaviour, even when it suits their short-term interests, as well as achieving a greater degree of efficiency by reducing supervision and agency costs.

Finally, the capitalist is the provider of the firm’s funds, either in the form of a passive shareholder (in the case of small shareholders or institutional investors) or as a majority shareholder or active shareholder, who, in many small and medium– sized firms, assumes both the entrepreneurial and managerial functions. About entrepreneurship the entrepreneurial function implies the discovery, assessment and exploitation of opportunities, in other words, new products, services or production processes; new strategies and organizational forms and new markets for products and inputs that did not

previously exist (Shane and Venkataraman, 2000). The entrepreneurial opportunity is an unexpected and as yet unvalued economic opportunity.

Entrepreneurial opportunities exist because different agents have differing ideas on the relative value of resources or when resources are turned from inputs into outputs. The theory of the entrepreneur focuses on the heterogeneity of beliefs about the value of resources (Alvarez and Busenitz, 2001: 756).

Entrepreneurship –the entrepreneurial function- can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity, often via the creation of a new organization (Reynolds, 2005).

Due to the fact that there is no market for “opportunities”, the entrepreneur must exploit them, meaning that he or she must develop his or her capabilities to obtain resources, as well as organize and exploit opportunities. The downside to the market of “ideas” or “opportunities” lies in the difficulty involved in protecting ownership rights of ideas that are not associated with patents or copyrights of the different expectations held by entrepreneurs and investors on the economic value of ideas and business opportunities, and of the entrepreneur’s need to withhold information that may affect the value of the project.

Entrepreneurship is often discussed under the title of the entrepreneurial factor, the entrepreneurial function, entrepreneurial initiative, and entrepreneurial behavior and is even referred to as the entrepreneurial “spirit. The entrepreneurial factor is understood to be a new factor in production that is different to the classic ideas of earth, work and capital, which must be explained via remuneration through income for the entrepreneur along with the shortage of people with entrepreneurial capabilities. Its consideration as an entrepreneurial function refers to the discovery and exploitation of opportunities or to the creation of enterprise. Entrepreneurial behaviour is seen as behaviour that manages to combine innovation, risk-taking and proactiveness (Miller, 1983). In other words, it combines the classic theories of Schumpeter’s innovative entrepreneur (1934, 1942), the risk-taking entrepreneur that occupies a position of uncertainty as proposed by Knight (1921), and the entrepreneur with initiative and imagination who creates new opportunities. Reference to entrepreneurial initiative underlines the reasons for correctly anticipating market imperfections or the capacity to innovate in order to create a “new combination”.

Entrepreneurial initiative covers the concepts of creation, risk-taking, renewal or innovation inside or outside an existing organization. Lastly, the entrepreneurial spirit emphasizes exploration, search and innovation, as opposed to the exploitation of business opportunities pertaining to managers. All this explains why entrepreneurship is described in different ways. The business process includes the identification and assessment of opportunities,

the decision to exploit them oneself or sell those, efforts to obtain resources and the development of the strategy and organization of the new business project (Eckhardt and Shane, 2003). Entrepreneurship is “processes by which individuals –either on their own or within organizations– pursue opportunities” (Stevenson and Jarillo, 1990: 23). It has recently been claimed that if the managers and businessmen of many of our firms were to adopt entrepreneurial behaviour when developing their strategies, firms would be facing a much brighter future than current perceptions suggest (Lee and Peterson, 2000).

The entrepreneur’s central activity is that of business creation, which can be studied at an individual and/or group level –analyzing psychological aspects and social variables of education, background or the family- either at an environmental level using variables that enable business development, or by analyzing aspects of the economic, social and cultural environments.

The study of entrepreneurs as individuals analyzes the variables that explain their appearance, such as personal characteristics, the psychological profile (the need for achievement, the capacity to control, tolerance of ambiguity and a tendency to take risks) or non-psychological variables (education, experience, networks, the family, etc.).

Equally, socio-cultural and institutional focuses underline the role of exclusion and social change as motivators of the entrepreneurial function in minority or marginalized groups. Studies on environmental variables emphasize culture or shared values in society, institutions linked to the legal framework, variables of the economic environment (demand) and the financial one (venture capital and cost), along with the spatial environment (clusters and economies of agglomeration).

Therefore, there are three basic ideas that explain the appearance of entrepreneurial activity. The first focuses on the individual, in other words, entrepreneurial action is conceived as a human attribute, such as the willingness to face uncertainty (Kihlstrom and Laffont, 1979), accepting risks, the need for achievement (McClelland, 1961), which differentiate entrepreneurs from the rest of society.

The second fundamental idea emphasizes economic, environmental factors that motivate and enable entrepreneurial activity, such as the dimension of markets, the dynamic of technological changes (Tushman and Anderson, 1986), the structure of the market –normative and demographic- (Acs and Audretsch, 1990) or merely the industrial dynamic. The third factor is linked to the functioning of institutions, culture and societal values. These approaches are not exclusive (Eckhardt and Shane, 2003: 2), given that entrepreneurial activity is also a human activity and does not spontaneously occur solely due to the economic environment or technological, normative or demographic changes. When referring to entrepreneurs, there is normally a differentiation between individual entrepreneurs or businessmen (independent)

and corporate entrepreneurs or businessmen associated with the higher echelons of a firm's management. Different names have been used to describe the latter such as "corporate Entrepreneurship", "corporate venturing", "intrapreneurship", "internal corporate entrepreneurship" and "strategic renewal".

Entrepreneurial management can be considered as being different to traditional ways of managing organizations. Many managers are looking to new ways of making their organizations more entrepreneurial in many aspects, from a general strategic orientation to reward schemes (Brown, Davidsson and Wiklund, 2001). Barringer and Bluedorn (1999) emphasized a positive relationship between the intensity of corporate entrepreneurship and the intensity of the search for opportunities, strategic adaptation and value creation. As pointed out by Hitt et al. (2001: 488) "firms need to be simultaneously entrepreneurial and strategic".

Entrepreneurship is an essential element for economic progress as it manifests its fundamental importance in different ways: a) by identifying, assessing and exploiting business opportunities; b) by creating new firms and/or renewing existing ones by making them more dynamic; and c) by driving the economy forward – through innovation, competence, job creation- and by generally improving the wellbeing of society.

Entrepreneurship affects all organizations regardless of size, or age, whether they are considered a private or public body, and independently of their objectives. Its importance for the economy is reflected in its visible growth as a subject of interest for the economic press and in academic literature. For this reason, it is a matter of interest to academics, businessmen and governments the world over.

The study of entrepreneurship leads us to attempt to answer a series of questions such as: What happens when entrepreneurs act? Why do they act? and How do they act? (Stevenson and Jarillo, 1990). Why, when and how do opportunities for the creation of goods and services come into existence? Why, when and how do some people and not others discover and exploit these opportunities? And finally, why, when and how are different modes of action used to exploit entrepreneurial opportunities? (Shane and Venkataraman, 2000). We have limited knowledge of the opinion of entrepreneurs, business opportunities, the people that pursue them, the skills used for organizing and exploiting opportunities and the most favourable environmental conditions for these activities. Moreover, studies are carried out at different levels; individual, firm, sector and geographical space. There is no basic theory for carrying out this type of study, resulting in approximations based on casuistry, anecdotes or fragmented reasoning (Eckhardt and Shane, 2003: 12). The black box of entrepreneurial function is yet to be opened (Fiet, 2001). The problems involved in a study of "entrepreneurship" are linked to the need to delimit the field of study and rely on a conceptual structure that enables the explanation

and prediction of empirical phenomena that are not explained by other fields of knowledge; it is necessary to generate a paradigm, to develop a set of testable hypotheses, to overcome the existing casuistry and description and look further into longitudinal and cross-sectional analysis. Despite all this, a considerable body of literature has accumulated on the subject of entrepreneurship to the point where, just as has happened in other fields, a sizeable number of entrepreneurship-related studies have been published in journals in the areas of administration and management, while other journals that specifically specialize in topics related entrepreneurship have appeared. The role of the entrepreneur has been analyzed in special issues in journals such: Strategic Management Journal and Journal of Management (Audretsch et al., 2005), Academy of Management Journal and Journal of International Marketing (Coviello and Jones, 2004). Almost a hundred journals can be adjudged to have published work related to entrepreneurship (Entrepreneurship Division of the Academy of Management, in research carried out in the summer of 2006). The differentiation of the field of entrepreneurship from other areas depends upon the object of the research, the methodologies and the problems researchers are attempting to resolve (Bruyat and Julien, 2000).

Busenitz et al., (2003: 286) underline the importance of recognizing “entrepreneurship as a field of study within management”, a field of knowledge that upholds the development of entrepreneurship. It is on these fundamental ideas that we base our reflections. The study and teaching of entrepreneurship and the role played by professors dedicated to teaching and research on this topic are of growing importance, as reflected by the boom in courses and chairships in entrepreneurship in the United States in the last few years (Finkle, Kuratko and Goldsby, 2006). The University of Valencia has joined this trend through the creation of the first chairship of this kind in Spanish universities: the Bancaja Chair for Young Entrepreneurs, dedicated to the study, research and development of aspects related to entrepreneurship.

3.4 THEORIES OF ENTREPRENEURSHIP

People use the terms "entrepreneur" and "entrepreneurship" interchangeably. The entrepreneur is the person who starts his own business. The exact definition of "entrepreneurship" still remains a vague concept, though various entrepreneurship theories have defined the concept.

1. Early Theories of Entrepreneurship: Richard Cantillon (1680-1734) was the first of the major economic thinkers to define the entrepreneur as an agent who buys means of production at certain prices to combine them into a new product. He classified economic agents into landowners, hirelings, and entrepreneurs, and considered the entrepreneur as the most active among these three agents, connecting the producers with customers.

Jean Baptise Say (1767-1832) improved Cantillon's definition by adding that the entrepreneur brings people together to build a productive item.

2. Frank Knight's Risk Bearing Theory: Frank Knight (1885-1972) first introduced the dimension of risk-taking as a central characteristic of entrepreneurship. He adopts the theory of early economists such as Richard Cantillon and J B Say, and adds the dimension of risk-taking.

This theory considers uncertainty as a factor of production, and holds the main function of the entrepreneur as acting in anticipation of future events. The entrepreneur earns profit as a reward for taking such risks.

3. Alfred Marshall's Theory of Entrepreneurship: Alfred Marshall in his Principles of Economics (1890) held land, labor, capital, and organization as the four factors of production, and considered entrepreneurship as the driving factor that brings these four factors together. According to this theory the characteristics of a successful entrepreneur include:

- Thorough understanding of the industry.
- Good leadership skills.
- Foresight on demand and supply changes and the willingness to act on such risky foresights.

Success of an entrepreneur however depends not on possession of these skills, but on the economic situations in which they attempt their endeavors. Many economists have modified Marshall's theory to consider the entrepreneur as the fourth factor itself instead of organization, and which coordinates the other three factors.

4. Max Weber's Sociological Theory: The sociological theory entrepreneurship holds social cultures as the driving force of entrepreneurship. The entrepreneur becomes a role performer in conformity with the role expectations of the society, and such role expectations base on religious beliefs, taboos, and customs.

Max Weber (1864-1920) held religion as the major driver of entrepreneurship, and stressed on the spirit of capitalism, which highlights economic freedom and private enterprise. Capitalism thrives under the protestant work ethic that harps on these values. The right combination of discipline and an adventurous free-spirit define the successful entrepreneur.

5. Mark Casson's Economic Theory: Mark Casson (1945) holds that entrepreneurship is a result of conducive economic conditions. In his book "Entrepreneurship, an Economic theory" he states the demand for entrepreneurship arising from the demand for change.

Economic factors that encourage or discourage entrepreneurship include:

- Taxation policy,
- Industrial policy,
- Easy availability of raw materials,
- Easy access to finance on favorable terms,

- Access to information about market conditions,
- Availability of technology and infrastructure,
- Marketing opportunities.

6. Joseph Schumpeter's Innovation Theory: Joseph Schumpeter's innovation theory of entrepreneurship (1949) holds an entrepreneur as one having three major characteristics: innovation, foresight, and creativity. Entrepreneurship takes place when the entrepreneur

- Creates a new product,
- Introduces a new way to make a product,
- Discovers a new market for a product,
- Finds a new source of raw material,
- Finds new way of making things or organization.

Schumpeter's innovation theory however ignores the entrepreneur's risk taking ability and organizational skills, and place undue importance on innovation. This theory applies to large-scale businesses, but economic conditions force small entrepreneurs to imitate rather than innovate.

Other economists have added a dimension to imitating and adapting to innovation. This entails successful imitation by adapting a product to a niche in a better way than the original product innovators innovation

7. Israel Kirzner's Theory of Entrepreneurship: Israel Kirzner (1935) hold spontaneous learning and alertness two major characteristics of entrepreneurship and entrepreneurship is the transformation of spontaneous learning to conscious knowledge, motivated by the prospects of some gain.

Kirzner considers the alertness to recognize opportunity more characteristic than innovation in defining entrepreneurship. The entrepreneur either remedies ignorance or corrects errors of the customers. His entrepreneurship model holds:

- The entrepreneur subconsciously discovering an opportunity to earn money by buying resources or producing a good, and selling it
- Entrepreneur financing the venture by borrowing money from a capitalist.
- Entrepreneur using the funds for his entrepreneurial venture
- Entrepreneur paying back the capitalist, including interest, and retaining the "pure entrepreneurial profit."

8. Leibenstein's Theory of Entrepreneurship: Harvey Leibenstein (1922-1994) consider entrepreneur as gap-fillers. The three traits of entrepreneurship include:

- Recognizing market trends
- Develop new goods or processes in demands but not in supply
- Determining profitable activities

Entrepreneurs have the special ability to connect different markets and make up for market failures and deficiencies.

9. McClelland's Theory of Achievement Motivation: McClelland's Theory of Achievement Motivation holds that people have three motives for accomplishing things: the need for achievement, need for affiliation, and need for power. Need for achievement and need for power drive entrepreneurship.

David McClelland (1917-1988) considers entrepreneurs as people who do things in a better way and makes decisions in times of uncertainty. The dream to achieve big things overpowers monetary or other external incentives. McClelland's experiment revealed that traditional beliefs do not inhibit an entrepreneur, and that it is possible to internalize the motivation required for achievement orientation through training.

10. Peter Drucker's Theory of Entrepreneurship: Peter Drucker (1909-2005) holds innovation, resources, and an entrepreneurial behavior as the keys to entrepreneurship. According to him entrepreneurship involves:

- Increase in value or satisfaction to the customer from the resource
- Creation of new values
- Combination of existing materials or resources in a new productive combination

3.5 WHAT IS A BUSINESS PLAN?

A business plan is a comprehensive, written description of the business of an enterprise. It is a detailed report on a company's products or services, production techniques, markets and clients, marketing strategy, human resources, organization, requirements in respect of infrastructure and supplies, financing requirements, and sources and uses of funds.

The business plan describes the past and present status of a business, but its main purpose is to present the future of an enterprise. It is a crucial element in any application for funding, whether to a venture capital organization or any other investment or lending source. Therefore, it should be complete, sincere, factual, well structured and reader-friendly.

Business plans can help perform a number of tasks for those who write and read them. They're used by investment-seeking entrepreneurs to convey their vision to potential investors.

They may also be used by firms that are trying to attract key employees, prospect for new business, deal with suppliers or simply to understand how to manage their companies better.

So what's included in a business plan, and how do you put one together? Simply stated, a business plan conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.

3.5.1 Why do most business plans not raise the money?

Planning is important. But results are what count. And who delivers the results? Entrepreneurs like you can change the world. Why, then, is there so much fascination with business plans in today's entrepreneurship community? Why are there dozens of books with titles like *How to Write a Business Plan*? Why are there software packages to automate the business planning process? Why do most leading business schools offer courses in which teams of students write business plans for hypothetical or real new ventures? The vast majority of business plans are unsuccessful in raising any money. Of those ventures that do win financing, many if not most will fail. What's wrong with this picture?

At least three things are wrong here.

- First, most business plans are written for opportunities that are fundamentally flawed. Why write a business plan for a no-hope opportunity? It's a waste of entrepreneurial time and talent. Your time and talent. Instead, put your opportunity through a stringent new business road test by doing the seven domains homework. If necessary, reshape your opportunity or invest your time in finding a better one.
- Second, the inherently persuasive nature of business plans, a principal purpose of which is often to raise money, forces their proponent entrepreneurs into the 'everything about my opportunity is wonderful' mode. As we saw, the likelihood – at least for attractive opportunities – is that everything is not wonderful but there are one or two things that are quite wonderful that outweigh those that are not. The would-be entrepreneur who prepares and pitches an 'everything is wonderful' business plan – like the ones many books and software describe – risks their credibility with investors, who know the real risks that entrepreneurial ventures entail. This naïveté makes it harder, not easier, to raise the money that's needed. Worse, such a positive slant risks blinding the entrepreneur to the very real risks that may lie in wait in one or more of the seven domains (even though a risk section in the typical plan identifies what might go wrong and explains why it won't).
- Third, most business plans are focused on the entrepreneur, their idea and why the idea is wonderful. They are me-focused or my-idea-focused rather than customer-focused. People do matter – true – but investors don't really care very much about you and your idea, at least not at the beginning. What investors care about is solving significant customer problems or needs that offer significant profit and growth potential. If you have a solution to such a problem, then their ears will perk up. If you've shown that you can deliver results in solving this kind of problem, then you'll have their undivided attention. Thus, the importance of people lies in the context in which they operate. Set the context first. Let the people story – of you and your entrepreneurial team – close your sale.

So what should you do before you write your business plan?

- First, come up with an idea that you think might fly, one that solves genuine customer problems or needs.
- Second, assess and shape it, using the lessons of the seven domains framework with which you now are familiar. Doing so requires data, and lots of it, as we've seen.
- Third, write what I call a customer-driven feasibility study – a memo to you, really – that lays out the conclusions you've reached from your data and analysis.

Having taken these steps, you'll then be well prepared to write a truly great business plan, one that acknowledges the merits and shortcomings of your opportunity, develops a strategy and shows that your team is the right one to pursue it.

3.5.2 Great opportunities – where do they come from?

Everyone who aspires to be an entrepreneur has ideas. For some, ideas arise on a daily basis. The real challenge, though, is to find good ideas. Good ideas are more than just ideas – they're opportunities. Where do great opportunities come from? How are they born? Four common patterns, patterns that you too can use to find your opportunity:

- **Opportunities created by macro-trends:** We live in a changing world. Trends of all kinds are swirling around us every day. Studying these trends and anticipating their impact on the lives we live, on the industries where we work and on the markets we serve is a rich source of opportunities.
- **Opportunities found by living and experiencing the customer problem:** Phil Knight and Bill Bowerman, Nike's founders, had lived the customer problem and felt the pain – literally. As distance runners themselves, they had subjected their bodies to mile after mile of feet meeting ground, suffering shin splints and sprained ankles that better shoes might have eliminated. Equally important, they had sometimes been edged out at the finish line, wondering whether lighter shoes might have given them a competitive edge.

Knight and Bowerman knew first hand of these customer problems and were well placed to solve them. If we think about it, most of us can also recognize opportunities where something can be improved – products, services, processes or whatever – in the lives we lead or the work we do. Fixing what's inadequate or broken is another rich source of opportunities for watchful entrepreneurs.

- **Opportunities created through scientific research:** In many institutional settings – university research labs, industrial R&D groups and so on – extensive efforts are under way to create new knowledge that can, intentionally or otherwise, spawn commercially viable new products.

- **Opportunities proven elsewhere that you can pursue where you hope to do business:** In a study of the fastest-growing companies in the USA, Amar Bhidé found that most of the founders simply replicated or modified an idea they encountered through previous employment or by accident. Looking for opportunities in one place and bringing them home can be a great source of opportunities that are already market tested. And they're a great excuse for taking a holiday away! A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan:

- **The first is the *business concept*,** where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
- **The second is the *marketplace section*,** in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
- **Finally, the *financial section*** contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program.

3.5.3 Why business plans are important?

There are many important reasons for drawing up a business plan. Some of the most significant are the following:

- ***Getting an integrated view of your business:*** By preparing your business plan, you get an integrated view of all issues regarding your business. For example, it helps you to identify better your target clients, outline your market segment, shape your pricing strategy and define the competitive conditions under which you must operate in order to succeed. Business planning ensures that all these considerations are consistent and properly harmonized. Also, the business plan process often leads to the discovery of a competitive advantage or new opportunities as well as deficiencies in the plan. Committing your plans to paper ensures that your overall ability to manage the business will improve. You will be able to concentrate your efforts on any deviations from the plan before conditions become critical. You will also have time to look ahead and avoid problems before they arise.
- ***Mutual understanding within the management team:*** Reaching mutual understanding among the members of the management of the firm is particularly important in cases in which the recommended policy of engaging as many managers as practically possible is applied in the preparation of the business plan.

- **Determining financial needs and applying for fund:.** Determining the amount, type and sources of financing and when it is required. Using the business plan in the process of application for funds.
- **Recruiting:** Using it in recruiting and introducing new members of the management and staff.
- **Deriving objectives for employees:** Deriving from the business plan measures and objectives for units and individuals in the organization (management by objective).
- **Informing Employees:** Using it as a means of informing/motivating employees about the objectives of the company.
- **Informing lenders:** Giving it to banks/investment funds that have financed your business in the past and require periodical information for monitoring purposes.
- **Informing partners:** Using the business plan in informing business partners and other relevant organizations.

In preparing this manual for an entrepreneur, it has been assumed that the primary objective of preparing a business plan is to determine the financing requirements and to apply for external funding.

A good business plan must contain following properties:

Constantly adapting		Business planning is an iterative and adaptive process that requires constant update and adjustment work.
Impressing clarity	by	Not the quality of analysis, but the clarity and preciseness of the pack are important
Convincing facts	by	No hype, but factual statements. Enthusiasm will be generated by the investor realizing the opportunity on his own
Understandable even for non-experts		Those who allocate investment resources rarely are technical experts for the technology used in the proposal
Consistent and concise	and	The storyline and all the facts presented must fit together and generate a well rounded impression
Optically compelling		A clear, precise structure is a courtesy to those investing their time in reading the proposal

3.6 WHAT ARE THE STEPS IN THE PLANNING PROCESS?

A business plan should not be something you prepare once, then put on a shelf and forget. Dynamic planning should be an integral part of managing your business. Most successful ventures prepare a three-to-

five year business plan every year. This involves updating last year's business plan by comparing the planned figures and goals with results achieved and taking into account changes, **new information, experiences and new ideas. The steps involved in the business planning process are the following:**

1. Assessing the situation
2. Developing a mission
3. Getting ready
4. Setting goals
5. Working out the business plan

1. Assessing the situation: This should be an assessment of how your customers, partners, competitors and suppliers view your business. It should answer the question "where are we now?" It should also be a honest and self-critical exercise trying to answer the important questions any businesspersons should be asking themselves regularly: "What are our important strengths and main weaknesses?" "What can we do well and what should we not be doing at all?" "What are the major mistakes we have made in the past and what can we learn from them?" "Do we make a reasonable number of mistakes?"

2. Developing a mission: Before proceeding further you should formulate a clear mission statement for your enterprise. Developing your mission is often the most valuable part of the dynamic planning process since it can change or reconfirm the direction of your business. Missions are intended to provide a sense of purpose and act as a tool for communicating where the business is heading. Shareholders, employees and business partners can be better motivated and support the mission if they know what it is.

- Your **vision** says how you see yourself in the far future. It expresses what you want your company to become. A vision shared by all the people concerned with the business is an important factor for its successful development.
- Your **mission** defines what you want to achieve. It states the benefits your business will bring to clients, employees, shareholders and the community as a whole.
- Your **philosophy** expresses the values and beliefs of your organization's culture.
- Your **strategy** indicates how to get there.

A business is often founded on the vision of an individual. The mission should be reviewed regularly and if necessary adapted. This should be providing an updated picture of what you are trying to achieve and answering questions such as:

- What business are you in?
- What do you do best?

- Whose needs do you meet?
- What needs do you meet?
- What benefits do you generate?

Philosophies or values should be included in the written business plan. They are an important foundation that should be communicated to all levels within your organization and to your outside business partners. A consistent corporate culture and a good understanding of the entity's direction and values can improve decision-making and staff productivity. Staff may feel better about what they do. People are motivated by more than just getting a salary. The vision, mission, philosophy and strategy of a firm are usually developed by the top management, sometimes at an off-site location has many benefits (getting away from the day-to-day distractions for the purpose of this process).

3. Getting ready: After the mission and the philosophical basis have been defined, you need to start the actual work of preparing the business plan. Some important matters you need to address when getting ready are:

- **Appointing a coordinator:** Appoint the staff member who will be responsible for coordinating the business planning process and for delivering the final document (business planning project manager) in time.

- **Hiring a facilitator:** Consider the value of an experienced facilitator. Hire one if you do not have a staff member who is available and has the relevant experience and talent in guiding complex business planning processes. This person should be knowledgeable about the requirements of the readers of the business plan.

- **Defining tasks:** Define the different tasks and steps involved in the process, the timing of these and the overall schedule for the work.

- **Identifying team members:** Identify the people who will be involved in the process and define their roles, competencies, responsibilities and expected contributions/deliverables.

- **Gathering information:** Gather and organize all the basic information that will be required from internal and external sources (market surveys, reports on competition, new technological developments, etc.). In addition to information available in-house, there are valuable sources and tools such as industry associations, databases and specialized consultants to be considered.

4. Setting goals: Setting goals for the future development of the business is a prerequisite for the preparation of the business plan. Although these goals will have to be adjusted in the iterative planning process, they can still be of great value in setting the “tune” and “spirit” for further work. The goals should be time-bound, realistic and measurable. Examples of such goals can be:

- Over the next three years increase sales volume by an average of 20 per cent per year by intensifying marketing and sales effort in the neighbouring countries (export);

- In the coming year reduce production costs by 10 per cent through greater automation of production lines;
- By the end of the second planning year launch three new products on the local market.

5. Working out the business plan: Working out the business plan basically involves synthesizing and harmonizing your marketing, sales, development, manufacturing, operations and financing targets in such a way as to enable the enterprise to meet its overall objectives. This “matching work” is usually conducted in an iterative process until full consistency of all elements of the business is achieved.

6. Setting employee objectives: One of the most important actions after your business plan has been completed is to use it as a basis for setting the objectives of units and individuals in your firm.

The objective of your sales manager is to achieve the sales volumes set in the plan. The production manager has to meet the quality standards and production rates anticipated. The development staffs have, among other things, to meet the schedules planned for bringing into production the new product. These individual objectives should be fixed in writing and the results of the work should be monitored and assessed periodically. These should form the basis for the financial compensation of the employee. g. Monitoring the process.

Systematic monitoring of the implementation of your plan is a very important factor for the success of your business. Action plans, monitoring systems and constant feedback should be integrated to ensure successful implementation of the plan and achievement of its objectives. Participation in this process can have a profound effect on the way your team members view their role in the enterprise, and can have an immediate impact on their performance.

Who is the entrepreneur and who he is not? Who is the entrepreneur and what exactly does the entrepreneur do? To provide a clear specification, we start by delineating the peculiarities of the entrepreneur with respect to similar and related figures: the firm, the manager, the capitalist, and the professional.

The entrepreneurial decision: The distinction between entrepreneur and manager reflects the two types of functions - routine or non-routine functions - that have been ascribed to the entrepreneur across the economic thought. Recent theories, however, tend to associate managers to routine functions and entrepreneurs to non-routine ones.

3.7 SUMMARY

The decision of becoming entrepreneur can be understood in all its components only if the perspective of analysis accounts for the alternative ways of conceiving it that the economic thought offers. The unit emphasizes

the need of relating each characterization of the entrepreneurial decision within the circumstance where it takes place, and purposes a classification of this choice's determinants based on the distinctions between internal and contextual factors.

Among the most relevant aspects shaping the entrepreneurial decision, we discuss the role of "internal determinants" like personal traits, biased perceptions of success, desire of independence and flexibility that shape the supply-side of the phenomenon.

Conversely, "contextual determinants" are represented by market opportunities to earn profits, industry and timing specific structural features, presence of signals concerning market conditions, environmental contingences related to prices, taxes and wages.

3.8 GLOSSARY

Asset	Anything of worth that is owned by the business. The assets of a business are money in the bank, accounts receivable, securities held in the name of the business, equipment, fixtures, property or buildings, merchandise for sale or being made, supplies and all things of value that the business owns.
Audit	A process carried out by an accountant (auditor) on all limited companies each year to check that the financial records are correct. The auditor cannot be the company's own accountant. Sole traders and partnerships do not need to have their accounts audited.
Balance Sheet	A statement of the assets and liabilities of the business at any given time.
Benchmarking	A method used to compare the relative performance ranges of different businesses. It is an effective way of identifying areas for business improvement.
Best Practice	Best performance of a function or process or methods that lead to exceptional performance.
Brainstorming	A technique of solving problems in which members of a group put forward ideas to resolve the issues raised.
Break Even	Break-even point represents the volume of sales at which total revenue equals total costs.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a business over a period of time.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.

Capital	This has several meanings, but usually refers to the amount of money in the business belonging to the proprietors or shareholders.
Capital Expenditure	Money spent on the purchase of an asset.
Fixed Assets	Assets such as machinery, land and buildings which the company do not intend to sell and which are intended for use within the business.
Franchise	The right to use the name of another company, and to sell its products or services in exchange for a royalty. The franchisee agrees to abide by the conditions set out in the franchiser's agreement.
Niche Markets	A small or little explored market which mass market corporate may miss, giving smaller companies the opportunity to design their offering to fit its particular requirements.
Partners	More than one person owns and manages a business. All have equal responsibility.
Registered Office	The address where a company is officially registered with the Register of Companies. (Not necessarily the trading address).
Shareholder	A person or entity that owns shares of stock in a company or mutual fund.
SME	Small and Medium-sized Enterprise. The technical definition covers companies that have less than 250 employees, (50 for a small business) and are less than 25% foreign owned.

3.9 ANSWER TO CHECK YOUR PROGRESS

1. What are the parameters in terms of product description that would consider while developing a project report for a entrepreneurial tourism business?
2. Choose a sample of ten entrepreneurs who are in tourism business. Find out from them;
 - (a) How did they identify sources of business development?
 - (b) What were the considerations in selection of service providers?
3. Write down the steps you will follow for setting up of your own tourism business enterprise?

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3.12 TERMINAL QUESTIONS

1. What is the need and significance of the preparation of a project report for a small scale entrepreneur? Discuss with the help of examples.
2. Present an overview of preparing a business plan of SSE. Also discuss the potential errors in developing the business plan.
3. Discuss the theories of entrepreneurship.
4. How would you plan for the technology input needed in your small enterprise?

UNIT 4: INSTITUTIONAL ROLE IN THE DEVELOPMENT OF ENTREPRENEURS LIKE SIDCO (STATE INDUSTRIAL DEVELOPMENT CORPORATION) AND BANK

STRUCTURE:

- 4.1 Introduction
- 4.2 Objectives
- 4.3 The Entrepreneurial Function
- 4.4 Understanding Institutional Support for Entrepreneurs
 - 4.3.1 Entrepreneurship as the Source of Economic Development
 - 4.3.2 Why Institutions Matter To Entrepreneurship
 - 4.3.3 The Value of Monetary Profit to Entrepreneurs
- 4.4 Institutional Framework
 - 4.4.1 Small Scale Industries Board
 - 4.4.2 Ministry of Small Scale Industries (SSI)
 - 4.4.3 All India Financial Institutions
 - 4.4.4 State Industrial Development Corporations
 - 4.4.5 Case Study of Sidco- Kerala to Understand More The Role Of Institutions
 - 4.4.6 Industrial Development Bank of India (Idbi)
 - 4.4.7 National Small Industries Corporation (NSIC) Ltd
 - 4.4.8 National Institute of Small Industry Extension Training (Nisiet), Hyderabad.
 - 4.4.9 National Institute for Entrepreneurship and Small Business Development (Niesbud), Noida
 - 4.4.10 Indian Institute Of Entrepreneurship (Iie), Guwahati
 - 4.4.11 National Commission for Enterprises in the Unorganized Sector
- 4.5 Role and Steps Taken By RBI for The Development Of SSI Sector
- 4.6 Institutional Support for Small-Scale Rural Processing Enterprises: The Case of India
- 4.7 Summary
- 4.8 Glossary
- 4.9 Answer to Check Your Progress
- 4.10 Bibliography
- 4.11 Suggested Readings
- 4.12 Terminal Questions

4.1 Introduction

After half a century of efforts in development aid, "institutions" have come, in the last few years, to the forefront of policy advice. Many organizations involved in fostering development and helping transition economies have adopted the view that institutions matter, and mainstream economics pays more and more attention to the notion of institutions. At the same time however, the role of institutions in economic development remains

unclear for many, and as a result it is being challenged by those who think that institutions are just the fad of the moment.

This unit explains how institutions are vital to the expansion of entrepreneurial activity, which is at the heart of the process of development and economic growth and that the concept of institution is, when given real content and not merely used as a buzzword, not just another fad in economics but a crucial component of successful policymaking.

It is argued that what is generally missing in countries with lackluster economic performance is not entrepreneurship, but the right institutional context for entrepreneurship to take place and to be socially beneficial. Therefore, what matters for development and entrepreneurial activity are the rules that individuals follow and how these rules are defined and enforced. The fundamental message is that unless the formal rules (a) are aligned with the informal norms that individuals follow, (b) favor entrepreneurial activity (i.e. define and enforce property rights, the law of contracts, etc.), and (c) are effectively enforced in an environment that operates under a rule of law, development and sustained prosperity cannot become a reality.

Successful reforms will prepare the environment for "productive entrepreneurship" by reducing the cost of engaging in productive activities relative to engaging in evasive or socially destructive economic activities. Most economists and policy makers would agree that institutions and entrepreneurship are important components of a prosperous society.

The aim of this analysis is to explain how a robust institutional environment and entrepreneurial activity are important to development and economic performance by showing how they interact with one another. In other words, this discussion presents a short but detailed analysis of how institutions shape entrepreneurship, that is, the driving force of a prosperous market system.

4.2 Objectives

Present unit aims at institutional role in the development of entrepreneurs like SIDCO (state industrial development corporation) and banks. After going through this unit you will be able to:

- Understand the role of institutions in development of small scale industries;
- Know the various financial institutions which extend their support of the SSE;
- Discuss the various rules, regulations and procedures relevant for small-scale industries and small-scale business.
- Explain the role of the various Central Government and State Government bodies and other autonomous bodies in assisting the implementation of small-scale industry and small-scale business.

4.3 The Entrepreneurial Function

The problem of poverty and development is not that entrepreneurship is abundant in some countries and lacking in others. Entrepreneurial activity is never in short supply. Entrepreneurship encompasses not only exceptional risk-taking activities (e.g. setting up firms) but also many mundane activities both within and outside organizations. This is because entrepreneurship is about creation and discovery; something that every individual is capable of to some degree. Entrepreneurial behavior is not dependent on culture or race, it can be observed in every society and across all ethnicities. Creation and discovery can exist in non-commercial contexts. However, what matters to policy is entrepreneurial activity in the social context of market exchange.

4.4 Understanding Institutional Support for entrepreneurs

A **financial institution** is an institution that provides financial help to entrepreneurs or small scale industries. Probably the most important financial service provided by financial institutions is acting as financial intermediaries. Most financial institutions are regulated by the government.

The term institutional support refers to the part of economic environment of industry and business. It consisting of authorities and institutions whose decisions and active support in form of laws, regulation, financial and non-financial help brings a lot of changes in the functioning of any business.

The institutions could be government owned, statutory, semi autonomous or autonomous. It is the government or government supported institutions authorized to take up certain activities - financing, marketing, project preparation, training to promote industrial activities by the entrepreneurs or small scale industries.

There are three stages of promotion - inception stage, operational stage and expansion or diversification stage. The Government through its plans and policies assisted the business houses in facilitating in the above stages through various specialised institutions set up as per the law. An entrepreneur who needs to set up a business unit of his own or with his friends and relatives is supposed to know the various institutions or organizations working as per the law for the purpose. Dissemination of information in this regard can only help them in achieving the very dream of becoming a successful entrepreneur.

Institutions provide guidance, allow for routines to develop and ultimately reduce the uncertainty of social interaction. These functions are all faces of the same coin but can be analytically distinguished to better flesh out the role institutions play.

1. **Institutions provide guidance:** If institutions frame the behavior of individuals, they also, as a consequence, structure the incentives that

individuals face in their activities. In other words, if one cannot win at tennis by playing outside the lines or letting the ball bounce twice, then the players will be motivated to develop the capabilities to play within the boundaries and to always run to return the ball before it bounces a second time. If I know that I can only win by playing within the lines, it will force me to become good at hitting the ball within the limits of the court. This will also guide my actions and my expectations regarding what my opponent in the game can or cannot do.

2. **Institutions allow for routines:** By guiding actions, institutions facilitate social interaction in our daily lives. For instance, driving on the left-hand side of the street is a rule which guides motorists in ways that permit the coordination of traffic. Such a coordination of vehicles happens because everyone follows the same rule, which facilitates the choices drivers must make on the road. On the road, we don't have to choose which side to drive on every time we encounter another vehicle because we all accept and follow the same rule.

3. **Institutions reduce uncertainty:** It is found that institutions reduce the uncertainty of social interaction by providing a structure within which everyone can act. This function is very important because it allows for the coordination of plans. Indeed, one could not interact socially in the total absence of knowledge about what guides the actions of others in the social context. Institutions guide human action in the social context, they reduce the uncertainty of social interaction. To go back to the "rules of the road" example, the uncertainty every driver faces with regard to the actions of every other driver is reduced by the existence of rules. Because of rules, driving on the road is more certain.

With this analysis in mind, it is easy to understand that in order for institutions to reduce uncertainty, they must be as stable and predictable as possible over time so that they can be used as guiding tools in social interaction.

4.3.1 Entrepreneurship as the Source of Economic Development

Traditionally economists have viewed the challenge of economic growth as an issue of overcoming the problem of diminishing returns (i.e. the continued use of a resource produces less and less output). In theory, the solution to this problem lies in the existence of mechanisms (e.g. education, research, infrastructure, etc.) that increase productivity (i.e. over time more is produced with less). But what has been lacking is an explanation for how increases in productivity are actually achieved. The answer to this problem lies in understanding that productivity increases are increases in the amount of socially useful knowledge.

In other words, the source of changes in productivity lies in the increase in knowledge that entrepreneurial activity generates: the tyranny of

diminishing returns is overcome by human ingenuity displayed in entrepreneurship. The recognition of entrepreneurship as the engine of growth leads to the following fundamental question: if entrepreneurship is never in short supply and is the ultimate source of economic growth, why are some countries rich while others are poor?

4.3.2 Why Institutions Matter to Entrepreneurship

What defines cricket is not only the use of a bat and ball but also the rules that players follow. Similarly, entrepreneurship cannot exist without rules: what matters to entrepreneurship is not only the discovery and exploitation of a profit opportunity but also that this process takes place in the context of rules that structure the way the economic game is played. For this reason, institutions matter for economic performance.

4.3.3 The Value of Monetary Profit to Entrepreneurs

As mentioned above, entrepreneurship is traditionally understood in the social context. This means that entrepreneurial discoveries will tend to be socially beneficial (i.e. they benefit all the parties to the exchange, and, by creating further opportunities for other entrepreneurs, they benefit others not directly involved). Entrepreneurs discover unknown gains from exchange through the discovery of profit opportunities. As such, the process of discovery relies primarily on the existence of profits. However, profits do not exist in a vacuum; they proceed from the existence of institutions. Therefore the institutional arrangements that govern the existence of profits will determine the nature of entrepreneurship.

The formal and informal institutional environment in which entrepreneurs operate will influence how entrepreneurs use resources at their disposal. Entrepreneurship is not dependent on the resources in an economy. Rather, the key is the quality of institutions that permit the exploitation of resources and opportunities.

4.4 Institutional Framework

For developmental purposes, the entire field of village and small industries has been grouped broadly under six different areas. Each area comes under the overview of one of the following organizations set up by the Central Government:

- The Small-Scale Industries Board
- The Khadi and Village Industries Commission
- The All India Handicrafts Board
- The Central Silk Board
- The Central Coir Board
- The All India Handloom Board

The last three have specialist responsibilities reflected in their names. They will not be discussed further in this paper. The Small-Scale Industries Board is chaired by the Union Minister of Industry with the Development Commissioner for Small-Scale Industries (DCSSI) as its Member Secretary. Other union ministries, state governments, SSI associations, financial institutions, eminent industrialists etc. are represented on the board. As the Secretariat of this board the office of the DCSSI (also known as Small Industries Development Organisation (SIDO)) is the nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small-scale industries in the country.

Facilities are provided by SIDO through a network of 26 small industries service institutes (SISIs), 20 branch institutes, 40 extension centres, product and process development centres, production centres, field testing stations etc. in areas where specific types of industries are concentrated. A range of specialised institutions have been set up for providing assistance to SSIs. These are the National Small Industries Corporation, the National Institute for Entrepreneurship and Small Business Development, the Small Industries Extension Training Institute, Integrated Training Centre, and several centres or institutes on tools design and training.

Operating in parallel to SIDO is the Khadi and Village Industries Commission (KVIC) which is a government-financed statutory body responsible for selected types of village industries including Khadi.^{1/} The national KVIC formulates the broad pattern of development needs of the village industries many of which are in the “tiny” category and are traditional. Similar action is taken by the state level KVI Boards which are jointly funded by the respective State Governments. The KVIC also operates through registered institutions and Cooperative Societies which are directly financed by the KVIC or partly through respective State Governments depending on whether they serve more than one state.

Assistance to small industries development

India provides a wide array of assistance programmes to promote small industry development. They can perhaps be conveniently grouped under four headings as follows:

- **Assistance in expanding markets** (including preference in purchasing by government; support in joint tendering for government purchase contracts; price preference; and reservation of certain product lines or industries for only small-scale manufacturers).
- Supply of essential raw materials.
- Provision (and subsidy on cost) of finance for investment and working capital.
- Provision of technical assistance and other advisory services.

Policy and implementation bodies along all these lines exist at national and state levels and sometimes also lower down. Many forms of assistance are given from the large variety of institutions but an attempt has been made to provide “one window” assistance through District Industries Centres which directly provide all assistance or at least coordinate it.

4.4.1 Small Scale Industries Board

The Small Scale Industries Board (SSI Board) is the apex advisory body constituted to render advice to the Government on all issues pertaining to the small scale sector. The Board is reconstituted every two years and is headed by the Minister In charge of Small Scale Industries in the Government of India. The Board comprises among others State Industry Ministers, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

The range of development work in the small scale sector involves several Departments/Ministries and several agencies of Central/State Governments. Though a non statutory body, the SSI Board provides an effective platform for informed debate and facilitates coordination and inter-institutional linkages.

4.4.2 Ministry of Small Scale Industries (SSI)

Taking into account the high potential for growth in the micro, small and medium enterprises (MSMEs) in terms of output, employment and exports, the role of the Ministry of Small Scale Industries is to strengthen MSMEs, to enable them to remain competitive in market-led economy and generate additional employment opportunities.

The mission of the Ministry is to support MSMEs by way of advocacy with the various organizations of the Government, by providing services to support and development of these enterprises and by management of programmes through Government and Non-Government organizations, for their benefit.

The objective is to promote aid and foster the growth of MSMEs by providing them institutional support in the areas of marketing, export, technology up gradation, training and common facilities services. The mission aims at providing prompt services/training needs to citizens through our field agencies like Small Industry Development Organization and the National Small Industries Corporation, so that the growth of the MSMEs is enhanced, quality of production is improved and more employment opportunities are generated.

The Government created Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) in October, 1999 as the nodal Ministry for formulation of policy and co-ordination of Central assistance relating to

promotion and development of the small scale industries in India. The Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) was bifurcated into two separate Ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries in September, 2001.

The Ministry of SSI designs policies, programmes, projects and schemes in consultation with its organizations and various stakeholders and monitors their implementation with a view to assisting the promotion and growth of MSMEs. The Ministry also performs the function of policy advocacy on behalf of these enterprises with other Ministries/Departments of the Central Government and the State and Union Territories.

For achieving these objectives, the specific schemes / programmes undertaken by the organisations of this Ministry seek to facilitate /provide one or more of the following for the MSMEs:

- Adequate credit from financial institutions/banks;
- Funds for technology upgradation and modernization;
- Adequate infrastructural facilities;
- Modern testing facilities and quality certification laboratories;
- Modern management practices and skill upgradation through advanced training facilities;
- Marketing assistance; and
- Level playing field at par with the large industries sector.

The Ministry of Small Scale Industries is implementing following Schemes/Programmes for promotion and development of MSMEs in the country:

- a) Surveys, Studies and Policy Research
- b) National Entrepreneurship Development Board Scheme
- c) International Cooperation
- d) Assistance for strengthening of Training Infrastructure of Existing and New Entrepreneurship Development Institutions.

The implementation of policies and various programmes/projects/schemes for providing infrastructure and support services to small enterprises is under taken through its attached office, namely the Small Industry Development Organization (SIDO) and the National Small Industries Corporation (NSIC) Ltd., a public sector undertaking under the Ministry.

4.4.3 All India Financial Institutions

All India Financial Institutions (AIFI) is a group composed of Development Finance Institutions (DFI) and Investment Institutions that play a pivotal role in the financial markets. Also known as "financial instruments", the financial institutions assist in the proper allocation of resources, sourcing from businesses that have a surplus and distributing to others who have deficits - this also assists with ensuring the continued

circulation of money in the economy. Possibly of greatest significance, the financial institutions act as an intermediary between borrowers and final lenders, providing safety and liquidity. This process subsequently ensures earnings on the investments and savings involved.

In Post-Independence India, people were encouraged to increase savings, a tactic intended to provide funds for investment by the Indian government. However, there was a huge gap between the supply of savings and demand for the investment opportunities in the country

4.4.4 State Industrial Development Corporations

In 1960, the first State Industrial Development Corporations (SIDC) was established in Bihar. These mainly autonomous bodies are controlled by the State government, who may own a stake in the corporation. There are approximately 28 SIDCs in India.

Their main functions include the promotion of rapid industrialization in India. They mainly work at the grass roots level, providing development in the backward and less frequented parts of India. They offer financial leases and offer guarantees. They also administer the schemes of the central and state governments.

The projects and surveys of the industrial potential areas are conducted by them, as well as the evaluation of SEZs.

General Objectives of State Industrial Development Corporations (SIDCO)

- To create a conducive investment climate through infrastructure creation, reduced regulations, general facilitation, evolving such policies to induce investment in the States.
- To rejuvenate and make the existing industry competitive, particularly in the small scale sector through improved technology, product quality and marketing.
- To create a special thrust in the areas where states has an edge in terms of cost and competitiveness.

To understand more, we have discussed the SIDCO of two states viz; Uttarakhand and Kerala below:

State Infrastructure and Industrial Development Corporation of Uttaranchal Ltd (SIIDCUL):

SIIDCUL, a Government of Uttarakhand Enterprise, was incorporated as a Limited Company in the year 2002 with an authorised share capital of Rs. 50 Crores and Rs. 20 Crores paid up capital through Government of Uttarakhand in order to promote Industrial development in the State, provide financial assistance in the shape of debt, equity, venture capital, develop infrastructure and assist private initiative in Industry and Infrastructure and implement, manage projects and provide specialized financial, consultancy

and construction and all such other activities to promote industries and develop Industrial Infrastructure in the State of Uttarakhand directly or through Special Purpose Vehicles, Joint Ventures, assisted companies etc.

Besides the State Government, SIIDCUL has equity participation from Union Bank of India, Oriental Bank of Commerce and SIDBI. Other banks are also in the process of participating in its equity. This has led to a high degree of professionalism and autonomy in the functioning of the Corporation. The spate of concessions available for Industrial ventures in Uttarakhand along with the proactive govt. and facilitative environment has led to more than a thousand EOI's with SIIDCUL, which entail an investment of around Rs. 20,000 Crores.

Vision: The new Industrial policy aims to provide a comprehensive framework to enable a facilitating, investor friendly environment for ensuring rapid and sustainable industrial development in Uttarakhand and, through this, to generate additional employment opportunities and to bring about a significant increase in the State Domestic Product and eventual widening of the resource base of the State.

- To create high quality world class infrastructure facilities in the State and enhance, in particular, connectivity to the National Capital Region (NCR) and other leading markets.
- To provide single window facilitation in the State to expedite project clearances and provide an investor friendly climate.
- To provide and facilitate expeditious land availability for setting Industrial ventures and Infrastructure projects.
- To promote and encourage private sector participation in the development and management of infrastructure projects such as Industrial Estates/Areas, Growth Centers, IIDCs, Special Economic and Commodity Zones and Parks, Theme Parks, Tourism infrastructure, development of new tourist destinations, Airports/ Halipads/ Airstrips, Roads, generation, transmission and distribution of power, and projects in the area of Horticulture, Floriculture, Bio-technology etc.
- To provide assured, good quality, uninterrupted and affordable power for industries.
- To simplify and rationalize labour laws and procedures in tune with the current day requirements, while ensuring that the workers get their due share in the economic prosperity of the state.
- To promote, in particular, Small scale, Cottage and Khadi and Village Industries and Handicrafts, Silk and Handloom sectors, assist them in modernization and technological up-gradation and provide the necessary common facilities and backward and forward linkages, including product design and marketing support so as to make them globally competitive and remunerative.

- To address problems of sickness and incipient sickness in Industry, particularly SSIs and facilitate required restructuring and rehabilitation, etc. in coordination with the Banks and financial institutions.
- To promote planned and scientific exploitation of mineral resources of the State and maximize value addition within the State.
- To develop Uttarakhand as a premier education and research centre by leveraging the presence of world-class Research and Technical Institutes existing in Uttarakhand.

4.4.5 Case Study of SIDCO- Kerala to understand more the role of Institutions

Ever since its establishment in SIDCO caters overarching needs of Small Scale Industries in the State -provision for land and building, supply of scarce raw materials at low cost, marketing of MSME Products etc to name a few. Following are the divisions of SIDCO Kerala to perform its functions.

- Marketing Division
 - Production Division
 - Industrial Estate Division
 - Industrial Park Division
 - Raw Material Division
 - Construction Division
 - IT&TC and Trading Division
 - Export, Import & Project Division
 - Consultancy Division
-
- **Marketing Division:** SIDCO provides marketing support to Micro Small and Medium Enterprises functioning in the State. During 2010-11 a total of 50.71 Crore worth SSI Products have been marketed successfully to various Government Departments and PSU's. In the course of this mission, we have contributed Rs.103 lakhs to state exchequer towards collections and remittance of VAT. During 2012-13, the division achieved a turnover of Rs. 74 crores. SIDCO is also entrusted as the nodal agency for the fixing of prices for electrical items-one among the reserved items for MSME Sector.
 - **Production Division:** SIDCO owns 8 Production Units across the States, manufacturing Wooden and Steel Furniture, Survey equipments, Pressure Die Cast Components, Jigs and fixtures and machining of precision component. A major expansion and modernization policy has set in motion to transmute the Division to enlarge the product line.
 - **Industrial Estate Division:** SIDCO presently manages 17 major Industrial Estates and 36 Mini Industrial Estates. These estates are the havens of numerous SSIs, where SIDCO provides common infrastructural facilities for all the units.

- **Industrial Park Division:** Government has devised Industrial Park as a tool for developing industries in our State for which SIDCO is accepted as a Nodal Agency for constructing such Parks. Government of Kerala envisages at least one IP in each assembly constituency as a measure for employment generation. In this venture, SIDCO has completed 7 Industrial Parks that host 218 Industrial Units with a direct employment opportunity for nearly 1000 people.
- **Raw Material Division:** This division aims to distribute scarce raw materials to small scale industries. As low cost raw materials is inevitable to sustain the MSME in the field owing to cutthroat competition, SIDCO sacrificing its margin while supplying essential raw materials at the lowest possible cost. The Division achieved a turnover of Rs.54 Crore during 2010-11 and 79 crores during 2011-12. SIDCO seeks to widen its horizon by working in tandem with other central and state public sector undertaking for the best help of MSME Sector.
- **Construction Division:** Our Civil Construction Division that undertakes civil construction works, caters the needs for various PSU's, Tourism Department, various Government Departments, Industrial Estates / Mini Industrial Estates etc. The Division is at the behest of a Chief Engineer whose mission is assisted and supplemented by a group of experienced civil and Electrical engineers. The Division offers a host of integrated services-Structural design, preparation of detailed estimate, surveying, execution and management of civil and electrical works.
- **IT&TC Division:** The division, now conferred as a Total Solution Provider of Government of Kerala undertakes all gamuts of activities related to the arena of information technology. Now it ventures Telecom City, a major project with a total outlay of Rs.600 Crores on BOT basis with a 50000 Nos of prospective employment opportunities. The prestigious Tool Room cum Training Centre with state-of- the art technology, set up with a total outlay of Rs. 12 crore for the manufacture of tooling equipments and training is also functioning under the Division.
- **Export, Import & Project Division:** This division is created to undertake special projects. Under this division it is proposed to start IOC/ONGC Petro/Diesel Pumps at Cherthala, Ollur, Kanichukulangara, Olavakkode, Pachalam and Ernakulam. This division also undertakes supply / installation of LED Street Lights, e-toilets, High Security Number Plates etc. SIDCO is playing a vital role for the promotion of Small Micro and Medium Industries in the State that provides more than 10000 direct employment opportunities and over 20,000 indirect employment opportunities, its activities to lift this sector is very vital from social and economic view point.
- **Consultancy Division:** This division is mainly constituted for assisting entrepreneurs and Government / semi Government institutions right from

project development to its execution. Consultancy extends its service for project development, preparation of project report, assistance for obtaining term loans and finally its implementation. So far the division has bagged a handful of prestigious project for the consultancy services

4.4.6 Industrial Development Bank of India (IDBI)

The IDBI was established to provide credit for major financial facilities to assist with the industrial development of India. The Industrial Development Bank of India (IDBI) was established on 1 July 1964 under an Act of Parliament as a wholly owned subsidiary of the Reserve Bank of India. In 16 February 1976, the ownership of IDBI was transferred to the Government of India and it was made the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry in the country.

Although Government shareholding in the Bank came down below 100% following IDBI's public issue in July 1995, the former continues to be the major shareholder.

Functions:

- Direct assistance: helps the industrial sector by granting project loans, underwriting of and direct subscription to the industrial securities (shares and debentures), soft loans, and technical development funds.
- Coordinating functions: coordinates the functions of financial institutions such as ICICI, IFCI, LIC and GIC, with respect to industrial development.
- Indirect assistance to small and medium enterprises by granting loans. It also refinances industrial loans of the SFC's, SIDCs, commercial banks and RRBs, along with the billing related to the sale of the indigenous machinery.
- Raising funds from the international money markets.

Diversification of Activities of IDBI:

Since 1990, IDBI has set up number of institutes, including:

- Small Industries Development Bank of India (SIDBI) in 1990.
- IDBI Investment Management Company (IIMCO) in 1994.
- IDBI Capital Market Services Ltd. (ICMS) in 1995.
- IDBI bank Ltd.

4.4.7 National Small Industries Corporation (NSIC) Ltd

The National Small Industries Corporation Ltd. was set up with a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of these functions. NSIC continues to implement its various programmes and projects throughout the country to assist SSI Units. The Corporation has been assisting the sector through the schemes and activities such as Supply of both indigenous and imported

machines on easy hire-purchase terms, Composite term loan scheme, Credit rating for small scale industries, Procurement, supply and distribution of indigenous and imported raw-materials, Marketing of small industries products, Export of small industries products and developing export-worthiness of small scale units, Enlisting competent units and facilitating their participation in government Stores Purchase Programme, Training in several technical trades, Sensitizing SSI units on technological upgradation through software Technology Parks and Technology Transfer Centres, Mentoring & advisory service, Technology business incubators, Setting up small scale industries in other developing countries on turnkey basis, Other areas of international co-operation.

4.4.8 National Institute of Small Industry Extension Training (NISIET), Hyderabad.

The NISIET was setup as an apex institute in 1960 by the Government of India, with the Charter of assisting in the promotion, development, and modernization of small and medium enterprises (SMEs) to progress towards success and prosperity. With this vast expertise in the areas of entrepreneurship, policy, technology, management, and information services, the institute is consistently assisting the SMEs to face with confidence, the challenge brought about by globalization and the impact of IT on their businesses.

As a global organization, NISIET's stellar role in positioning the SMEs on the growth trajectory has benefited not only the Indian SME sector, but also developing countries around the world, in promoting self employment and enterprise development. The institute is constantly evolving with time, modifying its focus with the emerging need of SMEs, providing them solutions in the form of consultancy, training research, and education to retain their competitive edge in ever-changing markets.

4.4.9 National Institute for Entrepreneurship and Small Business Development (NIESBUD), Noida

The National Institute for Entrepreneurship & Small Business Development (NIESBUD) is a registered society under the Ministry of Small Scale Industries. The major activities of the institute include, development of model syllabi for training of various target groups, providing effective training strategies, methodology, manuals and tools, facilitating and supporting Central/State Governments and other agencies in executing programmes of entrepreneurship and small business development, maximizing benefits and accelerating the process of entrepreneurship development, conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies and organizing activities which help in developing an entrepreneurial culture in the society.

4.4.10 Indian Institute of Entrepreneurship (IIE), Guwahati

With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 at Guwahati by the erstwhile Ministry of Industry (now Ministry of Small Scale Industry), Government of India as an autonomous national institute. Indian Institute of Entrepreneurship (IIE), Guwahati, an autonomous body under the administrative control of the Ministry is working towards strengthening the capacity in the field of entrepreneurship development, training, entrepreneurship education, research, consultancy, publication and sanitization of environment for promotion of entrepreneurship, enterprise creation and self-employment in the North Eastern Region. IIE, Guwahati has also taken initiatives for providing hand-holding and escort services to the entrepreneurs in the North Eastern regions for which a Business Facilitation & Development Centre (BFDC) has been set up with a financial assistance from the Ministry.

4.4.11 National Commission for Enterprises in the Unorganized Sector

The National Commission for Enterprises in the Unorganized Sector was constituted in September 2004. The Commission will recommend measures considered necessary for bring about improvement in the productivity of the informal sector enterprises, generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas, enhancing the competitiveness of the sector in the emerging global environment, linkage of the sector with institutional framework in areas such as credit, raw material, infrastructure, technology upgradation, marketing and formulation of suitable arrangements for skill development.

4.5 Role and Steps Taken By RBI for the Development Of SSI Sector

Credit to SSI sector is monitored periodically by Reserve Bank of India, Department of SSI and National Advisory Committee of SIDBI, State Level Bankers Committee and District Level Coordination Committees of the Bank.

- a) The Central Government on the recommendation of RBI has raised the investment limit for SSIs from Rs.60 lakhs to Rs.300 lakhs and for tiny units from Rs.5 lakhs to Rs.25 lakhs.
- b) Public sector banks have been advised to make it operational more specialized SSI branches at centers where there is a potential for financing many SSI borrowers.
- c) To extend 'Single Window Scheme' of SIDBI to all districts to meet the financial requirements (both term loan & working capital) of SSIs.

- d) With a view to moderating the cost of credit to SSI units, banks are advised to accord SSI units with a good track record the benefits of lower spread over the Prime Lending Rate.
- e) In order to take expeditious decision on credit proposals of SSI units, banks have been advised to delegate enhanced powers to the branch managers of the specialized SSI branch so that most of the credit proposals are decided at the branch level.

High Level Committee for Credit (Kapur committee): In December 1997, RBI appointed a One-Man Committee under the Chairmanship of Shri S.L. Kapur, former Secretary (SSI), Government of India, to suggest measures to improve the delivery system and simplify the procedures for credit to small scale industrial sector. The Committee submitted its report to RBI on 30th June, 1998. The committee made 126 recommendations out of which RBI has already accepted 40 recommendations for implementation. Some of the major recommendations of the Committee are:

1. Special treatment to smaller among small industries;
2. Enhancement in the quantum of composite loans;
3. Removal of procedural difficulties in the path of SSI advances;
4. Sorting out issues relating to mortgages of land including removal of stamp duty and permitting equitable mortgages;
5. Allowing access to low-cost funds to Small Industries Development Bank of India (SIDBI) for refinancing SSI loans;
6. Non-obtaining of collaterals for loans up to Rs.2 lakhs;
7. Setting up of a collateral reserve fund to provide support to first party guarantees;
8. Setting up of a Small Industries Infrastructure Development Fund for developing industrial areas in/around metropolitan and urban areas;
9. Change in the definition of sick SSI units;
10. Giving statutory powers to State Level Inter-Institutional (SLIIC);
11. Setting up of a separate guarantee organization and opening of 1,000 additional specialized branches; and
12. Enhancement of SIDBI's role and status to match with that of National Bank for Agriculture and Rural Development (NABARD).

4.6 Institutional Support for Small-Scale Rural Processing Enterprise: The Case of Ondia

In India, the latest definition of a small-scale industry (SSI) is any unit with an upper limit on investment (in plant and machinery) of from Rs. 0.20 million to Rs. 0.35 million in the case of SSI and Rs. 0.45 million in the case of ancillary units. What is called the village and small industries (VSI) sector comprises both traditional and modern small industries; it is constituted by

eight specific groups viz. Handloom, Handicrafts, Coir, Sericulture, Khadi, Village Industries, Small-Scale Industries and Powerlooms. The last two items constitute the modern group of industries, the others being traditional.

In the economic development of India, a strategic position has been given to the development of village and small industries (VSI) which constitute an important segment of the overall economy. Next to agriculture, the VSI sector provides the greatest employment opportunities, a considerable portion of which is in rural and semi-rural areas. It contributes about fifty percent of the value added in manufacturing.

India's overall policy on all industrial development is contained in the Industrial Policy Resolution of 1956, as amended from time to time. New priorities have been developed as and when required including some designed to reduce the basic handicaps of small-scale industries. The latest of these is the Industrial Policy of July 1980 which aims to harmonise growth in the small-scale sector with that in the large and medium sectors and to remove the dichotomies between the two sectors.

During the sixth plan period (1979-80 to 1984-85) production in this sector increased from Rs. 335380 million to Rs. 657300 million at current prices and employment from 23.37 million to 31.50 million persons. The latter figure represents nearly 80 percent of the entire industrial employment. Of this total, modern small-scale industries employ 9 million people; next in importance is the handloom subsector which employs about 7.5 million people. During the seventh plan period (1985-90) the total value of production of the VSI sector is expected to increase by about 52.4 percent and employment by 27 percent to 40.0 million. The seventh plan also lays emphasis on the necessity of providing a new thrust for tiny units having fixed investment of less than Rs. 0.2 million. They form nearly 90 percent of the total number of small-scale industrial enterprises. A modified strategy will provide adequate facilities in rural and semi-urban areas which will increase dispersion of these industries.

4.7 Summary

Institutions provide guidance, allow for routines to develop and ultimately reduce the uncertainty of social interaction. These functions are all faces of the same coin but can analytically distinguished to better flesh out the role institutions play.

Institutions provide guidance and frame the behavior of individuals; they also as a consequence, structure the incentives that individuals face in their ventures. In other words, if one cannot win at tennis by playing outside the lines or letting the ball bounce twice, then the players will be motivated to develop the capabilities to play within the boundaries and to always run to return the ball before it bounces a second time.

These financial institutions have been set up with the aim of promoting industrial development in the respective States and providing financial assistance to small entrepreneurs. They are also involved in setting up of medium and large industrial projects in the joint sector/assisted sector in collaboration with private entrepreneurs or wholly-owned subsidiaries.

4.8 Glossary

Entrepreneurship	Entrepreneurship is an activity which leads to the creation and management of a new organisation designed to pursue a unique, innovative opportunity. Fundamentally, it is about using enterprise to create new business, new businesses and 'can-do' organisations and services.
Social entrepreneurship	Social entrepreneurship involves using entrepreneurial skills for the public good rather than for private profit, that is using imagination to identify new opportunities and determination to bring them to fruition.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a business over a period of time.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Capital	This has several meanings, but usually refers to the amount of money in the business belonging to the proprietors or shareholders.
Capital Expenditure	Money spent on the purchase of an asset.
Companies	A Company is a type of business structure created and regulated by state law. What sets the company apart from all other types of businesses is that a company is an independent legal entity, separate from the people who own, control and manage it.
Registered Office	The address where a company is officially registered with the Register of Companies. (Not necessarily the trading address).
Revenue Expenditure	Money spent in the running costs of the business.
Shareholder	A person or entity that owns shares of stock in a company or mutual fund.

SME	Small and Medium-sized Enterprise. The technical definition covers companies that have less than 250 employees, (50 for a small business) and are less than 25% foreign owned.
Social Enterprise	An enterprise whose primary aim is to meet some social rather than business need. Examples include charities, co-operatives and community businesses. Although generally run as not-for-profit enterprises, their success usually depends on application of the sound business practices described on this website.
Socio-Economic Background	Social class (grade A to E) which is of course related to ones income, is used to identify the kinds of people who buy your product and hence to target more of them.

4.9 Answer to Check Your Progress

1. Visit a nationalize bank in your city. Ask the bank authorities about their schemes for the small scale industries. Try to meet at least 2 prospective entrepreneurs there. Discuss with them the current policy and find out if they find the measures adequate. What, according to them, are the gaps in support provided?
2. Visit the offices of at least 10 entrepreneurs in your city. Enquire about the schemes of financial institution they are availing and try to get their opinion about their satisfaction level.
3. If somebody is planning to start his/her own small business enterprises then what are the various options available for financial support?

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4.12 Terminal Questions

1. In Indian SSE sector what are the various institutions extending support?
2. What are the major roles played by MSME for the SSE sector?
3. What is the role of SIDBI? Discuss.
4. How do trade industry associations, in the context of SSI's, facilitate development?

BLOCK: 2 ENTERPRISE DEVELOPMENTS

Entrepreneurship development is a crucial aspect of the sound management of an organisation. In fact, Enterprise development depends on the management of your own self which involves identification of entrepreneurship opportunities and creating an organisation to pursue them. Thus, a sound understanding of the management, operation, functions and legal requirements are necessary for starting your own tourism venture. In this block an attempt has been made to familiarize you with the identification of entrepreneurship opportunities, environmental analysis, feasibility study, legal requirements for small scale enterprises in tourism and also managing of family enterprise in tourism. This block comprises the following units:

Unit - 5 focuses on identification of entrepreneurship opportunities in tourism. Finally the unit contains the procedure for conducting environmental analysis in tourism.

The 6 - unit of the course entitled “Feasibility Study” explains not only the need for feasibility study, but also the most important aspects that should be taken into account while conducting feasibility study.

Unit -7 deals with legal requirements for small scale enterprises (SSE, s) in tourism and documentation for SSEs in India and UttraKhand. In this unit you will learn about the important legal requirements required for small scale enterprises in tourism along with documentation procedure required for these enterprises.

In unit - 8 you will describe about the managing of family enterprises in tourism. Since the small scale enterprises and family enterprises in tourism occupied major portion of the tourism enterprises. Therefore, the management practices and procedure for the success of these enterprises have become vital for the tourism students.

Block Objectives: After studying this block, you will be able to:

- Describe the enterprise development in tourism.
- Identifies main entrepreneurship opportunities in tourism.
- Describe the procedures for conducting environmental analysis ,
- Explain the feasibility study.
- Familiarize yourself with the legal requirements for small scale tourism enterprises,
- Discuss the management of family enterprises in tourism.

UNIT 5: IDENTIFICATION OF ENTREPRENEURSHIP OPPORTUNITIES AND ENVIRONMENTAL ANALYSIS

Structure:

- 3.1 Objectives
- 3.2 Introduction
- 3.3 Entrepreneurship in tourism - an overview
- 3.4 Identification of Entrepreneurship Opportunities in tourism
- 3.5 Environmental analysis- meaning, concept and importance
- 3.6 Need for Environmental Analysis in Tourism Business
- 3.7 Process of Environmental Analysis
- 3.8 Major Environmental Issues in Tourism
- 3.9 Importance of Environmental Analysis
- 3.10 Summary

5.1 Objectives

After reading this unit, you will be able to:

- Identification of Entrepreneurship Opportunities in tourism
- Explain the meaning and concept of environmental analysis;
- Describe the importance of environmental analysis in tourism
- Discuss the process of environmental analysis process

5.2 Introduction

In the recent years both the Central Government and various State Governments are taking increased interest in promoting the growth of entrepreneurship. Individuals are being encouraged to form new businesses and are being provided such government support as tax incentives, buildings, roads, and a communication system to facilitate this creation process. The encouragement by the central and state governments should continue in future as more lawmakers are realizing that new enterprises create jobs and increase the economic output of the region. Every state government should develop its own innovative industrial strategies for fostering entrepreneurial activity and timely development of the technology of the area. The states should have their own state-sponsored venture funds, where a percentage of the funds have to invest in the ventures in the states. This unit introduces you with various entrepreneurship opportunities in tourism sector. The unit also contains the discussion about the environmental analysis in tourism.

5.3 Entrepreneurship in Tourism: An Overview

A recent McKinsey & Company-Nasscom report estimates that India needs at least 8,000 new businesses to achieve its target of building a US\$87 billion IT sector by 2008. Similarly, in the next 10 years, 110-130 million Indian citizens will be searching for jobs, including 80-100 million looking for their first jobs. This does not include disguised unemployment of over 50% among the 230 million employed in rural India. Moreover, tourism and hospitality sector will likely to generate huge employment opportunities by the end of 2010. In fact, in tourism sector more entrepreneurship opportunities will be available in the 11th five year plan in India. Since traditional large employers- including the government and the old economy player-may find it difficult to sustain this level of employment in future, it is entrepreneurs who will create these new jobs and opportunities. Today's knowledge based economy is fertile ground for entrepreneurs, in India. It is rightly believed that India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs. Therefore, it is important to get committed to creating the right environment to develop successful entrepreneurs. The definition of entrepreneurship has evolved over time as the world's economic structure has changed and become more complex. Risk taking, innovation, and creation of wealth are the criteria that have been developed as the study of new business creations has evolved. The decision to start an entrepreneurial venture consists of several sequential steps (1) the decision to leave a present career or lifestyle. (2) The decision that an entrepreneurial venture is desirable; and (3) the decision that both external and internal factors make new venture creation possible.

Thus, the entrepreneurship has relevance today, not only because it helps entrepreneurs better fulfill their personal needs but because of the economic contribution of the new ventures. More than increasing national income by creating new jobs, entrepreneurship acts as a positive force in economic growth by serving as the bridge between innovation and market place.

Today, government gives great support to basic and applied technological innovations to products or services, although entrepreneurship offers a promise to both technical and business skills, to serve as the major link in the process of innovation development, and economic growth and revitalization.

5.4 Identification of Entrepreneurship Opportunities in Tourism

We can define an opportunity as: 'the potential for change, improvement or advantage arising from our action in the circumstances'. Casson defined entrepreneurial opportunities as 'those situations in which new goods,

services, raw materials and organising methods can be introduced and sold at greater than their cost of production'. Where as Shane stated them as 'a situation in which a person can create a new means–end framework for recombining resources that the entrepreneur believes will yield a profit'. Both of these are only definitions of profit opportunities. This book takes a broader definition, in that the pursuit of profit is important but not the sole determinant of entrepreneurial opportunity.

Improvements in social, cultural, health and environmental arenas are also important, especially for social entrepreneurs and entrepreneurial managers in public sector organisations, as well as 'mainstream' entrepreneurs. The opportunity may be a situation which already exists, or one which we create and which would not otherwise have occurred. An opportunity may be one which we can actually recognise now, or one which will arise in the future. Types of opportunity may include, for example,

- A 'gap in the market' for a product or service
- A mismatch between supply and demand
- A future possibility which can be recognised or created
- A problem that can be solved, for example by applying a solution to a need
- A more effective or efficient business process, system or model
- A new or existing technology or approach which has not yet been applied
- The transfer of something that works in one situation to another, such as a product, process or business concept
- A commodity or experience people would desire or find useful if they knew about it.

Thus, there are huge opportunities for tourism graduate and post -graduate students in tourism and hospitality industry such as:

- Travel agency
- Tour operator
- Transport operator
- Hotelier
- Destination organisations
- Amusement and recreation parks and centres
- Others – Tourist Guide,

Check your progress - 1

Answer the following questions.

1. Define the concept of entrepreneurship in tourism
2. Identify major entrepreneurship opportunities available in tourism.

(Check your answer with the one given at the end of the unit.)

5.5 Environmental analysis- Meaning, and Concept

Meaning: Before we go through the mechanism of environmental analysis, it is desirable to understand the nature of environment, its impact on the organisation, and various factors which constitute environment. An organisation, being a system, operates in some contexts which lie outside it and is called as external environment or simply environment. Thus, environment consists of all the conditions, circumstances, and influences surrounding and affecting an organisation in its totality or any of its subsystems. The environmental factors are quite broad. For example, Barnard has defined environment as follows:

“Environment consists of atoms and molecules, agglomeration of things in motion, alive, of men and emotions, or forces and resistances. Their number is infinite and they are always present; they are always changing”

This is quite a broad description of the environment. In order to be more precise, an organisation has to find out the relevant environment which directly affects it. However, the concept of relevance is a matter of perception which may differ from organisation to organisation and from strategist to strategist in the same organisation. Thus, the business environment is of two types:

General Environment: General Environment, also known as societal, remote, macro or indirect-action environment consists of those factors which affect the business of a country and, therefore, they have homogenizing effect. In the general environment, we can include natural and ecological factors at the first level. Natural factors are important to the economic activities of a country because either they provide opportunities or threats to the economic system. For example, agriculture depends on nature (rainfall, climatic conditions, etc.); manufacturing depends on physical inputs; mining and drilling depend on natural deposits; transportation and communication depend on geographical factors; and so on. In the same way, ecological factors like environmental pollution, wild-life, greenery, and other factors are matters of concern for all organisations.

At the second level, comparatively, more influential factors come in the form of economic, political-legal, technological, and social-cultural factors. Taken together, they set forth the framework for organisations' operations and determine the inputs which organisations can take from the environment, process these inputs in the form of outputs, and export these outputs back to the environment. Various characteristics of such factors may be favourable or unfavourable to the growth of organisations. Besides these factors, which exist within a country, international factors also become important because of globalisation of economy of a country.

Specific Environment: Specific environment, also known as task, operating, micro or direct-action environment, affects individual organisations differently. Since a particular organisation operates in an industry or limited number of industries, it is directly affected by the nature of industry concerned and the type of competition prevailing therein. Thus, the specific environment includes those forces lying outside the organisation directly relevant to decision making about input acquisition, transformation process, and export of output. However, it does not mean that an organisation should take the analysis of its specific environment only; it has to analyse general environment too because it ultimately shapes the specific environment.

Concept of environmental analysis: Environmental analysis, also known as environmental scanning or appraisal, is the process through which an organisation monitors and comprehends various environmental factors and determines the opportunities and threats that are provided by these factors. Thus, there are two aspects involved in environmental analysis:

1. Monitoring the environment, i.e. environmental search and
2. Identifying opportunities and threats based on environmental monitoring, i.e. environmental diagnosis.

On the basis of the above concept, following features of environmental analysis may be identified:

- It is a **holistic exercise** in which total view of environment is taken rather than viewing trends piecemeal. Though for environmental analysis, the environment is divided into different components to find out their nature, function, and relationship for searching opportunities and threats and determining where they come from, ultimately the analysis of these components is aggregated to have a total view of the environment. This is necessary because some elements of the environment may indicate opportunities while others may indicate threats.
- Environmental analysis is an **exploratory process**. While the monitoring aspect of the environment is concerned with present developments, a large part of the process seeks to explore the unknown terrain, the dimensions of possible futures. Since futures are unknown, the analysis emphasises on 'what could happen and not necessarily what will happen.' The emphasis must be on alternative futures, seeking clarification of the assumptions about the future, speculating systematically about alternative outcomes, assessing probabilities, and drawing more rational conclusions.
- It is **continuous process** rather than being an intermittent scanning system. In this process, there is continuous scanning of the environment to pick up the new signals or triggers in the overall pattern of developing trends. Detailed studies are undertaken to focus closely on the track of previously identified trends which have been analysed and assessed and found to be of particular importance to the organisation.

Thus, Environmental analysis is a study of all external factors that may affect a company or its marketing plan. Environmental analysis is a basic marketing function used to help marketers identify trends or outside forces that may impact upon the success or failure of a particular product. Marketers will look at the economy, political situation, cultural forces, social conditions, competitors, and legal and ecological factors when affecting an environmental analysis

5.6 Need for Environmental Analysis in Tourism Business

The strategies that a tourism company may adopt are influenced by the environment. An organisation can not keep itself insulated from the environment. It can not take decisions on policies and performance, independent of the happenings in the environment around it, as it affects the strategic decisions required to be taken by a company. An analysis of environment and its behaviour gives ample scope for the companies to anticipate various opportunities and threats and be proactive towards them. It implies that the organisations can turn them to their maximum advantage.

The following points indicate the need for environmental analysis in tourism organisations:

1. The various factors and their interactions taking place in the environment, which would be conducive to the strategies of the company to know how far they would be helpful in accomplishing the objectives set for company.
2. The various factors and their interactions that would generate new opportunities for the company to grow and accomplish stretched goals.
3. The various factors and their interactions that would threaten the survival and growth of a company and evolution of alternatives that would possibly turn threats into opportunities.
4. Targets that a company would like to formulate for itself which would be not only realistic but would also pose a challenge to motivate the workforce.

Check your progress- II

Answer the following questions.

1. What is environmental analysis?
2. Describe the need for environmental analysis.

(Check your answer with the one given at the end of the unit.)

5.7 Process of Environmental Analysis

The process environmental analysis makes sure that environmental issues are raised when a project or plan is first discussed and that all concerns are addressed as a project gains momentum through to implementation.

Recommendations made by the EIA may necessitate the redesign of some project components, require further studies, and suggest changes which alter the economic viability of the project or cause a delay in project implementation.

To be of most benefit it is essential that an environmental assessment is carried out to determine significant impacts early in the project cycle so that recommendations can be built into the design and cost-benefit analysis without causing major delays or increased design costs. To be effective once implementation has commenced, the EIA should lead to a mechanism whereby adequate monitoring is undertaken to realize environmental management. An important output from the EIA process should be the delineation of enabling mechanisms for such effective management.

The way in which an EIA is carried out is not rigid: it is a process comprising a series of steps. These steps are outlined below and the techniques more commonly used in EIA are described in some detail in the section *Techniques*. The main steps in the EIA process are:

- Screening
- Scoping
- prediction and mitigation
- management and monitoring
- audit

Figure 1 shows a general flow diagram of the EIA process, how it fits in with parallel technical and economic studies and the role of public participation.

In some cases, such as small-scale irrigation schemes, the transition from identification through to detailed design may be rapid and some steps in the EIA procedure may be omitted.

- **Screening** often results in a categorization of the project and from this a decision is made on whether or not a full EIA is to be carried out.

- **Scoping** is the process of determining which are the most critical issues to study and will involve community participation to some degree. It is at this early stage that EIA can most strongly influence the outline proposal.

- Detailed **prediction and mitigation** studies follow scoping and are carried out in parallel with feasibility studies.

- The main output report is called an *Environmental Impact Statement*, and contains a detailed plan for **managing and monitoring** environmental impacts both during and after implementation.

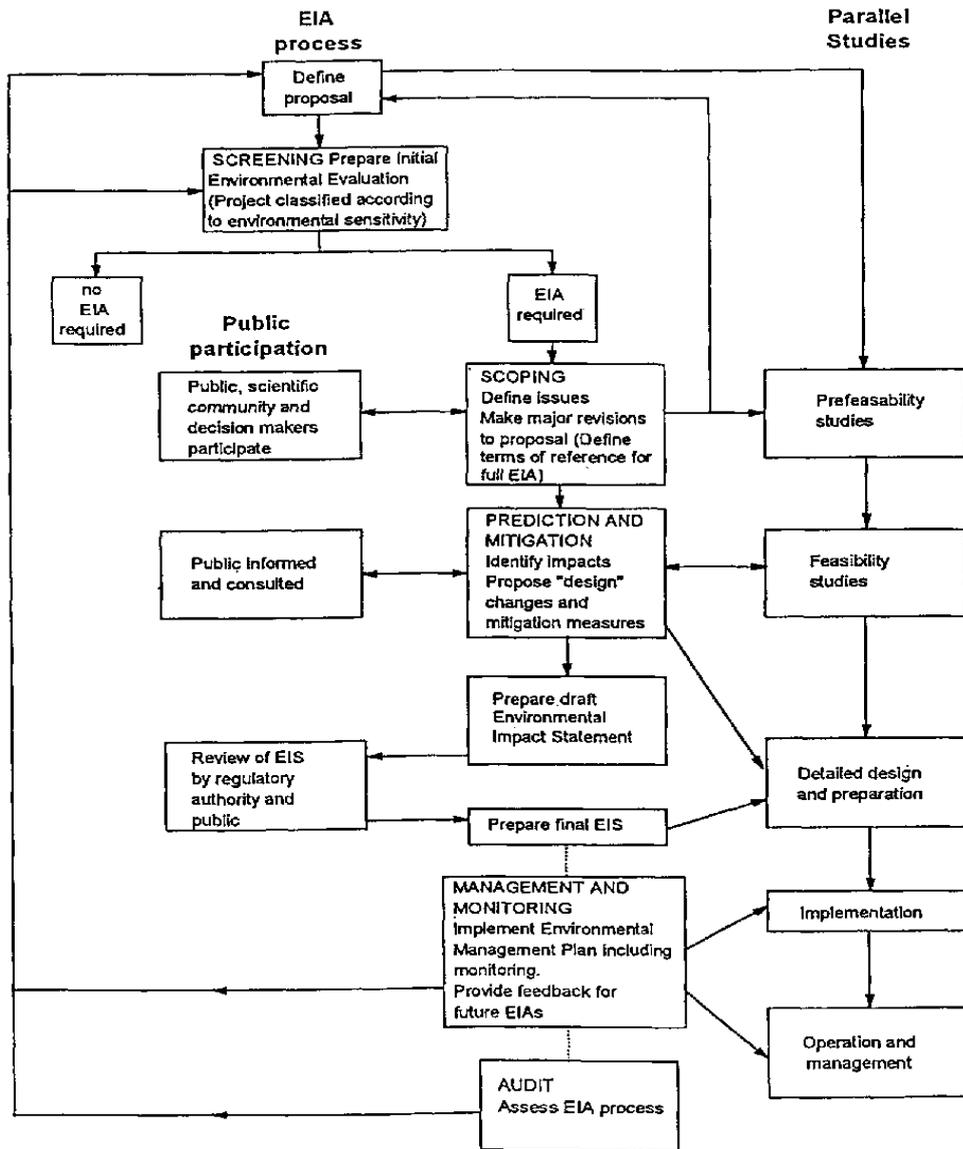
The environmental impact assessment (EIA) process includes:

- Is usually reactive to a development proposal.
- Assesses the effect of a proposed development on the environment.
- Addresses a specific project
- Has a well-defined beginning and end.

- Assesses direct impacts and benefits.
- Focuses on the mitigation of impacts.
- Has a narrow perspective and a high level of detail.
- Focuses on project-specific impacts.

The figure 1 clearly indicates the process of EIA process and parallel studies. Thus, it is clear that environmental analysis is vital tool for the business to assess the environmental impact specially tourism.

Figure 1 Flow diagram of the EIA process and parallel studies



Check your progress - III

Answer the following questions.

1. What is the process of environmental analysis?
2. What are the main steps in EIA?

(Check your answer with the one given at the end of the unit.)

5.8 Major Environmental Issues in Tourism

Tourism is almost wholly dependent on the environment. Natural resources (beaches, seas, mountains, lakes, rivers etc) and man made resources (historic cities, heritage buildings and sites, monuments etc) constitute the primary source of tourism. Any degradation of the primary sources is likely to lead to a decline of tourism. Therefore, their analysis within economics is particularly relevant to tourism. International business and holiday tourism travel, according to the World Trade Organization (WTO, 2006) has grown at the rate of 5,4 percent and total 826 million arrivals. The domestic tourism is estimated to be ten times bigger. Today, tourism is one of the major economic activities in the world. It contributes roughly 6 per cent of the world income. Naturally, it has a marked impact on the demand for exhaustible and renewable resources. It generates significant wastes and thus disposal problems. The operation of tourism firms reflects the market driven characteristics of other economic sectors. Extended tourism expansion or concentration in certain destinations has neglected the long term dependence of the industry on environment and led over exploitation of natural resource base and the generation of non-priced effects. The environmental effects, widely defined, include cultural and social elements, and are probably the biggest problem of tourism. Thus, in tourism literature the following issues are taken care of while planning:

- 1. Sustainable development:** Rio Declaration in 1992 defined a set of principles that define actions and agreements in which biodiversity, climate change, forest management and conservation were accorded prominence along with a priority to be given to the poorest sections of population. The essence of sustainable development is to manage world economies in such a way that the present needs should be met without impairing the capacity to meet the future needs. The implication of such a strategy is that the growth rates will have to be moderated. Moreover, it has been stressed that quality of life, that can not be measured in monetary terms, should be taken into account. The main issue associated with sustainable development is how to reconcile economic development and growth with open access public good and nature of the natural environment which consequently suffers from detrimental externalities. We feel that in a sense sustainable development, although initially partial only, can be achieved through various types of sustainability, e.g. sustainable agriculture, sustainable cities, sustainable ecological systems and sustainable tourism.
- 2. Sustainable tourism:** Sustainability should be the cornerstone of the development of tourism since the natural environment constitutes most of its primary resource base. Moreover, with growing awareness of both tourists and residents, firms and governments are under increased pressure

to take concrete action to attain sustainability. Today, tourism firms have also taken the concern of tourists and residents alike that tourism should be environmentally responsible. In order to achieve such effect firms need to comply with environmental regulations and standards.

- 3. Maximum sustainable income:** The concepts concerns with resources which are capable of renewal either naturally or by management. The key issue is how to achieve maximum yield but maintain sustainability from the economic use of open access (e.g. natural parks, lakes and rivers, mountains) and common property resources (e.g. atmosphere and seas). Both are susceptible to over exploitation. The problems are more acute with the former due to the dangers of the extinction of wildlife or degradation of ecosystems. Therefore, environmental analysis helps to maximum income from tourism ventures.
- 4. Resources conservation:** The rate of depletion and possible exhaustion of key productive resources remain a central economic problem. In context to the inducement of conservation of resources, issues have been raised concerning otherwise consequences for growth, technological developments and role of market costs and prices. Natural as well as physical resources conservation is the need of hour. Many tour operators take into consideration this very fact while developing the tour packages. Various researches have shown that environmental actions by firms engaged in tourism resembles like to avoid the use of material likely to be environmentally harmful, substitute purchases of recycled material for those from primary sources and to reduce waste by a cut in consumption of materials and energy.
- 5. Supply and demand balance:** Environmental problems of tourism have a profound impact on the supply and demand of tourism product. The inability of markets, where demand and supply are formed by price, to provide some environmental goods, arises essentially from the public good nature of resources, externalities, and distribution considerations. It is perceived as the rationale for land-use planning and other forms of government intervention. It is acknowledged that if market fail to perform efficiently there is a need for ameliorative measures involving governments as law enactors and regulators covering the management of natural resources and environment quality.

5.9 Importance of Environmental Analysis

The factors or the forces understood under environmental analysis framework put together, present a highly complex and uncertain environment which are difficult to predict or foresee. From a long term view of strategy however, reaching somewhat closer to such forces are important in understanding the key factors influencing the success of such strategies.

Environmental scanning is one of the few ways to detect future driving forces early and this involves studying and interpreting the developments of social, political, economic, ecological and technical events that could become driving forces. It attempts to figure out few radical happenings or path breaking developments which may be catching on and see their possible implications 5 to 20 years into the future. The purpose of the environmental scanning is to raise the consciousness of managers about potential developments that could have an impact on industry conditions and bring in new threats or opportunities.

Environmental Analysis is normally accomplished by systematically monitoring and studying current events, constructing scenarios and employing the Delphi method (a technique for finding consensus among a group of knowledgeable experts). Constructing scenarios involves a detailed plausible view of how the business environment of an organization might develop in the future based on the groupings of key environmental influences and drivers of change about which there is high level of uncertainty. For example in industries like energy, transportation, defense equipment etc. there is a need for views of the business environment of more than 10–15 years and factors like raw materials, substitutes, consumption patterns, geo politics etc. would be of crucial importance. Foreseeing precisely for such a longer duration may be very difficult but drawing up possible futures may be possible. It is not unnatural to believe that several scenarios could unfold overtime and these need to be understood. Scenario planning technique is briefly discussed in Unit 5 under the competitive environment.

Importance of environmental analysis in strategic management is quite crucial. Wilson' has compared the role of environmental analysis with function of radar. If a ship is sailing on a sea of uncertainty, there are two essential requirements for a successful voyage. There has to be a star to steer the ship. Secondly, there must be radar to signal the existence of rock, reefs, and Clearwater in the uncharted sea. Similarly, a business firm operating in an uncertain environment, must have a vision of the business (a guiding star) and a system of environmental analysis (the radar). Many of the research studies also suggest that those organisations which undertake systematic environmental analysis perform better than those which do not take such an exercise. For example, Danny and Friesen's research study shows high relationship between environmental analysis and success of the firms. Even in our country, Reliance Industries Limited gives very' high priority to environmental analysis and the result is that the company has achieved highest growth rate in Indian corporate sector. The role of environmental analysis in strategic management can be seen in the following ways.

1. The environment changes so fast that new opportunities and threats are created which may result disequilibrium into organisation's existing equilibrium. Therefore, the strategists have to analyze the environment to

determine what factors in the environment present opportunities for greater accomplishment of organisational objectives and what factors in the environment present threats to the organisation's objective accomplishment so that suitable adjustment in strategies can be made to derive maximum benefits.

2. Environmental analysis allows strategists time to anticipate opportunities and plan to take optional responses to these opportunities. Similarly, it helps to develop an early warning system to prevent the threats or to develop strategies which can turn the threats to the organisation's advantage.
3. Environmental analysis helps strategists to narrow the range of available alternatives and eliminate options that are clearly inconsistent with forecast opportunities of threats. The analysis helps in eliminating unsuitable alternatives and to process most promising alternatives. Thus, it helps strategists to reduce time pressure and to concentrate on those which are more important.
4. The environmental forces may affect different parts of the organisation in different ways because different parts interact with their relevant external environment. For example, the technological environment may affect the organisation's R & D department.

Further, these forces of the environment may have direct effect on some parts but indirect effect on others. For example, any change in the fiscal policy of government may affect the finance department directly but it may affect production and marketing indirectly because their programmes may be re-casted in the light of new situation, though not necessarily.

5. The environmental influence process is quite complex because most things influence all other things. For example, many of the environmental forces may be interacting among themselves and making the impact on the organisation quite complex. Moreover, the impact of these forces on the organisation may not be quite deterministic because of interaction of several forces.

For example, the organisation structure will be determined on the basis of management philosophy and employee attitudes. But the organisation structure becomes the source for determining the employee attitudes. Thus, there cannot be direct and simple cause-effect relationship rather much complexity is expected.

6. The organisational response to the environmental forces may not be quite obvious and identical for different organisations but these are subject to different internal forces. Thus, there is not only the different perception of the environmental forces but also their impact on the organisation. Key factors determining responses to environmental impact may be managerial philosophy, life cycle of the organisation, profitability, etc.

7. The impact of environmental forces on the organisations is not unilateral but the organisations may also affect the environment. However, since the individual organisations may not be able to put pressure on the environment, they often put the pressure collectively. Various associations of the organisations are generally formed to protect the interest of their members. The protection of interest certainly signifies the way to overcome unilateral impact of the environment on the organisations. The nature of organisation-environment interaction is such that organisations, like human species or animals, must either adjust to the environment or perish.

Check your progress - IV

Answer the following questions.

1. List the major environmental issues in tourism.
2. Give any five points of the importance of environmental analysis in tourism.

(Check your answer with the one given at the end of the unit.)

5.10 Summary

Understanding of the general environment in which an organization operates is the foremost pre-requisite towards strategy formulation. The process of environmental analysis provides a comprehensive overview of how importance is it for managerial decisions.

The objective of the analysis out of this framework however should not only restrict to the present and past but the real focus should be on projecting the trends into future in order to get the real feel of the environment then. This shall enable the firm to proactively strategize for future considering the general as well as specific environment; it is going to face and the issues which will be of importance.

Answer to Check Your Progress

Check Your Progress - I

- 1) See sec. 5.3
- 2) See sec. 5.4

Check Your Progress - II

- 1) See sec. 5.5
- 2). See sub sec. 5.6

Check Your Progress - III

- 1) See sec. 5.7
- 2) See sub sec. 5.7

Check Your Progress - IV

- 1) See sec. 5.8
- 2) See sub sec. 5.9

5.11 Glossary

- **Environmental Scanning:** One of the few ways to detect future driving forces.
- **Entrepreneur:** an Entrepreneur is a person who specializes in taking judgmental decision about the coordination of scarce resources.

5.12 Review Questions

1. Briefly summarize what you understand by the general environment and its importance for tourism business.
2. Explain what is Environmental analysis and how is it connected to strategy formulation?
3. Briefly explain the process of EIA framework.
4. Discuss the importance of environmental Analysis in tourism.
5. Identify the main entrepreneurship opportunities available in tourism in India

5.13 Suggested Readings

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UNIT 6: FEASIBILITY STUDY AND IMPACT ASSESSMENTS

Structure:

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Feasibility Study - meaning and concept
- 6.3 Feasibility Study in tourism
- 6.4 Need for Feasibility Study in tourism
- 6.5 Process of Feasibility study
- 6.6 Dimensions of Feasibility study
- 6.7 Importance of Feasibility study in tourism
- 6.8 Summary

6.0 Objectives

After reading this unit, you will be able to:

- Describe the concept of feasibility study;
- Explain the meaning of tourism feasibility study;
- Discuss the importance of tourism feasibility study;
- Describe the dimensions of tourism feasibility study.

6.1 Introduction

In this unit we focus on the most and interesting topic of the course i.e. Feasibility study. This unit introduces you with the concept, meaning and importance of Feasibility study in tourism. Various dimensions of feasibility study also describe in this unit. Moreover, the student will learn the process of conducting the feasibility study in tourism.

6.2 Feasibility Study - Meaning and Concept

A feasibility study is an analysis of the viability of an idea. The feasibility study focuses on helping answer the essential question of “should we proceed with the proposed project idea?” All activities of the study are directed toward helping answer this question.

A feasibility study, conducted during the (project’s) Appraisal phase (i.e. project evaluation), verifies whether the proposed project is well-founded and is likely to meet the needs of its intended target groups / beneficiaries. The study should design the project in its operational details taking account of all policy technical economic financial institutional management environmental socio-cultural gender-related aspects. The study will provide the EC and partner government with sufficient information to justify acceptance modification or rejection of the proposed project for further financing. The above statements may seem to the reader as rather broad, as it must be, considering that these must be applied to thousands of projects in many different situations. Given that a more specific, readily understandable methodology and Manual is here provided. A Feasibility Study comprises of a range of interrelated and often interdependent sub studies. A Feasibility Study links and integrates independent sub-studies into one coherent whole. Consequently, individual sub-studies may need to be updated and revised as information from other studies becomes available. For instance, should capital investment needs overwhelm project financial resources, the projects investment plan may be reduced or delayed. It is not uncommon, over the course of a Feasibility Study that many assumptions are revised, new risks identified and the project’s financial projections changed.

Aspiring entrepreneurs may have an idea about the type of tourism product \ service that they would like to make. This can come from seeing others successfully developing or designing tourism product to copy them or from talking to friends and family members about products that they think they could make. However, an idea for a tourism business is not a sufficient reason to begin business straight away, without having thought clearly about the different aspects involved in actually running the tourism business. Too often, people invest money in a business only to find out later that there is insufficient demand for the product or that it is not the type that customers want to buy. To reduce this risk of failure and losing money, potential entrepreneurs should go through the different aspects of running their business in discussions with friends and advisers before they commit funds or try to obtain a loan. This process is known as doing a *feasibility study* and when the results are written down, the document is known as a *business plan*. Conducting a feasibility study need not be difficult or expensive, but the most important aspects should all be taken into account to ensure that potential problems are addressed.

Thus, a feasibility study is essentially a process for determining the viability of a proposed initiative or service and providing a framework and direction for its development and delivery. It is a process for making sound decisions and setting direction. It is also a process which: is driven by research and analysis usually involves some form of consultation with stakeholders, community, users, etc. focuses on analyzing, clarifying and resolving key issues and areas of concern or uncertainty very often involves basic modeling and testing of alternative concepts and approaches There is no universal format for a feasibility study. Feasibility studies can be adapted and shaped to meet the specific needs of any given situation.

6.3 Feasibility Study in Tourism

Tourism has emerged as one of world's largest industries and a fastest growing sector of the world economy; tourism receipts account for a little over 8% of world export of goods and more than 34% of world export of services. In India, however, the sector has failed to receive due importance on the country's development agenda. Employing only 2.4% of the Indian workforce, the vast potential of tourism as an instrument of employment generation and poverty alleviation has tended to remain largely unutilized. Of the 625 million world tourist arrivals in 1998, India received a meagre 2.36 million or 0.38% of the total world tourist arrivals and only 0.62% of world tourist receipts. Compared to other countries in the region India's performance in the sector has been rather poor.

Major causes cited for the low performance are lack of professionalism, unhygienic conditions, poor infrastructure, lack of easily accessible information, lack of safety, poor visitor experience, restrictive air transport policy, inadequate facilitation services, multiplicity of taxes and the low priority accorded to tourism. However, despite its tiny share of world tourist arrivals, tourism in India has emerged the second largest foreign exchange earner for the country even though the mainstay of the Tourism industry in India continues to be domestic tourism.

The tourism feasibility study define as a controlled process for identifying problems and opportunities, determining the objectives, describing the situations, defining successful outcomes, assessing the range of costs and benefits associated with several alternatives for solving problems. In fact, tourism feasibility study is used to support the decision –making process based on cost benefit analysis of business or project.

Check your progress - I

Answer the following questions.

1. Define the concept Feasibility study.
2. What is tourism feasibility?

6.4 Need for Feasibility Study in tourism

A feasibility study is essentially a process for determining the viability of a proposed initiative or service and providing a framework and direction for its development and delivery. It is a process for making sound decisions and setting direction. It is also a process which: is driven by research and analysis usually involves some form of consultation with stakeholders, community, users, etc. Focuses on analyzing, clarifying and resolving key issues and areas of concern or uncertainty very often involves basic modeling and testing of alternative concepts and approaches there is no universal format for a feasibility study. Feasibility studies can be adapted and shaped to meet the specific needs of any given situation. As outlined in the Leisure Services Policy, all new community leisure service initiatives or proposals which fall outside the Department's current realm or scope of service provision are subject to two initial evaluations: the Community Needs Assessment and the Options Analysis. If the results of these evaluations are inconclusive or fail to establish clear direction, then a feasibility study may be required if it is felt that the proposed service merits further review. The requirement for a feasibility study will be at the discretion of the Parks & Recreation Department's Management Team. Generally, if a proposed initiative has major political or financial implications to the City or has significant potential community impacts, then a feasibility study will be required. Declaring the need for a feasibility study also implies that the initiative will require some consultative process and Council involvement. The following are more specific circumstances that may prompt the need for a feasibility study:

- significant capital investment is required
- significant City funding or public fundraising is required
- significant commitment or exclusivity of City land or building floor space and time is required
- there is no clear champion
- financial viability is in question (costs compared with anticipated revenues)
- community needs require further analysis and validation
- There is potential to reach a large market segment or affect a large number of people.
- Accessibility to the service is an issue (pricing barriers, physical barriers, discriminative social barriers, proximity, geographic equity, etc.).
- There is a perception of competition with existing service providers (commercial or community based) and the City's mandate or role may be questioned.
- There is no clear indication of the preferred method or source of delivery.

- Public safety is concerned.
- There are significant legislative requirements (health, safety, liability, certification requirements) related to the initiative which concern, impact and relate to the City.
- There is significant risk inherent in the service initiative (financial, political, public liability, social, etc).
- The initiative entails significant operating requirements (ie. financial, administrative, staffing, materials and supplies, skill development, customer service, training/development, etc.).

Generally, the feasibility analysis in tourism is done for one or more of the following reasons:

- To evaluate the status of an existing tourism product or tourism service;
- To evaluate the potential for expanding an existing tourism product or tourism service;
- To evaluate the potential for a new tourism product or service;
- To obtain financial backing for a tourism project.
- This is required to determine whether the project can be justified in economic terms by conventional debt-financing sources (such as lending institutions) and preferred by equity sources (those individuals or companies who would be willing to invest in your idea: stockholders, partners, etc.).

6.5 Process of Feasibility study

A hotel feasibility study is a report based on the investigation of all the factors that could affect the profitability of a proposed new hotel. The study estimates probable demand and makes economic projections based on all sources of income and costs. Our typical client is a potential investor who wants an independent expert report on the financial viability of a proposed hotel project.

1. Present and future demand

- We research the local business community and inbound tour operators about the current performance and future trends of the hotel industry in the particular locality to determine the potential demand for additional new hotel accommodation.
- Using Ministry of Tourism and other official statistics, we project future demand based on the proportions (by country-of-origin) of international visitors as well as domestic visitors who tend to use hotel accommodation in the locality of the proposed hotel.

2. Income projections

- We determine where the proposed hotel is positioned in the market, and evaluate potential demand for this standard of hotel and the level

of room rates it might achieve. Factors taken into account include the hotel's locality, branding and competitors.

- Using these projections of the room demand and price, we are now able to calculate the total room revenue.
- We calculate the projected revenue from food and beverage sales based on the hotel's room rate and projected occupancy as well as other factors such as the proportion of guests who are likely to eat in the hotel rather than go to a restaurant elsewhere or the spend per person.
- We project additional revenue generated from conferences and meetings, both from room hire and from the associated food and beverage sales.

3. Cost projections

These comprise:

- Operating costs, including staff costs for all the different departments in the hotel and the costs associated with these.
- Overhead costs, calculated according to the size and type of hotel, for example, administration overheads, sales and marketing, energy costs, repairs and maintenance and, if applicable, management fees paid to an external management company.
- Ownership costs such as rates, insurance and FFE Reserve (for replacement of furniture, fittings and equipment).

4. Net cash flow

The net cash flow from operations is projected forward for a five year period and compared with the overall cost of developing the hotel.

5. Return on investment

Taking into account all of our previous calculations and projections we can now identify whether the return on investment is likely to be sufficiently attractive to a potential investor, given the risks involved by applying appropriate terminal yield and discount rates.

Reporting and following up

We prepare a comprehensive report (typically 30-40 pages) for our client, who is able to decide, in consultation with potential lenders and/or other equity investors, whether to proceed with the project.

Typical example of Feasibility Study Process leisure service:

The following summarizes a typical feasibility study process for a community leisure service:

Phase 1 Project Development:

Identify stakeholders, develop a steering committee, produce a terms of reference, call RFP and retain consultant if necessary, consulting services agreement, refine process timelines and milestones, develop task teams, clarify roles and responsibilities, communications plan, etc.

Phase 2 Background Research:

Collect data, trends analysis, market analysis, community demographics profile, identify issues and opportunities related to contemplated service.

Phase 3 Community Consultations:

Community needs assessment through focus groups, forums, surveys.

Phase 4 Service Concept Developments:

Develop service concept and format, resource requirements, capital requirements, service delivery alternatives, financial strategies, etc.

Phase 5 Community Consultations and Market Testing:

Obtain input on service concept and format, delivery alternatives, costing and pricing strategies. Focus groups, surveys, forums, etc.

Phase 6 Final Recommendations:

Develop final recommendations on the service format, preferred delivery approach, City role and involvement and implementation strategy.

Check your progress - II

Answer the following questions.

1. What is the need of Feasibility study in tourism?
2. What is the process of tourism feasibility?

6.6 Dimensions of Feasibility study

Feasibility study is an important step in business development. Dimensions will help you understanding the concept of a feasibility analysis and what it means for business development. Moreover, it provides you with a framework and the decision points needed for using a feasibility analysis in business development. The outline below can be used to help you create your study. However, not all feasibility studies are alike. The elements to include in a feasibility study vary according to the type of business venture analyzed and the market. So the listing below may not be a complete listing of the factors that should be considered in your specific situation. The success of a feasibility study is based on the careful identification and assessment of all of the important issues for business success. Depending on the business project, additional items may also be important. Remember, the basic premise of a feasibility study is to determine the potential for success of a proposed business venture.

Description of the Project

- Identification and exploration of business scenarios.
- Identify alternative scenarios or business models of what the project may entail and how it might be organized. These may come from the idea assessment or market assessment that you may have already completed.

- Eliminate scenarios and business models that don't make sense.
- Flesh-out the scenario(s) and model(s) that appear to have potential for further exploration.

Definition of the project and alternative scenarios and models.

- List the type and quality of product(s) or service(s) to be marketed.
- Outline the general business model (ie. how the business will make money).
- Include the technical processes, size, location, kind of inputs
- Specify the time horizon from the time the project is initiated until it is up and running at capacity.

Relationship to the surrounding geographical area.

- Identify economic and social impact on local communities.
- Identify environmental impact on the surrounding area.

The following are the main dimensions' of feasibility study:

- **Market Feasibility**
- **Technical Feasibility**
- **Financial Feasibility**
- **Economic Feasibility**

6.6.1. Market Feasibility

Once a potential tour operator decides that he wishes to start a business, the first thing to do is to find out what is the likely demand for the tour package that he or she wishes to make, by conducting a short market survey.

Although there are market research agencies that are able to do this type of work in many developing countries, it is better for tour operators to do it themselves (if necessary with assistance from partners or advisers) because they will then properly understand their customers' needs and how their business should operate. If an idea is found to be feasible, this knowledge will in turn give them the confidence to go ahead when problems are encountered, knowing that their product is in demand.

Moreover, a tour operator or tour package developer should go for the following feasibility:

Industry description:

- Describe the size and scope of the industry, market and/or market segment(s).
- Estimate the future direction of the industry, market and/or market segment(s).
- Describe the nature of the industry, market and/or market segment(s) (stable or going through rapid change and restructuring).
- Identify the life-cycle of the industry, market and/or market segment(s) (emerging, mature)

Industry competitiveness:

- Investigate industry concentration (few large producers or many small producers).
- Analyze major competitors.
- Explore barriers/ease of entry of competitors into the market or industry.
- Determine concentration and competitiveness of input suppliers and product/service buyers.
- Identify price competitiveness of product/service.

Market potential:

- Will the product be sold into a commodity or differentiated product/service market?
- Identify the demand and usage trends of the market or market segment in which the proposed product or service will participate.
- Examine the potential for emerging, niche or segmented market opportunities.
- Explore the opportunity and potential for a "branded product".
- Assess estimated market usage and potential share of the market or market segment.

Sales projection:

- Estimate sales or usage.
- Identify and assess the accuracy of the underlying assumptions in the sales projection.
- Project sales under various assumptions (ie. selling prices, services provided).

Access to market outlets:

- Identify the potential buyers of the product/service and the associated marketing costs.
- Investigate the product/service distribution system and the costs involved.

6.6.2. Technical Feasibility

Once an entrepreneur has found information about potential consumers, their requirements and the likely share of the market that could be obtained for a new product, it is then necessary to assess whether production at this scale is technically feasible. The series of questions below is helpful in deciding the technical requirements of the tourism business:

Determine facility needs:

- Estimate the size and type of production facilities.
- Investigate the need for related buildings, equipment, rolling-stock

Suitability of production technology:

- Investigate and compare technology providers.
- Identify limitations or constraints of technology.

- Determine reliability and competitiveness of technology (proven or unproven, state-of-the-art).

Availability and suitability of site:

- Access to markets.
- Access to destination.
- Access to transportation.
- Access to a qualified labor pool.
- Access to production inputs (electricity, natural gas, water, etc.).
- Investigate emissions potential.
- Analyze environmental impact.
- Identify regulatory requirements.
- Explore economic development incentives.
- Explore community receptiveness to having the business located there.

Product ingredients- accommodation, transportation, sight seeing culture and other tourist resources:

- Estimate the amount of raw materials needed.
- Investigate the current and future availability and access to raw materials.
- Assess the quality and cost of raw materials and markets of easily substituted inputs.

Other inputs:

- Investigate the availability of labor including wage rates, skill level, etc.
- Assess the potential to access and attract qualified management personnel.

Table 6.1. - Example of a SWOT analysis of a new business in relation to competitors

	My proposed business	Competitor A	Competitor B
Strengths	Production likely to be sited close to retailers can deliver at short notice.	Good brand image and range of products.	Product is cheaper than A and sells well They offer good margin to retailers.
Weaknesses	Difficult to find good packaging.	Products more expensive than B. Uses modern techniques.	Poor quality product, poor label design. I'm told by retailers that supplies are irregular and not always the amount ordered.
Opportunities	Retailers (Travel agents) say demand for religious packages is less. I can produce such package by adding leisure segment		Appears to be expanding deliveries to new areas according to newspaper reports.
Threats	Strong promotion by A. There are few wealthy consumers and price is most important factor. I am not yet sure of production costs.	Cheaper products than B.	May have over-expanded distribution network and failing to make deliveries.

6.6.3 Financial Feasibility

Having completed the study of technical feasibility, the entrepreneur should then have sufficient information to determine the costs that are likely to be involved in production. Additionally, the market survey will have supplied information about the sale price that could be achieved for the new product. The entrepreneur is therefore in a position to calculate the expected income and expenditure and hence the gross profit that can be achieved.

Estimate the total capital requirements.

- Assess the "seed capital" needs of the business project and how these needs will be met.
- Estimate capital requirements for facilities, equipment and inventories.
- Determine replacement capital requirements and timing for facilities and equipment.
- Estimate working capital needs.
- Estimate start-up capital needs until revenues are realized at full capacity.
- Estimate contingency capital needs (construction delays, technology malfunction, market access delays, etc).
- Estimate other capital needs.

Estimate equity and credit needs.

- Identify alternative equity sources and capital availability -- producers, local investors, angel investors, venture capitalists, etc.
- Identify and assess alternative credit sources -- banks, government (ie. direct loans or loan guarantees), grants, local and state economic development incentives.
- Assess expected financing needs and alternative sources -- interest rates, terms, conditions, covenants, liens, etc.
- Establish debt-to-equity levels.

Budget expected costs and returns of various alternatives.

- Estimate expected costs and revenue.
- Estimate the profit margin and expected net profit.
- Estimate the sales or usage needed to break-even.
- Estimate the returns under various production, price and sales levels. This may involve identifying "best case", "typical", and "worst case" scenarios or more sophisticated analysis like a Monte Carlo simulation.
- Assess the reliability of the underlying assumptions of the financial analysis (prices, production, efficiencies, market access, market penetration, etc.)
- Create a benchmark against industry averages and/or competitors (cost, margin, profits, ROI, etc.).
- Identify limitations or constraints of the economic analysis.
- Determine project expected cash flow during the start-up period.

- Identify project an expected income statement, balance sheet, etc. when reaching full operation.
- Some financial statements are prepared in the project feasibility report such as profit and loss account, balance sheet and cash flow statement.
- Financial indicators are calculated using data derived in various financial statements. Two basic financial parameters are used for judging the viability of the tourism project:
 - Debt- service coverage Ratio(DSCR)
 - Discounted cash flow techniques –Net Present value (NPV) and Internal Rate of Return (IRR).

6.6.4 Organizational/Managerial Feasibility

Business Structure:

- Outline alternative business model(s) (how the business will make money).
- Identify the proposed legal structure of the business.
- Identify any potential joint venture partners, alliances or other important stakeholders.
- Identify availability of skilled and experienced business managers.
- Identify availability of consultants and service providers with the skills needed to realize the project, including legal, accounting, industry experts, etc.
- Outline the governance, lines of authority and decision making structure.

Business Founders:

- Are the people involved of outstanding character?
- Do the founders have the "fire in the belly" required to take the project to completion?
- Do the founders have the skills and ability to complete the project?
- What key individuals will lead the project?
- Is there a reward system for the founders? Is it based on business performance?
- Have the founders organized other successful businesses?

6.6.4 Economic feasibility

The term economic feasibility and financial feasibility are not different for companies. However, from the national angle and from the viewpoint of economy as a whole, economic feasibility and financial feasibility are not considered to be the same. Cost and benefits to the nation due to proposed project are considered in the economic feasibility test. Tax revenue, generation of employment, saving of foreign exchange, generation of foreign exchange, eradication of poverty and other factors, differentiate both. Generally, we consider the following aspect in economic feasibility study:

- Is the project possible, given resource constraints?
- What are the benefits? Both tangible and intangible, Quantify them!
- What are the development and operational costs?
- Are the benefits worth the costs?

6.7 Importance of Feasibility study in tourism

The feasibility analysis is a tool which can shed light on the question: will the expected returns from a proposed venture be sufficient to justify the initial investment? This might mean, is there enough demand for additional campsites to warrant their construction? Will building a new ski lift attract enough new skiers to recover its costs? Will a new swimming pool generate enough additional revenue to pay for the construction, operations and maintenance?

The feasibility analysis helps eliminate part of the uncertainty in such questions, but it by no means guarantees success. Many factors influence the outcome of a proposed venture. Some are predictable, but many are not. For instance, an unexpected change in the weather, the economy, consumer preference or your competition's techniques can have a severe affect on the best thought out plans. The best you can hope for is thorough analyses of the conditions that exist now, what has happened in the past, and make provisions for change in the future. This is where the feasibility analysis is useful.

Check your progress - III

Answer the following questions.

1. What are the main dimensions of tourism feasibility study?
2. What is financial Feasibility?
3. Explain the importance of tourism feasibility?

6.8 Summary

Whether or not you try to perform a feasibility analysis of a proposed venture, or hire someone to do it for you, the important point is that you understand and support the process. The analysis will aid greatly in the creation of some new endeavor or the expansion of some existing project by providing you, the owner, with both a clear plan for internal use, and a valuable tool for obtaining outside funds. It can also pinpoint projects that would likely fail given a certain set of circumstances. Although not a cure for the financial pangs of risk, it can help ease the anxiety. With proper planning and research, you can feel more confident about investing your resources with a sound feasibility analysis at your side.

The tourism project feasibility report is prepared for the initial assessment of the commercial worth of a proposed project. Market feasibility, technical feasibility and financial feasibility and economic feasibility are four

main parts of the project. These dimensions are carefully examined to draw final conclusion about the project. Therefore, it should be remembered that tourism feasibility report stage is a stage where minimum costs is incurred for verification of the commercial opportunities in the proposal. Both primary and secondary data are used for the feasibility study. In many cases personal judgment is also used. The findings of the project feasibility report are used in deciding whether the company should abandon the idea, or explore it further through additional study and the project report. However, the feasibility study is the base for commencement of any project. Thus, a significant component of the findings should related to the likelihood of the success, projected return on investment, and how any identified risk should be mitigated.

Answer to Check Your Progress

Check Your Progress - I

- 1) See sec. 6.2
- 2) See sec. 6.3

Check Your Progress - II

- 1) See sec. 6.4
- 2) See sec. 6.5

Check Your Progress - III

- 1) See sec. 6.6
- 2) See sub sec. 6.6
- 3) See sec. 6.7

6.9 Glossary

- **Project report:** this is report encompassing technical, financial, marketing and economic viability of project. It is more then feasibility study.
- **Project feasibility:** it is a test where the *prima facia* viability of the investment is evaluated.
- **Tourism feasibility:** tourism feasibility study is used to support the decision –making process based on cost benefit analysis of business or project.

6.10 Review Questions

1. Describe the concept of feasibility study. How it is conducted?
2. Explain the meaning of tourism feasibility study. What are the main parameters of tourism feasibility study?
3. Why is a tourism feasibility study undertaken? Discuss the approaches used in conducting a feasibility study in tourism.
4. Give the check list of technical feasibility study in tourism.

5. Define tourism feasibility study. Discuss the importance of tourism feasibility study.
6. Illustrate various dimensions of tourism feasibility study.

6.11 Suggested Readings

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UNIT 7: LEGAL REQUIREMENTS FOR SMALL SCALE ENTERPRISES (SSE'S) IN TOURISM; DOCUMENTATION FOR SSE'S IN INDIA AND UTTARAKHAND

Structure:

- 7.1 Objectives
- 7.2 Introduction
- 7.3 Small Scale Enterprises (SSE's) in Tourism - meaning and concept
- 7.4 Legal requirement for Small Scale Enterprises (SSE's) in Tourism;
 - 7.4.1 Registration of tourism business
 - 7.4.2 Statutory License or Clearance
- 7.5 Documentation for Small Scale Enterprises (SSE's) in India and UttraKhand
 - 7.5.1 Tourism Potential in Uttarakhand- Legal Perspective
 - 7.5.2 The Fiscal Package for Tourism and Entertainment
 - 7.5.3 Documents required for setting small scale tourism enterprises in Uttrakhand
- 7.6 Summary

7.1 Objectives

After reading this unit, you will be able to:

- Explain the meaning and concept of Small Scale Enterprises (SSE's) in Tourism ;
- Discuss the Legal requirement for Small Scale Enterprises (SSE's) in Tourism ;
- Describe the documentation for Small Scale Enterprises (SSE's) in India and UttraKhand ;

7.2 Introduction

In the previous unit we discussed the feasibility study of tourism which identified the scope for entering into tourism industry. In this unit we focus on the most important and interesting topic of the course i.e. Small Scale Enterprises (SSE's) in Tourism. This unit introduces you with the concept, meaning and Legal requirement for Small Scale Enterprises (SSE's) in Tourism in India and Uttarakhand. Moreover, student will be able to prepare various legal documents required for setting up of tourism business in the country and Uttarakhand.

7.3 Small Scale Enterprises (SSE's) in Tourism - Meaning and Concept

It is hard to define companies by scale or size since the definition varies very much and depends on the work for which it is to be defined. The terms Small and Medium Enterprises (SMEs) and Micro, Small and Medium Enterprises (MSMEs) are used by many researchers around the world and often, they are seen as a same group of enterprises. However, they are diverse in terms of needs and objectives and still there is no standard definition valid for all economies. The definition differs in various countries e.g. small enterprises in one country can be regarded and defined as large companies in another country. India is for example using a measurement for small-scale industry in terms of investment and revenues.

In India, tourism is dominated by, so called, Small and Medium Enterprises (SMEs) which are throughout this text also referred to as “small enterprises” or “small companies”. Approximately 94 % of the tourism branch consists of enterprises having less than 10 employees and the contribution to countries' GDP is great. These companies therefore bring vast opportunities for the Indian economy. As the economy is dependent on the small-scale industry (small-scale industries make up almost 40% of the gross industrial value added in India) the small enterprises in the mentioned industries should especially be taken into account when talking about market opportunities.

7.4 Legal requirement for Small Scale Enterprises (SSE's) in Tourism

7.4.1 Registration of tourism business

For establishment or setting up of a new venture Small Scale Enterprises come across a number of legal requirements right from the conception stage. The entrepreneur should be careful to obey while promoting a venture regarding the legal formalities, procedures, policies and plans for the government so as to make themselves free from any sort of legal hassles in future. As it has been rightly known that small scale industries are an integral part of economic development, small scale entrepreneurs should adhere to the rules of the land. Thus, in this unit an attempt has been made to familiarize the students with various legal formalities which are required to start small scale business in India. The followings are the main Legal requirement for Small Scale Enterprises (SSE's) in Tourism:

The main purpose of registration is to maintain statistics and maintain a roll of such units for the purposes of providing incentives and support services. States have generally adopted uniform registration procedures as per guidelines. However, there may be basically a state subject. States use the same registration scheme for implementing their own policies. It is possible

that some states may have a 'SIDO registration scheme' and a 'State registration scheme'. Further, the registration scheme has no statutory basis. Units normally get registration to avail some benefits, incentives either central or state government. The following legal formalities are required for the small scale enterprises in India:

1. No Objection Certificate (NOC): While promoting a new venture, the entrepreneur has to obtain no objection certificate (NOC) from local body\ NAC\ panchayat or municipality as well as the requisite permission to start the SSI. This is done for the purpose of construction of industrial sheds and land utilization.

2. Registration of the unit in DIC: Small scale units are required to be registered with the district Industries Centres (DICs) which function under Directorate of Industries of the state in which the industries are established. As a rule, entrepreneurs are assisted with two types of registration i.e. provisional registration and permanent registration.

(i) Provisional Registration Certificate (PRC): a provisional registration certificate is the initial registration for starting a small scale industry. It enables the entrepreneur to initiate necessary steps to bring the unit into existence. The entrepreneur should apply and obtain a PRC after selection of the project and deciding on the location of the unit. A PRC is necessary for applying for infrastructure facilities, finance and so on. The PRC will be normally issued immediately, across the table on submission of the application. The initial validity of the PRC is for two years and it can be further renewed subsequently.

(ii) Permanent Registration Certificate (PMT): An SSI unit can get a permanent registration certificate when it goes into commercial production\ service. In the initial stages it would have obtained a provisional registration certificate and it would be converted to permanent registration certificate when the unit goes into production or service. The PMT registration will help SSI units in several ways such as:

- to apply for scarce raw material and for imported raw material;
- to get working capital from banks \financial institutions;
- to apply for incentives;
- to obtain central excise duty concessions;

The PMT will be normally issued immediately, across the table on submission of the application.

Registration formalities: The entrepreneur should make an application in the prescribed application form (in duplicate) along with the following:

- Prescribed court fee stamp.
- Copy of the project profile
- Partnership deed in case of partnership firm,
- Affidavit , as per format on appropriate stamp paper

7.4.2 Statutory License or Clearance:

Several clearances are required from different authorities depending on the types of industry and location of the unit. The following Statutory License or Clearance is required in tourism industry:

The Industries (Development and Regulation) Act provides the conceptual and legal framework for industrial development and industries in India. It is briefly known as the IDR Act. The act was enacted in 1951 and a number of amendments have been made in the Act. The licensing policy for industries is determined under this act.

Section 11-B provides the power to specify the definition of SSI in consideration of factors relating to:

- Investment of unit in fixed assets
- Nature of ownership
- Smallness of number of workers employed
- Nature, cost and quality of product etc.,

Section 29-B provides for reservation of products for exclusive production in the small-scale sector.

The conceptual and legal framework for small scale and ancillary industrial undertakings is derived from the IDR Act, 1951. Section 11 B of the Act specifies the general requirements that are to be complied with by small-scale units. The Section is quoted below: -

SECTION 11 – B: Power of Central Government to specify the requirements which shall be complied with by small scale industrial undertakings:

(1) The Central Government may, with a view to ascertaining which ancillary and small scale industrial undertakings need supportive measures, exemptions or other favourable treatment under this Act to enable them to maintain their viability and strength so as to be effective in - promoting in a harmonious manner the industrial economy of the country and easing the problem of unemployment and securing that the ownership and control of the material resources of the community are so distributed as best to subserve the common good, specify, having regard to the factors mentioned in sub-section (2), by notified order, the requirements which shall be complied with by an industrial undertaking to enable it to be regarded, for the purposes of this Act, as an ancillary, or a small scale, industrial undertaking and different requirements may be so specified for different purposes or with respect to industrial undertakings engaged in manufacture or production of different articles:- Provided that no industrial undertaking shall be regarded as an ancillary industrial undertaking unless it is or is proposed to be, engaged in the manufacture of parts, components, sub-assemblies, tooling or intermediates; or rendering of services, or supplying or rendering, not less than fifty per cent of its production or its total services, as the case may be, to other units for production of other articles.

(2) The factors referred to in sub-section (1) are the following, namely: -

- the investment by the industrial undertaking in plant and machinery, and, buildings plant and machinery;
- the nature of ownership of the industrial undertaking;
- smallness, in respect of the number of workers employed in the industrial undertaking;
- The nature, cost and quality of the product of the industrial undertaking.
- Foreign exchange, if any, required for the import of any plant or machinery by the industrial undertaking; and such other relevant factors as may be prescribed..."

Further, various notifications lay down the precise definition of small-scale industries issued by Government of India under the above Section from time to time. This has generally been done in terms of an investment limit in plant and machinery (calculated at original value.)

The State Directorate or Commissioner of or District Industries Centres (DIC's) are the concerned authorities for registration of small scale units. This registration is both location specific and product specific. Like in certain State capitals and metropolitan cities, it is granted to only those units which are located in the designated industrial areas/estates.

A small scale unit is generally subjected to two types of registration. Initially, a provisional registration is granted for the proposed enterprise. It is termed provisional because the enterprise is yet to come into existence. It is granted for a specified period of time during which the unit is expected to be setup.

A 'Provisional Registration Certificate (PRC)' enables the unit to obtain :- (i) term loans and working capital from financial institutions, banks under priority sector lending; (ii) facilities for accommodation, land and other approvals; (iii) no objection certificates (NOCs) and clearances from regulatory bodies such as pollution control board, labour regulations, etc. Once the unit has commenced commercial production, it is granted permanent registration. It is a life time registration given after physical inspection of the enterprise and scrutiny of certain documents. Some of the formalities required to be completed for seeking permanent registration are:-

- Clearance from the municipal corporation
- State pollution control board clearance
- Sanction from the electricity board
- Ownership/tenancy rights of the premises where unit is located
- Copy of partnership deed / Memorandum of articles of association in case of a private limited company
- Sale bill of product manufactured
- Sale bill of each end product

- Purchase bill of each raw material
- Purchase bill of machinery installed
- BIS / QC certificate if applicable
- An affidavit giving status of the unit, machinery installed, power requirement, etc.

Further, a tourism entrepreneur needs to follow other certain legal formalities given in the following acts:

Shops and Establishment Act

Objectives: To provide statutory obligation and rights to employees and employers in the unorganized sector of employment, i.e., shops and establishments.

Scope and Coverage:

- A state legislation; each state has framed its own rules for the Act.
- Applicable to all persons employed in establishments with or without wages, except the members of the employer's family.
- State government can exempt, either permanently or for a specified period, any establishments from all or any provisions of this Act.

Main Provisions:

- Compulsory registration of shop/establishment within thirty days of commencement of work.
- Communications of closure of the establishment within 15 days from the closing of the establishment.
- Lays down the hours of work per day and week.
- Lays down guidelines for spread-over, rest interval, opening and closing hours, closed days, national and religious holidays, and overtime work.
- Rules for employment of children, young persons and women
- Rules for annual leave, maternity leave, sickness and casual leave, etc.
- Rules for employment and termination of service.
- Maintenance of registers and records and display of notices.
- Obligations of employers.
- Obligations of employees.

The Air and Water Pollution Act

Scope and Coverage:

- Applies to all establishments discharging effluents in water or a land.

Main Provisions:

- Procedure for consent
- Laying down standards
- Collection of samples and analysis
- Penalty provisions.

The Air (Prevention and Control of Pollution) Act, 1981

Scope and Coverage:

- Applies to all industries

Main Provisions:

- Declaring Air pollution control areas
- Setting standards
- Procedure for consent.
- Penalty provisions

Environment Protection Act, 1986

This is the umbrella Legislation having number of acts under it.

- The Water (Prevention & Control of Pollution) Act, 1981, as amended in 1978 and 1988
- The Air (Prevention & Control of Pollution) Act, 1981, as amended in 1987.
- The above two Acts have been substantially amended in the recent past and some of the most significant aspects of amendments are:
- A consent order is now valid for 15 years or till such time there is some significant change in the process, whichever is earlier;
- A consent order cannot be provided provisionally and will be obtainable only when all the pollution prevention requirements are adopted in Toto;
- Action under these two Acts is to be taken by the respective State Pollution Control Boards.
- The Forest Conservation Act, 1980
- The Wildlife Preservation Act, 1982; extended to cover biosphere resources and the Hazardous Wastes (Management & Handling) Rules, 1989.
- Manufacture, Storage and Import of Hazardous Chemical Rules, 1989
- Manufacture, Use, Import, Export and Storage of Hazardous Micro organisms and Genetically Engineered Organism or Cell Rules, 1989, to regulate the storage, use, trade, transport and disposal of hazardous wastes.
- The Public Liability Insurance Act, 1991
- The Motor Vehicles Act, 1939, amended in 1988, and
- The Environment Tribunal Bill, 1992.

Check your progress - I

Answer the following questions.

1. Define the concept of SSI unit.
2. What is PRC and PMT?

7.5 Tourism Potential and documentation for SSEs in Uttarakhand

7.5.1 Tourism Potential in Uttarakhand - Legal Perspective

Uttarakhand is a charming state consisting of two regions, Garhwal in the west and Kumaon in the east; it came into its independent existence on 09.11.2000 having been carved out from the erstwhile state of Uttar Pradesh. It is a State blessed with natural beauty and studded with stunning snow covered peaks which is surrounded by Himachal Pradesh in the North-West, by Uttar Pradesh in the South-West and rest by Himalayas. The State comprising of 13 districts has a total geographical area of 53483 sq. km. of which the state's forest cover comes to 35390 sq km accounting for more than 66 percent of the total geographical area of the state. Further, the state has:

- One of the five states in India to be declared as UNESCO's World Heritage Biodiversity sites
- Occupies an area of 53,483 sq km and has a population of 8.5 million
- Administrative and legislative capital is Dehradun Gross State Domestic product (GSDP) at current prices in 2004-2005 (as of Feb 2006) was US\$ 5,365.6 million
- Net State Domestic Product (NSDP) of the state at Current Prices (2004-05) was US\$ 5,060.2 million
- The service sector contributes to more than half of the state's GDP at 51%, followed by the agricultural and mining sector at 24% and the manufacturing sector at 25% in 2004-05. State is essentially driven by the tertiary sector; tourism is one of the key sectors with a major contribution to the state's economy

The State of Uttarakhand offers immense opportunities for development of vast array of tourism and related activities and services and has thus accorded the industry a status of thrust. A detailed tourism policy has also been formulated.

Uttarakhand is the first state in the country to have created a Tourism Development Board by legislation as the highest body to function as a promoter, adviser, and regulator and licensing authority for tourism in the state. As a step to promote tourist activity in the state, the state will allow 100 per cent exemption on entertainment tax for multiplex projects in the state for a period of three years, and for five years for all new amusement parks and ropeways.

Interestingly, the vast pool of natural resources in Uttarakhand adds considerably to its attractiveness as an investment destination particularly for tourism and forest based industry. The state has enormous resources for cultural, adventure, wildlife, nature and leisure tourism to attract both domestic and foreign tourist.

Uttarakhand is the first state in the country to have created a Tourism Development Board by legislation, as the highest body to function as a Promoter, Adviser, Regulator and Licensing authority for tourism in the state.

Uttarakhand Tourism was awarded the prestigious National Tourism Award in the category of “Best Practices by a State Government” by the Government of India in October 2003, amongst the few states with 100 per cent trained.

New State Industrial Policy 2006

- Aim of the policy is to provide a comprehensive, investor-friendly environment for rapid and sustainable industrial development.
- Thrust of the policy is on generating additional employment opportunities and increasing the State Domestic Product Policy aims at promoting Public Private Partnerships in development and management of infrastructure projects such as:
 - * Industrial Estates and Growth Centers
 - * IIDCs, Special Economic and Commodity Zones and Parks
 - * Theme parks, tourism infrastructure, development of new tourist destinations, airports/helipads / airstrips, roads and power projects
- New policy also focuses on promoting small scale, cottage, khadi and village industries, handicrafts and handloom sectors

Tourism Policy

The tourism policy of the state aims at:

- Placing Uttarakhand on the tourism map of the world as one of the leading tourist destinations, and to make Uttarakhand synonymous with tourism
- Developing the manifold tourism related resources of the state in an eco-friendly manner, with the active participation of the private sector and the local host communities
- Developing tourism as a major source of employment and income/revenue generation and as a pivot of the economic and social development in the state

Overall competitiveness of Uttarakhand

- Wide range of fiscal and non-fiscal incentives
- Excellent connectivity internally and to the National Capital Region (“NCR”) and continual development of good transportation infrastructure
- Wide-spread opportunities in sectors like floriculture, horticulture, and tourism and hospitality.
- Huge potential for hydropower generation as a result of vast water resources

- Unmatched tourism potential for leisure, adventure, and religious tourism
- Peaceful and secure industrial environment
- Established industrial estates like Pantnagar, Dehradun, Haridwar, Selaqui and Sitarganj with all necessary infrastructure facilities
- Presence of key industrial players like Tata Motors, Mahindra & Mahindra, Ashok Leyland, Hero Honda, Hindustan Lever, and HCL Info Systems

7.5.2 The Fiscal Package for Tourism and Entertainment

The Ministry of Commerce and Industry, Government of India announced a Concessional Industrial Package for the state of Uttaranchal. Projects related to Eco Tourism, Hotels, Resorts, Spa, Entertainment/Amusement Parks and Ropeways have been included in the list of thrust industries for the State. As a thrust industry, tourism projects would be entitled to a slew of incentives in the state.

Capital Investment Subsidy:

- 15% central capital investment aid up to a maximum of US\$ 73,170 for the establishment of new industrial units and for the purchase of equipment and machinery for significant improvement in existing units.

Interest Subsidy:

- 3% annual relief on loans to new SSI units and SSI units expanding at least 25% provided the loan is availed from state level financial institutions or banks operating in Uttarakhand and have not defaulted in principal or interest payments.
- 5% waiver on annual interests on loans on SSI units and units notified as thrust industries being set up in remote areas.

Land Subsidy:

- Stamp duty concessions to be provided in respect of land in specialized commodity parks, including IT parks. Registration of patents and other IPR
- 75% of the cost (subject to a maximum of US\$ 4,878) for registering patents shall be reimbursed

Power Subsidy:

- No restriction in the state in using power during the peak hours

Others Concessions:

- A 100% relief in the State Excise Duty for a period of ten years.
- A 100% relief in Income Tax for the first five years, and thereafter a 30% relief to companies and 25% relief for others CST @ 1% for 5 years.
- Exemption from entry tax on plant and machinery for setting up industry, undertaking substantial expansion and modernization.

- 100% exemption on entertainment tax for Multiplex projects for a period of 3 years
- 100% exemption on entertainment tax on Amusement parks and Ropeways for a period of 5 years
- 75% of the total expenditure incurred in obtaining national/international quality marks to be reimbursed
- 50% of the cost incurred in installing pollution control equipments to be reimbursed
- Matching State subsidy on approved projects of National Horticulture Board (NHB),
- The state has allowed 100 per cent exemption on entertainment tax for all new multiplex projects for an initial period of 5 years and thereafter 30 per cent for a further period of 5 years.
- New projects would be entitled for capital investment in plant and machinery subject to a ceiling of Rs 30 lakhs (approx. USD 62 thousands).
- New tourism units in the State will be allowed rebate/ deferment facility in the payment of luxury tax for a period of five years from the date of commencement.
- New amusement parks and new ropeways installed will be exempted from the payment of entertainment tax for a period of five years.
- New tourism units will be exempt from Luxury Tax for a period of five years from the date of commencement.
- New Ropeways installed in the State will be exempt from payment of Entertainment Tax for a period of five years from the date of commencement.
- New Amusement parks setup will be exempt from Entertainment Tax for a period of five years from the date of becoming fully operational.
- 100% exemption on Entertainment Tax will be allowed for all new Multiplex projects in the State for a period of three years (new Industrial Policy).
- 100% Income Tax exemption for five years thereafter tapering exemption for next five years (Concessional Industrial Package by Govt. of India).
- Conversion of land use is admissible for Hotel, Motel, Resort, Health Spa, Yoga and Meditation Centre, Tourist Village and Entertainment / Amusement / Water Park / Natural and Botanical Park.
- New approved hotel projects in 1 to 3 star and heritage categories will be provided one time capital grant of 10% of the total principal loan taken from designated financial institutions or upto Rs. 25 lakhs for one star, Rs.50 lakhs for two star & Rs.75 lakhs for three star and heritage category projects.

- 100% Excise Exemption for ten years (Concessional Industrial Package by Govt. of India).
- Capital Investment Subsidy at the rate of 15 % with a maximum of Rs.30 lacs (Concessional Industrial Package by Govt. of India).

7.5.3 Documents required for setting Small Scale Tourism Enterprises in Uttarakhand

Small-scale industries form a significant part of Uttarakhand's economy. This sector contributes around 7 % of the Gross State Domestic Product and employs around 2.5 lakh people. The Small Scale Industries database lists about 5000 small-scale units across the state. It is likely that a large number of small industries – particularly in the service sector - are not registered with the SSI database and therefore the number is likely to be much higher. A large number of them are spread out around the capital city Dehradun. There has been a great deal of state support for the small industries sector. There have been several state-sponsored organisations and para-statal organisations working exclusively for the small industries sector. The state is not only setting the organisations, but trains individuals to seek self-employment and promote entrepreneurship. There are a large number of service providers in and around Uttarakhand catering to various segments of the industry. Since the business development services market is not very organised it is difficult to obtain data on the numbers and the size of the market. Roughly the services sector as a whole accounts for 40% of the State GDP and 20% of the workforce. It is also envisaged that in future service industry would be in a position to account for only 43% of the new jobs to be created. Obviously, there is bound to be a good amount of jobs to be created in the services sector and hopefully tourism service providers should also be in a position to take a share in this cake.

For setting up of a new Small Scale Enterprises in Uttarakhand one should come across a number of legal requirements right from the conception stage. The entrepreneur should be careful to obey while promoting a venture regarding the legal formalities, procedures, policies and plans for the government so as to make themselves free from any sort of legal hassles in future. Small scale industries are an integral part of Uttarakhand economic development, small scale entrepreneurs should adhere to the rules of the land.

The followings are the main Legal requirement for Small Scale Enterprises (SSE's) in Tourism in uttrakhand:

Registration formalities

The entrepreneur should make an application in the prescribed application form (in duplicate) along with the following:

- Prescribed court fee stamp.
- Copy of the project profile

- Partnership deed in case of partnership firm,
- Affidavit , as per format on appropriate stamp paper

The other documents required such as:

- Provisional Registration Certificate (PRC)
- Permanent Registration Certificate (PMT)
- Statutory License or Clearance

The following tables depict the various documents required for small scale tourism business in the state along with concerned authority:

Table - I

Legal Documents	Authorities to contact
Starting a SSI unit • Registration certificate, PRC, PMT	District Industries Centre
If unit is operating other than industrial place i.e. NOC	Panchayat \ NAC \ MC
Pollution control	State Pollution Control Board
State Sales Tax Act	Local Sales tax authority
Power connection	State electricity Board
Registration of unit under partnership	Partnership Act, 1932

Table -II

Key Approvals Required in UttraKhand for SSI units

Approval and clearance required	Concerned authority
Prior to setting up units	
• Registration	Industries Department
• Allotment of Land/Shed	Uttarakhand Industrial Development Department Ltd./UttarPradesh State Industrial Development Department Ltd./ Industry Division, Uttarakhand
• Power load approval for construction load	Uttarakhand State Electricity Department
• Approval for Construction of Building	Labor Department
• Activity under Factories Act	
• No Objection Certificate	Department of Fire
• Provisional Trade Tax Registrations	Central and State Excise Departments
• Registration under Central Sales Tax Act	Central and State Excise Departments
Before commencement of business	
• Environmental clearances	Uttarakhand Environment Protection and Pollution Control Board
• No Objection Certificate	Department of Fire
• Permanent Trade Tax Registration	Permanent Trade Tax Registration
• Registration under Central Sales Tax Act 1956	Central and State Excise Departments

CHECK YOUR PROGRESS - II

Answer the following questions.

1. What are legal documents required for setting up tourism business in Uttarakhand?
2. How we obtain Statutory License or Clearance in Uttarakhand?

7.6 Summary

Today's knowledge-based economy is fertile ground for entrepreneurs in India. The success stories of businesses built on a great idea executed by a talented team have great appeal in India, where access to capital is scarce and regulations has often created barriers to success. Estimates indicate that several thousand new small scale businesses were launched in the year 2006 in India. The overriding reason for any to think of establishing a SSI unit can be summarized in one word- opportunity. Opportunities to be your own boss, to provide a product or service to implement your idea which can generate sufficient surplus are reason to think of starting an SSI unit in tourism. This unit has been designed especially to develop the entrepreneurial qualities among the students and motivate them to start their own SSI unit in tourism both India and UttraKhand. The entrepreneur must aware about the legal formalities or documents required to start a tourism business and to operate the business. In this next unit the student will learn about the management of family enterprises in tourism.

ANSWER TO CHECK YOUR PROGRESS

CHECK YOUR PROGRESS - I

- 1). See sec. 7.3
- 2). See sec. 7.3

CHECK YOUR PROGRESS - II

- 1). See sec. 7.4
- 2). See sec. 7.4

7.7 Glossary

- **PRC:** provisional registration certificate is the initial registration for starting a small scale industry. It enables the entrepreneur to initiate necessary steps to bring the unit into existence.

7.8 Review Questions

1. Define the concept Small Scale Enterprises (SSE's) in Tourism and discuss the importance of such units in India.
2. Describe Legal requirements for Small Scale Enterprises (SSE's) in Tourism in India.

3. What do you mean by Statutory License or Clearance? How these are obtained?
4. Explain documentation requirement for Small Scale tourism Enterprises (SSE's) in Uttarakhand.
5. Write a note on PMT and PRC.

7.9 Suggested Readings

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UNIT 8: MANAGING OF FAMILY ENTERPRISES IN TOURISM

Structure:

- 8.1 Objectives
- 8.2 Introduction
- 8.2 Family enterprises- meaning and concept
- 8.2 Family enterprises in tourism - an overview
- 8.2 Setting of Family business enterprises in India
- 8.6 Management practices in Family enterprises in India
- 8.7 Family enterprises in tourism - Advantages and disadvantages
- 8.8 Challenges and issues in Tourism Family Enterprise
- 8.9 Strategies for improving the performance of tourism family business
- 8.10 Summary

8.1 Objectives

After reading this unit, you will be able to:

- Explain the concept of Family enterprises;
- Describe the overview of Family enterprises in tourism ;
- Discuss the advantages and disadvantages Family enterprises in tourism;
- Explain the management practices in Family enterprises in India;
- Discuss the challenges and issues in Tourism Family Enterprise

8.1 Introduction

In this unit we focus on the most and interesting topic of the course i.e. Family enterprises in tourism. This unit introduces you with the concept, meaning and origin of family enterprises in tourism. The students will also acquire conceptual knowledge about family enterprises in tourism their role and significance, management practices in and challenges and issues in Indian tourism family enterprise.

8.2 Family Enterprises - Meaning and Types

8.2.1 Meaning and concept of family enterprises

The concept of family business or enterprise has its birth from the joint family system. It is old as human kind at the earth planet. Generally, family business is the combination of various components of a family's involvement in the business: ownership, management, and trans - generational succession.

Moreover, these four parts are complementary and may be combined to form an integrated definition of the family firm such as:

- Intention to maintain family control of the dominant coalition;
- Unique, inseparable, and synergistic resources and capabilities arising from family involvement and interactions;
- A vision set by the family controlled dominant coalition and intended for Trans generational pursuance; and
- Pursuance of such a vision

A common definition of family business and a classification system of types of family businesses is also important for teaching family businesses. Without an ability to differentiate between types of firms it becomes extremely difficult to explain to students why and when family organizations are likely to behave in certain ways, how those behaviors are similar or different from non-family organizations, and what the performance implications of those behaviors are.

According to Chua theoretical definition of family business is: "The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families".

Upton, Teal, Felan's stated that family businesses characterise as "businesses where the family ownership or control does have a significant influence on the decision making processes in an enterprise". According to Tagiuri and Davis, "two or more family members influences the direction of the business through the exercise of management roles, kinship ties or ownership rights"

8.2.2 Types of Family Business

Over the years numerous family businesses have been emerged to cope with the changing business environment at global level. In the beginning these were 'Mom and Pop' organisations, however, today they are operating at large scale also and have huge market share in the economic development.

The government is also motivating these types of business by extending various financial and non-financial incentives such as:

- A 100% relief in the State Excise Duty for a period of ten years;
- A 100% relief in Income Tax for the first five years,
- Exemption from entry tax on plant and machinery for setting up industry, undertaking substantial expansion and modernization.
- 100% exemption on entertainment tax for Multiplex projects for a period of 3 years
- 100% exemption on entertainment tax on Amusement parks and Ropeways for a period of 5 years.
- 75% of the total expenditure incurred in obtaining national/international quality marks to be reimbursed.
- The state has allowed 100 per cent exemption on entertainment tax for all new multiplex projects for an initial period of 5 years and thereafter 30 per cent for a further period of 5 years.
- New tourism units in the State will be allowed rebate/ deferment facility in the payment of luxury tax for a period of five years from the date of commencement.
- New amusement parks and new ropeways installed will be exempted from the payment of entertainment tax for a period of five years.

These incentives have promoted various types of family business in tourism and hospitality industry in India such as:

1. **Family own business:** These types of businesses are for-profit enterprises in which a controlling number of voting shares, typically but not necessarily a majority of shares are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. It means the management, control and finance is supplied by one family to the business.
2. **Family owned and Managed Business:** It is a for-profit enterprise in which a controlling number of voting shares(or other form of ownership),typically but not necessarily a majority of shares are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the top management of the business so that one or more family members have ultimate management control.
3. **Family owned and Led Business:** In this form of family business at least one member of the family must be in the board of director. Family owned and Led Business is a for-profit enterprise in which a controlling number of voting shares(or other form of ownership),typically but not necessarily a

majority of shares are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the board of directors of the company so that one or more family members have at least a high level of influence over the company's direction, culture and strategies.

8.3 Family enterprises in tourism - an overview

The family business is a global phenomenon, and is particularly prominent in tourism and hospitality. In many cases, the family business was developed for the purpose of facilitating personal and family goals. For example, in rural areas, farmers can use tourism as a way to generate additional income, thereby remaining in the area and retaining family property. Running a bed and breakfast establishment is a way to mix family and work. Lifestyle, locational and autonomy motives are the norm, but profit and growth-oriented entrepreneurs are also found within family businesses. Family businesses that operate within tourism and hospitality industry have been very important in regional development. According to Kokkranikal successful family businesses enhance community development, create new jobs, and provide a better quality of life for the residents.

According to Getz et al Family businesses, that is, businesses owned and/or operated by members of a single family, are predominant in modern economies. This is also an important category of business within tourism hospitality, particularly in rural areas where research indicates that they form the majority. Family businesses within the tourism and hospitality industries have developed in developing economies during 1990s. This sector started as a simple, relatively low-skilled segment of the market that offered accommodations and related services to domestic travelers.

Today, tourism and hospitality is one of the fastest growing industries, particularly in the developing countries. It has benefited from people wanting to escape their everyday lives and engage in both domestic and international vacations. This rising trend towards involvement/participation in travel and tourism also came from the increasing number of tourists. India's current tourism development strategies have a profound impact on the growth and development of tourist traffic viz-a viz growth of family businesses in this sector. Key issues for family business are the role of family members, cultural practice and quality of life. Understanding these dimensions is important to a large number of people in the tourism and hospitality industry, tourism planning and sustainable development, especially in ecologically and socially sensitive rural areas.

Check your progress - I

Answer the following questions.

1. Define the concept of family business
2. What are the various types of family businesses?

8.4 Setting of Family business enterprises in India

You have learnt about entrepreneurship and the various qualities required becoming a successful entrepreneur. You have also learnt what exactly an entrepreneur does while starting a business unit. If you possess those qualities and confident that you could able to perform all those activities, you can now think about your own enterprise, but before you start your business let us learn various factors required to be considered while setting up any small business.

(i) Who can start a small business?

Any one can start a small business unit. He may be

- an exiting entrepreneur or a new one
- having a business background or may not
- educated or uneducated
- from rural/backward or urban area

(ii) Where is the money?

The entrepreneur has to analyse and find out the amount of finance required as well as the duration for such finance is needed in the business. The entrepreneur requires money to buy machinery, building, raw material, pay wages to labour, etc. Money spent on buying machinery, building, equipment, etc. is known as fixed capital. On the other hand, money spent and buying raw materials and paying wages and salaries, rent, telephone and electricity bills, etc. is known as working capital. The entrepreneur has to arrange for both fixed as well as working capital for his business. The finance can be raised by self-contribution or by borrowing from banks and other financial institutions. Money can also be borrowed from friends and relatives.

(iii) Selection of line of business: The process of launching a business begins when the entrepreneur has thought about a line of business, which can be undertaken by him. He may consider business opportunities as per the market demand. He may go for an existing product or a new product. But before taking any step he has to ascertain the profitability of the business and the amount of capital investment. Having estimated the profitability and risk involved, the entrepreneur has to decide which line of business could be desirable to pursue.

(iv) Choice of form of organization: You have learnt about different forms of business organisation in the earlier lessons. Now you have to choose the best form as per your requirement. Normally, a small business enterprise preferably be organised in the form of sole proprietorship or partnership.

(v) **Location:** Special care should be taken while selecting the location of the business. An entrepreneur can start business at his own place or at a rented place. It can be located at a market place or commercial complex or at an industrial estate.

While deciding the location the entrepreneur should consider various factors like sources of supply of raw material, nearness to the market, availability of labour, transportation, banking and communication facilities, etc. Factories should be preferably located near the source of raw material and at a place that is well connected with rail and road transport facility. A retail business should be started near residential area or in a market place.

(vi) **Availability of labour:** An entrepreneur cannot run the business alone. He has to employ people to help him. Skilled and semi-skilled workers have to be recruited particularly for manufacturing work. Before starting the business, the entrepreneur must find out whether he will be able to get the right type of employers for the activities involved.

8.5 Management practices in Family enterprises in India

- **Business planning:** This is very important for the growth and development of the business. In most of family businesses this is informal. However, to cope with the present day business environment, many family organisations are adopting more formalized approach to management of the business appeared to be strongly associated with the owner / manager profiles and personal motivation of those involved in the tourism industry.

Yet, other factors such as lack of finance, knowledge/skills and external assistance cannot be ignored for the formal business plan

- **Identifying of opportunity:** There are many opportunities in the world of business. These are based on human needs like food, fashion, education, etc., which are constantly changing. These opportunities are not realised by common man, but an entrepreneur senses the opportunities faster than others do. An entrepreneur therefore, has to keep his eyes and ears open and require imagination, creativity and innovativeness.
- **Turning ideas into action:** An entrepreneur should be capable of turning his ideas into reality. He collects information regarding the ideas, products, practices to suit the demand in the market. Further steps are taken to achieve the goals in the light of the information collected.
- **Conducting Feasibility study:** The entrepreneur conducts studies to assess the market feasibility of the proposed product or services. He anticipates problems and assesses quantity, quality, cost and sources of inputs required to run the enterprise. Such a blue print of all the activities is termed as a 'business plan' or a 'project report'.
- **Resourcing:** The entrepreneur needs various resources in terms of money, machine, material, and men to running the enterprise successfully. An

essential function of an entrepreneur is to ensure the availability of all these resources.

One of the important functions of an entrepreneur is to run the enterprise. He has to manage men, material, finance and organise production of goods and services. He has to market each product and service, after ensuring appropriate returns (profits) of the investment. Only a properly managed organisation yields desired results.

Check your progress - II

Answer the following questions.

1. What are the major steps for setting up of family business in tourism?
2. Identify major management practices of tourism family business.

8.6 Family enterprises in tourism - Advantages and Disadvantages

As the tourism industry is dominated by small and medium sized family enterprises, it serves as an example to investigate management processes and behavioural patterns of family entrepreneurs. Followings are the main advantages and disadvantages of tourism family enterprises:

Advantages of a family firm

- Higher motivation to work
- Products/services are personalized for the customer
- Family firms have a convenient, manageable size
- Continuity
- Independence of the business
- Saving labour cost/wages
- Market niche advantages
- Flexible labour force and reaction
- Personal relationship with enterprise stakeholders

Disadvantages of a family firm

- Higher work load in a family business
- Conflict within the family and/or generations
- No separation between private and professional life
- Rigid traditions
- Small firm size
- Family liability and guarantee for the firm capital

A number of advantages and disadvantages are therefore emerging particularly for family businesses, regarding their market performance and management and they reflect their unique character. The social sciences literature reports the following advantages:

- **Personal relationship with enterprise stakeholders:** For small enterprises, establishing personal relationships with customers and employees can be a main source of competitive differentiation. The business dealings of small owner managers are often not based on contracts but on personal relationships. This implies loyalty, personal service, understanding in difficult service encounter situations and potential personalization of services and products leading to competitive advantages which are difficult to imitate.
- **Information as a source of advantage:** Many family businesses are in private enterprises. This is an advantage since a private business can see the strengths and weakness of the public sector competitor and act accordingly while the converse is not true.
- **Trust lower transaction costs:** It is a well-documented fact that 'trust' lowers transaction costs, corruption and bureaucracy. Trust can be a source of significant competitive advantage to a family business. In India, family businesses have often revolved around large joint families.
- **Market niche advantages:** Recently, technological developments, especially in the tourism industry, market liberalization, as well as globalisation (which promote relatively homogenous products) open up new opportunities for small and medium sized enterprises. In fact, Market niches, which often have to be ignored by global and/or big enterprises, offer growth chances for small family businesses in tourism. Small local businesses can easily identify lead customers' wishes and should be able to tailor new niche products for potential future customer segments.
- **Flexibility and reaction:** Due to the typically flat hierarchy in family businesses, management can decide quickly and react immediately to market changes (e.g. in terms of customer demand or competitive actions). They can adapt their product on the spot to meet demand requirements.
- **Flexible labour force:** Often family members are much more flexible in their work arrangements and adopt their lifestyle to the needs of the business. This is particularly important for hospitality businesses that have a high degree of seasonality and also require different efforts at different times of the day. For example mornings are particularly busy for family hotels which need to serve breakfasts, arrange check outs and payments for departing guests and clean room almost simultaneously. It is getting busy later in the afternoon when new guests arrive and perhaps the hotel operates a restaurants or bar. In addition, family members are flexible with payments and often share what financial resources are available on the longer term, rather than demand monthly payments and payment when the cash flow of the organisation cannot support it.
- **Long term Continuity:** The continuity of family businesses and their presence in the market place are perceived to constitute strong social values. Moreover, the family business has long term continuity such as SITA, TCI and a good example of Thomas cook and sons.

Family businesses in tourism and hospitality do also face a number of typical disadvantages and problems such as:

- **Informal business practice and lack of planning:** Small family businesses often have informal business practices and processes. Although this can be used to their advantage through flexibility and ability to react fast, they often lack a systematic management approach. This effectively means lack of procedures which leads to variable performance and improvisation by family members, effecting both product standardization and quality control
- **Marketing and market research:** The management functions of strategy development, marketing and quality management and technology adaptation are often core deficiencies for small hospitality businesses not only in India but at global level.
- **Lack of Trained and qualification staff:** Most family businesses have limited managerial skills and fail to employ suitable professionals to ensure that their products are marketed appropriately. At the operative level, family businesses are unable to appoint trained personnel.
- **Financing:** Family businesses have limited financial resources in India. Most of the businesses are using their own finance for the business. Family entrepreneurs are reluctant to foreign investors, which deprives them from capital investments. On other hand, their budgets are limited for any kind of marketing campaign and thus they find difficult to reach their markets. This is particularly evident in tourism and hospitality where clientele often resides in a different country, speaks different languages and is bombarded by international brands for its custom. As a result, family hotels depend on intermediaries such as tour operators to reach potential clients. Thus, the finance is the crux of small hospitality businesses in India.
- **Human resources and family employees:** Family members whose labour market value is poor cannot easily be made redundant. Family relationships often therefore determine business practices. Family entrepreneurs expect family members to have a high motivation and commitment to the business. Motivation Combining all of the above, the problem reaches a crucial stage when key employees who are non-family members, become disenchanted and disappointed and seek employment elsewhere.

Check your progress - III

Answer the following questions.

1. What are the main advantages of family business in tourism?

.....

2. List the disadvantages of family business in tourism.

.....

8.7 Challenges and Issues in Tourism Family Enterprise

In the India, family businesses of all sizes and types dominate the private sector. Many Researches tell us that as many as 75 per cent of Indian businesses are family owned. It has seen that World-wide, some of the most successful and professional companies are family owned and run – many of them household names. Commitment, culture and pride in the business are typically the inherent strengths of a family business. Together they can produce a significant competitive edge. However, if owners and managers fail to reconcile both the short and long-term needs of the business with those of the family, this can undermine the survival of the business itself. Rapid social, technological and economic changes are forcing all businesses to review their operations. This can present particular challenges for the owners and managers of family businesses. Every family business is unique, shaped by its own set of distinctive personalities, objectives and relationships. There are, however, challenges that are common to all family businesses. These are:

- Communication
 - Employing family members
 - Management of change
 - Transferring the business to the next generation.
- **Communication:** Many family business managers make the mistake of assuming that, as the family is involved in the business, there is free and open communication. This is unlikely to be the case and often the opposite is true. There is often a hidden agenda covering a whole variety of potentially sensitive family issues that might generate unpleasant conflict. Despite the fact that many family conflicts can only be resolved if they are tackled early enough, the common unspoken understanding is to ‘let sleeping dogs lie’. Consider your own management style. This compels the business to adopt with the changing environment.
 - **Employing family members:** There can be a tendency for the family business to be regarded as a ‘job for life’ employer of family members, regardless of their capabilities and commitment. Such an attitude ignores the requirements of the business and may ignore the needs of the individuals. It is clearly important that the family business maintains appropriate quality staffing at all levels. It cannot afford to carry individuals, whether family members or not, who do not make a full contribution.
 - **Management of change:** It is said that the only constant in life is change. However uncomfortable, it may be better to accept sooner rather than later that change is inevitable. Family businesses are concerned with change not only from a business perspective but also because of the changing nature of family dynamics. For example, the way an owner entrepreneur operates will be very different to his children in a sibling partnership. This in turn may vary greatly

from the next generation of cousins in business together. In particular, the motivational forces driving the different generations are likely to vary. In the current business environment, we are all faced with an ever increasing rate of change, especially in the following areas:

- Economy
 - Customer needs
 - Labour market
 - Innovation
 - Regulation
 - Competition
 - Lifestyle
- **Transferring the business to the next generation:** This is most crucial aspect as the family business manager cannot start succession planning too early. No one can know with certainty when succession will happen, but failure to prepare may be fatal for the company and disastrous for the family. Succession planning involves the identification and education of a successor and the gradual relinquishing of control. The latter is one of the most difficult things to achieve, many entrepreneurs being reluctant to recognise that anyone else is capable of running their business. Thus, they must decide in advance the Succession planning.
 - **Distinctiveness of the field:** Even if the definition of what constitutes a family business becomes clear, researchers are yet to identify the key variables that distinguish a family from a non-family firm Family variables include family activities, whether the firm is a family business compared to other types of businesses, birth order and issues pertaining to family business relationships.

Succession variables include circumstances surrounding succession and the decision to join a family business. Independent variables studied include individual intentions, personality, development, wealth and roles, firm level dependent variables include productivity, morale, growth, board of directors and profitability.

- **Succession:** Of key concern in family businesses is an issue pertaining to the founder, and how the business will traverse different generations. Thus, the topic of succession has been of keen interest. Aronoff advises that the term succession is limited and indicates a linear transfer from one to another; a simple transfer of the baton. A change of leader, however, is rarely so simple. He explains that it involves a multi-generational timeframe, and takes place in a rich stew of social, cultural, financial, legal, strategic, moral and other dimensions that resist neat, linear thinking. And, given the complexity of the succession stew, it is also perhaps understandable that only 22.7% of Australian family businesses have succession plans in place. The critical question for researchers then, is how can the difficulties be overcome?

- **Conflict management:** The differences between family members are not unknown. The news is full of gruesome stories of acts of aggression between family members. However, when conflict enters the business arena, the business itself suffers as well as individual family members. Levinson sets out four areas where familial conflict might arise in the family business: the founder, father-son rivalry, brother-brother rivalry and intra-family friction. The founder, as an entrepreneur, often starts a business to out-do his father or escape from fraternal authority. Thus, unresolved issues might pervade the business.

- **Management Strategy:** The informality that usually is attributed to family businesses is undergoing change. The impact of a global economy is placing an emphasis on visionary and dedicated leadership, a balanced scorecard that enhances corporate accountability, and sustained investment in creating dynamic capabilities.

Strategic management is, therefore, becoming a necessity for every family firm. Only 30% of Indian family businesses report having a formal strategic plan in place while 70% of non-family businesses do. Thus, to cope with the today's volatile business environment, Indian business must adopt strategic thinking.

- **Helping family businesses:** Knowledge of family issues is generally kept within the family. It is not difficult, then, to understand why family businesses have been reluctant to seek the help of others in managing their business affairs. The old adage of 'keep it in the family' is giving way to the demands of a global economy.

Further, the demand to professionalize the family business has given rise to over 150 universities in the Indian offering forums, seminars, courses and research on family business matters. Many universities are offering family business management courses both at graduate and post graduate levels. However, many businesses are not recruiting talent from these universities that is why these are facing crucial problems of professional expertise.

- **Macro-economics and Policy:** The field of family business is new and still struggles with being accepted as a distinct area of research. As such, government attention is minimal.

Government has formulated policy to small businesses, however, there is little to no dedicated focus on family businesses by any tier of the government. If family businesses contribute to the Indian economy in a significant way, employ a large number of youths and hold extensive amounts of capital, then some government focus appears justified. In the recent policy, government has extended various financial and non-financial incentives to promote family businesses in the country.

Moreover, govt. is focusing on the development of self-employment and eradication of poverty in the rural area.

Check your progress - IV

Answer the following questions.

1. What are the main issues in tourism family business?

.....

2. Identify major challenges tourism family businesses facing today.

.....

8.8 Strategies for improving the performance of tourism family business

Today, world has become more competitive and survival of any business depends on its managerial abilities to mobilizes resources and their effective use. This required foreignness, innovative thinking, vision and professional expertise. The following strategic points are imperative for the success of a tourism family business:

- **Formulation of policy framework:** It is the part of succession plan and is used to clarify many difficult issues. The policy framework of any business is the fundament which contains rules, guidelines, procerdure, and other conditions which are imperative for the success of a business. In fact, it determines the future directions of the business and parameters for the achievement of goals.
- **Creating shared vision:** A vision is a clear, concise statement of what we want at some point in the future. It gives form and body to people's most cherished values and beliefs. Visions combine strategic objectives and ways of doing business that constitute the essence or heart of the organisation.
- **Addressing the issue:** Every family owned business wishing to improve its performance can take a structured approach to addressing the issue through a careful examination of its core values. As a first step, each member of the family should independently evaluate the business's core values and determine for themselves it they believe each core value is functional or not.
- **Accountability:** The simple act of establishing performance criteria and periodically evaluating performance relative to those criteria is a relatively simple task. At the same time it is one of the most difficult tasks the family owned business faces.
- **The demise of the joint family:** A more unique characteristic of Indian family business, at least until recently, was that it managed as joint family and derived a competitive advantage from this fact. This has a profound impact on the performance of business.

There are many more factors which are crucial for the success of tourism family business in Indian such as professionalism, future outlook, replenishing entrepreneurship and so fourth.

8.9 Summary

Family business is the combination of various components of a family's involvement in the business: ownership, management, and trans-generational succession. In fact, the family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.

Family owned business is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership), typically but not necessarily a majority of shares are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the top management of the business so that one or more family members have ultimate management control. Thus, various types of family businesses are family-owned business, family owned and managed business and family owned and led business.

Answer to Check Your Progress

Check Your Progress - I

- 1) See sec. 8.2
- 2). See sec. 8.3

Check Your Progress - II

- 1) See sec. 8.4
- 2). See sec. 8.5

Check Your Progress - III

- 1) See sec. 8.6
- 2). See sub sec. 8.6

Check Your Progress - IV

- 1) See sec. 8.7
- 2) See sec. 8.7

8.10 Glossary

- **Family business:** The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family.
- **Resources:** means any types of physical and non-physical resources used in the business.

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- **Ownership system:** means controlling owner, sibling partnership, and cousin consortium.
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8.11 Review Questions

- Explain the concept of Family enterprises. Discuss various types of family business in tourism.
 - Describe the overview of Family enterprises in tourism since 1990's.
 - Define family business. Discuss the advantages and disadvantages Family enterprises in tourism;
 - Illustrate the management practices in Family enterprises in India;
 - Examine the challenges and issues in Tourism Family Enterprise. What are the main strategies to overcome these challenges, illustrate.
-

8.12 Suggested Readings

1. Getz, Carlsen and Morrison, the Family Business in Tourism and Hospitality, CABI Wallingford, UK, 2004.
2. Poorinima M. C., Entrepreneurship Development Small Business Enterprises, PEARSON education, New Delhi, 2006.
3. Sukul L. Mishra, P.K. (2007), Business Policy and Strategic Management, Vikas Publishing House Pvt. Ltd. New Delhi.
4. Sangram K. Mohanty, (2006), Fundamentals of Entrepreneurship, Prentice-hall of India Private Ltd. New Delhi.
5. SIDO (Small Industries Development Organisation, Government of India) (2005a).

BLOCK 3: ISSUES RELATED TO SSE'S

UNIT 9: OPENING OF SMALL SCALE TOURISM ENTERPRISES; MARKET ANALYSIS AND ASSESSMENT

STRUCTURE:

9.1 Introduction

9.2 Objectives

9.3 Steps required for the Entrepreneurship of Tourism Business

9.3.1 Step 1: Choosing the Sector

9.3.2 Step 2: Geographical Location

9.3.3 Step 3: Assess Competition

9.3.4 Step 4: Write a Business Plan

9.3.5 Step 5: Procurement of Funds

9.3.6 Step 6: Obtaining Licenses

9.3.7 Step 7: Marketing

9.4 Forms of Organisation

9.5 Skills Required for Opening an Organisation

9.6 General Rules and Guidelines

9.7 Generally Required Documents For Approval / Renewal

9.8 Summary

9.10 Bibliography

9.11 Suggested Readings

9.12 Terminal Questions

9.1 Introduction

If an entrepreneur wishes to earn good money and a secure future, he may look forward to set up a travel agency and start doing some brisk business. With an increasingly mass of upper middle class, the country is witnessing a sudden burst in tourism activities making it the best time to make the hay and venture into this business in India. However setting up and running a profitable – travel & tourism business in India has become more challenging and competitive. An entrepreneur needs to be very good at marketing and networking. Initially success is hard to come by, but you should bide for your time. However this can be done easily by keeping a proactive approach.

9.2 Objectives

Present unit aims at opening of small scale tourism enterprises; market analysis and assessment. After going through this unit you will be able to:

- Familiarise yourself with the concept of tourism organisation orientation;
- Appreciate the importance of the need for market assessment
- Understand some broad issues involved in the analysis of market demand, competitive situation, and trade practices.
- Know the various requirements to be fulfilled for obtaining licence to operate as travel agent/tour operator/adventure operator/transporter along with the procedural aspects.

9.3 Steps Required to Follow for the Entrepreneurship of Tourism Business

Thus some steps have been suggested, if followed, helps achieve an entrepreneur a successful travel business.

9.3.1 Step 1: Choosing the Sector

Tourism comprises of a number activities, specialized and allied. Thus, it becomes utmost important to decide which sector of tourism you would like to focus your business on. In tourism there are generally several options to choose from when it comes to developing a business in tourism:

- a) Transportation services. This sector involves transporting tourists to, from and around the tourist destination.
- b) Travel agencies. Travel agencies are the 1 stop shop for everything involved with visiting a place, including transportation, accommodations and attractions.
- c) Accommodations. These include hotels, motels, bed and breakfasts, hostels, rental houses, condos and any other place tourists may stay while travelling.
- d) Guided tours and tour guides. A guided tour service or professional tour guide is a tourism business that specializes in providing informative and entertaining tours through an area's local attractions.
- e) Hospitality. A hospitality business pertains to any food or beverage establishment that tourists may frequent.

However, before deciding the area or the sector to enter an entrepreneur needs to conduct certain market analysis and assessment. This assessment can be done by undertaking a detailed feasibility and market analysis.

1. Feasibility Study: Feasibility study is conducted to know whether some idea will work or not. It can be known well in advance whether there exists a sizeable quantum of customers for the proposed business, what would be the investment requirements and where to get the funding from, and whether and

wherefrom the necessary technical know-how will be obtained and so on. In other words, feasibility study involves a complete examination of the operations, financial, HR, marketing and other aspects of a business. Conducting a feasibility analysis requires skills that you may fall short of. Thus one can always hire an outside agency for the job and take help from the Technical Consultancy Organisations (TCOs) such as HARDICON (Haryana-Delhi Industrial Consultancy Organisation) towards this purpose. An entrepreneur may also make use of the Project Reports already published by the directorate of industries and other private consulting firms. Whether you wish to start afresh or use the already published project reports, you need to examine all the areas of the feasibility of the proposed idea of starting a new business in tourism.

2. Market Analysis: A market is termed as an area for interaction among buyers and sellers. Success of the proposed project depends on the support of the customers. However, it is very difficult to clearly identify the market for one's products and services. An entrepreneur needs to carefully segment the market according to some criteria that may depend on geographic area, demographic and psychological profile of the potential customers and likewise. It is a study of knowing who all comprise your customers, for this you require information on:

- Consumption trends.
- Past and present supply position
- Production possibilities and constraints
- Imports and Exports Competition
- Cost structure
- Elasticity of demand
- Consumer behaviour, intentions, motivations, attitudes, preferences and requirements
- Distribution channels and marketing policies in use
- Administrative, technical and legal constraints impinging on the marketing of the product

3. Financial Analysis: The objective of undertaking a financial analysis is to ascertain whether the proposed project will be viable financially or not. It is done to sense the ability of the business to meet the burden of servicing debt and whether the proposed project will be able to satisfy the expectations of the owners or those who have funded the business. While conducting a financial appraisal certain aspects has to be looked into like:

Investment outlay and cost of project Means of financing projected profitability Break- even point Cash flows of the project. Investment worthiness judged in terms of various criteria of merit projected financial position. For the purpose numerous techniques are available like capital budgeting, ratio analysis etc.

4. Technical Analysis: The issues involved in the technical analysis of the proposed business or project may be classified into those pertaining to inputs and outputs.

a) **Input Analysis:** It is primarily concerned with the identification, quantification and evaluation of inputs required in the project, i.e. men, machinery and materials. One has to ensure the timely availability of the right quantity and quality of inputs throughout the life of the project. To ensure this, one has to enter into a number of long-term contracts with the potential suppliers; and in many cases cultivate your own supply sources. The activities involved in developing and retaining supply sources are referred to as supply chain management.

b) **Output Analysis:** This involves product specification in terms of physical features like, color, weight, length, breadth, height, features, product properties etc.

9.3.2 Step 2: Geographical Location

Choosing your geographical location is also very strategic. Two travel agencies doing same business at different places will have different amount of revenue and profits. Take your geographical location into account. Your local tourist attractions are good indicators of what would and would not make a successful tourism business venture. For ex., if your area is secluded from the populace and dense with wineries, then guided winery tours, local bed and breakfasts and airport transportation services are all viable business options.

9.3.3 Step 3: Assess Competition

Knowing competition is very important. It helps an entrepreneur to chalk out its SWOT (Strength-Weakness-Opportunity-Threat) analysis. Thus it will help you explore more opportunities and safeguard you against the possible threats. Thus, one need to thoroughly research the tourism businesses in the area before you decide which business in tourism is right for you. You will want to choose a tourism sector that is not overly congested, and one that you can contribute something unique to.

9.3.4 Step 4: Write a Business Plan

A business plan is a blueprint for any business, and generally include Executive summary in the beginning which describe business' purpose, name, location, market sector, competition, marketing plan and financial projections. It should be followed by a business summary. This details how the business' ownership will be distributed. Business plan include products and services to be provided to the tourists and the information about your target market and your competition. One should also describe how you are to run your business. A financial analysis also needs to be presented. A sample of contents a business plan is presented below:

Outline of a Business Plan

1	Introductory Page
	Name and address of business
	Name(s) and address (es) of principals
	Nature of business
	Statement of financing needed
	Statement of confidentiality of report
2	Executive Summary
	Three to four pages summarizing the complete business plan
3	Industry Analysis
	Future outlook and trends
	Analysis of competitors
	Market segmentation
	Industry forecasts
4	Description of Venture
	Product (s)
	Services (s)
	Size of business
	Office equipment and personnel
	Background of entrepreneurs
5	Production Plan
	Manufacturing process (amount subcontracted)
	Physical plant
	Machinery and equipment
	Names of suppliers of raw materials
6	Marketing Plan
	Pricing
	Distribution
	Production
	Product forecasts
	Controls
7	Organisational Plan
	Form of ownership
	Identification of partners or principal shareholders
	Authority of principals
	Management-team background
	Roles and responsibilities of members of organization
8	Assessment of Risk
	Evaluate weakness of business
	New technologies
	Contingency plans
9	Financial Plan
	Performa income statement
	Cash flow projection
	Pro forma balance sheet
	Break-even analysis
	Sources and application of funds
10	Appendix (contains backup material)
	Letters
	Market research data
	Leases or contracts
	Price lists from suppliers

Source: Hisrich and Peters-Entrepreneurship, Tata McGraw Hill 2000 page 237

9.3.5 Step 5: Procurement of Funds

Procure the necessary funds. Present your business plan to potential lenders and/or business partners in order to obtain the start up and operating capital you will need to run your business in tourism. Like any other business ventures, you will need finance to start your business. An accountant can help you draw a business plan to help you get a loan. You need to approach banks with a credible business plan. You may need the help of a realtor if you tend to lease office space for your venture.

9.3.6 Step 6: Obtaining Licenses

Obtain all applicable business licenses. Get the necessary business licensing through your local government's business regulatory agency. In case of a travel agency it is required to get license from local tourism body (DTDO) if your agency is supposed to operate in that area. Further the license is issued from Ministry of Tourism, Government of India at national level. Approval from IATA is also required to get approval of national level travel agency.

9.3.7 Step 7: Marketing

Market your tourism business.

- a) Use social networking sites. Set up accounts/pages on free social networking sites.
- b) Create a website for your tourism business. Be sure to hire a specialist for search engine optimization (SEO) in order to maximize your site's online presence.
- c) List your business on all applicable online directories and review websites.
- d) Advertise in print mediums. Take out ad space in newspapers, magazines and trade / lifestyle publications

The process of setting up a business is preceded by the decision to choose entrepreneurship as a career and identification of promising business ideas upon a careful examination of the entrepreneurial opportunities. Generation of ideas is not enough; the business ideas must stand the scrutiny from techno-economic, financial and legal perspectives. That is, after the initial screening of the ideas that do not seem promising *prima facie*, you should conduct an in-depth examination of the chosen three-four before settling for the one where you would like to exert your time, money and energies. You should prepare a business plan that will serve as the road map for effective venturing, whether you may require institutional funding (in which case it is necessary to do so) or not. Setting up of new business enterprises is a very challenging task; you are likely to encounter many problems *en route*. It's advisable to be aware of these problems as to forewarn means to fore arm.

9.4 Forms of Organization

A travel business can be started by forming one of the following types of organization.

- a) **Sole Proprietor:** This is the form of organization that generally every business starts with. It is one of the easiest and least complex forms of organisation. At the time of startup the entrepreneur will usually look for handling all types of responsibilities of the venture by himself. As a result the vast majority of new businesses start as sole proprietors. This form of organization has an added advantage of being free from formalities regarding incorporation or maintenance of accounts or auditing etc.
- b) **Partnership:** As the business grows the requirements for funds and human resources also increase which might lead a sole proprietor to enter into partnership with one or more persons who can share the risk and responsibilities of a growing business. It is thus always preferable to have a written agreement between partners which is called a partnership deed clearly indicating the names and addresses of the partners, their ages, their contribution to the capital, profit/loss sharing ratio etc.
- c) **Company:** A company form of organization is much formalized one. It can be a private limited company, which has a minimum of 2 and a maximum of 50 members. An entrepreneur can also form a public limited company, which can have a minimum of 7 members, and without a limit to maximum number. This form of organisation provides huge amount of capital as they, can invite the general public to subscribe to its shares and also provide limited liability. The Companies Act of 1956 governs the companies in India.
- d) **Co-operative:** A co-operative is an enterprise owned and controlled by the people who are working in it. Generally they are formed for some specific purpose like a housing cooperative society.

9.5 Skills Required to Open an Organisation

Although not mandatory, but it proves good if a budding entrepreneur obtains some kind of a diploma or a degree in travel and tourism. Many institutions offer such kind of courses at graduation and post graduation level. These courses teach a person some basic requirements like:

- a) Computer skills
- b) Basic accounting
- c) Basic management
- d) Custom regulations
- e) Passport and visa knowledge
- f) Currency exchange procedures
- g) Flight and railway ticket booking
- h) Communication skills

- i) Manners and etiquettes of other cultures
- j) Foreign Language

The above list is not exhaustive. The skills imparted through travel and tourism courses can much more depending upon the course opted for.

How to Start Online Travel Business?

Today is the time of technology and nobody can save the business if you do not have an online presence. Going

- a) **Click and mortar:** Click and mortar means that you have presence physically as well as online. You are providing services at an office where your prospective customers can meet you personally and avail your products and services. Along with that you are also providing the same products and services online to those customers who cannot approach the physical office.
- b) **Pure play:** Pure play business means that you do not have any physical presence. In other words you do not have any office space where a customer can meet you personally. Rather, you offer your products and service via electronic medium.

Thus, in both the cases, you need to fill up business licenses as required by the government. You also must have your own website where people can do all the booking like flights, cruise trips and even hotels. Unless you promote your site aggressively it may not catch the attention of people. It is always suggested that instead of providing all types of products one should specialize in a specific category of travel. This will assure you a niche market. Some such categories include business and corporate travel, honeymoon travel or start adventure travel business only. Most importantly offer competitive pricing but not rock bottom pricing. Emphasize on the quality of services. Vacationers can be your best source for referrals. Their recommendation can help you flourish.

9.6 General Rules and Guidelings

To start up a travel or tourism business in India, one needs to take certain permissions and fulfill the requirements as laid down by the ministry of tourism of India time to time. Following are certain guidelines for recognition as different types of tour operators.

9.6.1 Guidelines for Recognition / Renewal or Extension as an Approved Domestic Tour Operator (DTO) [Revised with effect from 18th July 2011]

The following conditions must be fulfilled by the DTO for grant of recognition / renewal or extension by MOT:

- i) The application for grant of recognition / renewal or extension shall be in the prescribed form and submitted in duplicate along with the required documents.

- ii)** DTO should have a minimum Paid up Capital (Capital employed) of Rs. 3.00 lakh for rest of India and Rs. 50, 000/- for the agencies located in the North - Eastern region, remote and rural areas duly supported by the latest audited Balance Sheet / firm's Statutory Auditor's certificate.
- iii)** The turn-over of the firm from domestic tour operation business only should be a minimum of Rs. 20.00 lakh duly supported by firm's Statutory Auditor's certificate.
- iv)** DTO should have an office under the charge of the owner or a full time member of their staff, who is adequately trained / experienced in matters regarding transport, accommodation, currency, customs regulations and general information about tourism and travel related services. However, greater emphasis may be given to effective communication skills in Hindi and English.
- v)** There should be a minimum of four qualified staff out of which at least one should have Diploma / Degree in Tourism & Travel Management from a recognized University, IITTM or an institution approved by AICTE. The owner of the firm would be included as one of the qualified employees.
- vi)** The academic qualifications may be relaxed in case of the other two staff members who are exceptionally experienced personnel in Airlines, Shipping, Transport, PR Agencies, Hotels and other corporate bodies and those who have two years experience with MOT approved tour operators.
- vii)** For the agencies located in the North - Eastern region, remote and rural areas, there should be a minimum of two staff out of which one should be a qualified employee with a Diploma / Degree in Tourism & Travel Management from a recognized University, IITTM or an institution approved by AICTE. The owner of the firm would be included as one of the qualified employees.
- viii)** DTO should have been in operation for a minimum period of one year before the date of application.
- ix)** The minimum office space should be at least 150 sq. ft for rest of India and 100 sq. ft for hilly areas which are above 1000 meters from sea level. Besides, the office should be located in neat and clean surroundings and equipped with telephone, fax and computer/computer reservation system etc. There should be sufficient space for reception and easy access to toilets.
- x)** DTO should be an income tax assessee and should have filed Income Tax Returns for the last or current assessment year. They should have registered for Service Tax and made full payment of the assessed service tax for the preceding year.
- xi)** For the monuments protected under the Ancient Monuments and Archaeological Sites & Remains Act, 1958 (24 of 1958), the DTOs

should deploy / engage the services of Regional Level Tourist Guides trained and licensed by Ministry of Tourism, Government of India or other guides authorized by the Government of India or under orders of the Hon'ble Court(s). For other monuments and destinations, the guides authorized under the orders of the appropriate authority, if any, of the concerned monument / destination should be deployed / engaged by DTOs.

- xii)** DTO shall contract / use approved specialized agencies in the field of Adventure Options and related services for the tourists.

9.6.2 Guidelines for Recognition / Renewal or Extension as an Approved Travel Agent / Agency (TA) [Revised with effect from 18th July 2011]

The following conditions must be fulfilled by the TA for grant of recognition / renewal or extension by MOT:-

- i)** The application for grant of recognition / renewal or extension shall be in the prescribed form and submitted in duplicate along with the required documents.
- ii)** TA should have a minimum Paid up Capital (Capital employed) of Rs. 3.00 lakh for rest of India and Rs. 50, 000/- for the agencies located in the North - Eastern region, remote and rural areas duly supported by the latest audited Balance Sheet / firm's Statutory Auditor's certificate.
- iii)** TA should be approved by International Air Transport Association (IATA) or should be General Sales Agent (GSA) / Passenger Sales Agent (PSA) of an IATA **member Airlines**.
- iv)** TA should have been in operation for a minimum period of one year before the date of application.
- v)** The minimum office space should be at least 150 sq. ft for rest of India and 100 sq. ft for hilly areas which are above 1000 meters from sea level. Besides, the office may be located in a neat and clean surrounding and equipped with telephone, fax and computer reservation system etc. There should be sufficient space for reception and easy access to toilet facilities.
- vi)** TA should be under the charge of the Owner or a full time member who is adequately trained, experienced in matters regarding ticketing, itineraries, transport, accommodation facilities, currency, customs regulations and tourism and travel related services. Besides this, greater emphasis may be given to effective communication skills, knowledge of foreign languages, other than English.

There should be a minimum of four qualified staff out of which at least one should have Diploma / Degree in Tourism & Travel Management from a recognized University, IITM or an institution approved by AICTE. The owner of the firm would be included as one of the qualified employees.

The academic qualifications may be relaxed in case of the other two staff members who are exceptionally experienced personnel in Airlines, Shipping, Transport and PR agencies, Hotel and other Corporate Bodies and those who have worked for three years with IATA / UFTA agencies and also those who have two years experience with MOT approved Travel Agencies. For the Travel Agents / Agencies located in the North - Eastern region, remote and rural areas, there should be a minimum of two staff out of which one should be a qualified employee with a Diploma / Degree in Tourism & Travel Management from a recognized University, IITTM or an institution approved by AICTE. The owner of the firm would be included as one of the qualified employees.

vii) TA should be an income-tax assessee and should have filed Income Tax Return for the current assessment year.

viii) For the monuments protected under the Ancient Monuments and Archaeological Sites & Remains Act, 1958 (24 of 1958), the TAs should deploy / engage the services of Regional Level Tourist Guides trained and licensed by Ministry of Tourism, Government of India or other guides authorized by the Government of India or under orders of the Hon'ble Court(s). For other monuments and destinations, the guides authorized under the orders of the appropriate authority, if any, of the concerned monument / destination should be deployed / engaged by TAs.

ix) For outsourcing any of the services relating to tourists, the TA(s) shall use approved specialized agencies in the specific field of activity.

9.6.3 Guidelines for Recognition / Renewal or Extension as an Approved Adventure Tour Operator (ATO) [Revised with effect from 2nd January 2012]

The following conditions must be fulfilled by ATO for grant of recognition / renewal or extension by MOT:-

- (i)** The application for grant of recognition / renewal or extension shall be in the prescribed form and submitted in duplicate along with the required documents.
- (ii)** ATO should have a minimum Paid up Capital (Capital employed) of Rs. 3.00 lakhs duly supported by the latest audited Balance Sheet / firm's Statutory Auditor's certificate.
- (iii)** The turnover by the firm from Adventure Tourism & Adventure Sports related activities only should be a minimum of Rs.10.00 lakh during the preceding financial year duly supported by a certificate issued by Statutory Auditor of the firm.
- (iv)** The minimum office space should be at least 150 sq. ft for rest of India and 100 sq. ft for hilly areas which are above 1000 meters from sea level. The office should be located in neat and clean surroundings and

equipped with telephone, fax and computer/computer reservation system etc. There should be sufficient space for reception and easy access to toilets.

- (v)** ATO should have a minimum of four qualified staff out of which at least one should have Diploma / Degree in Tourism & Travel Management from a recognized University, IITTM and any institution approved by AICTE or should be trained from reputed specialized Institutes in Private / Public Sector. The owner of the firm would be included as one of the qualified employees. Either, the Owner / Director himself or their Operations - Chief employed should be well qualified in the activity the adventure operator wants to pursue, which is determined by certification by any national or international institute in the activity or minimum of eight years of practical experience.

The academic qualifications may be relaxed in case of the other two staff members who are exceptionally experienced personnel in Airlines, Shipping, Transport, PR Agencies, Hotels and other corporate bodies and those who have two years experience with MOT approved tour operators.

For the agencies located in the North - Eastern region, remote and rural areas, there should be a minimum of two qualified staff out of which one should have a Diploma / Degree in Tourism & Travel Management from a recognized University, IITTM or an institution approved by AICTE or should be trained from reputed specialized Institutes in Private / Public Sector. The owner of the firm would be included as one of the qualified employees.

- (vi)** The Agency must clearly indicate its specialization of activities or activity it wishes to pursue as business like trekking, water sports, aero sports, scuba diving, Safaris etc.
- (vii)** The operator must have his own Adventure equipment as well as specialized trained staff.
- (viii)** For the monuments protected under the Ancient Monuments and Archaeological Sites & Remains Act, 1958 (24 of 1958), the ATOs should deploy / engage the services of Regional Level Tourist Guides trained and licensed by Ministry of Tourism, Government of India or other guides authorized by the Government of India or under orders of the Hon'ble Court(s). For other monuments and destinations, the guides authorized under the orders of the appropriate authority, if any, of the concerned monument / destination should be deployed / engaged by ATOs.
- (ix)** The field staff members of the party must be qualified for the activity or must have minimum of five years of practical experience. The staff member must obtain an Adventure certificate from the specialized organizations like IMF (for Mountaineering/trekking) & NIWS Goa (for Water Sports/Aero sports, etc.).

- (x)** Field members of the company must be qualified in First - Aid / C.P.R by Red Cross or equivalent body or Certificate Course conducted by the Adventure Tour Operators Association of India.
- (xi)** The party must sign an undertaking for adherence to sustainable ecological practice and protection of environment in keeping with guidelines for eco-tourism and safety and security guidelines of Ministry of Tourism/Adventure Tour Operator Association of India.
- (xii)** It would be recommended to distribute a copy of the Eco - Tourism guidelines to each client.
- (xiii)** The agency must maintain in its office premises all the maps and reference material concerning the particular activities it desires to pursue as business.
- (xiv)** The party must have printed brochure or website clearly describing its i) present activities (ii) Its area of operation (iii) its commitment to follow Eco - Tourism guidelines.
- (xv)** The firm should clearly indicate the area of specialization in all their promotional and display material.
- (xvi)** Principles of Eco Tourism as being espoused by ATOAL Membership of PATA Green Leaf are optional.
- (xvii)** ATO should have filed Income Tax Return for the current assessment year.
- (xviii)** ATO should have been in operation for a minimum period of one year before the date of application.

9.6.4 Guidelines for Recognition / Renewal or Extension as an Approved Tourist Transport Operator (TTO) [Revised with effect from 18th July 2011]

The following conditions must be fulfilled by the TTO for grant of recognition / renewal or extension by MOT:-

- (i)** The application for grant of recognition / renewal or extension shall be in the prescribed form and submitted in duplicate along with the required documents.
- (ii)** The applicant should have been in the tourist transport operation business for a minimum period of one year at the time of application.
- (iii)** TTO has operated in the above period a minimum number of six tourist vehicles with proper tourist permits issued by the concerned State Transport Authority (STA) / Road Transport Authority (RTA) for commercial tourist vehicles. Out of these six tourist vehicles, at least four must be cars. The tourist vehicles and the related documents should be in the name of the company except where the owner is a Proprietor.

A list of vehicles in the prescribed proforma should be attached with the application.

- (iv)** The applicant should have adequate knowledge of handling the tourist transport vehicles for transferring tourists from the Airport, Railway Stations, Bus Stations, etc., and for sight-seeing of tourists, both foreign and domestic. The drivers should have working knowledge of English and Hindi / local languages.
- (v)** The drivers of the tourist vehicles should wear proper uniform and must possess adequate knowledge of taking the tourists for sight seeing.
- (vi)** The applicant should have proper parking space for the vehicles.
- (vii)** TTO is registered with the appropriate authority for carrying on the business of operating tourist transport vehicles.
- viii)** For the monuments protected under the Ancient Monuments and Archaeological Sites & Remains Act, 1958 (24 of 1958), the TTOs should deploy / engage the services of Regional Level Tourist Guides trained and licensed by Ministry of Tourism, Government of India or other guides authorized by the Government of India or under orders of the Hon'ble Court(s). For other monuments and destinations, the guides authorized under the orders of the appropriate authority, if any, of the concerned monument / destination should be deployed / engaged by TTOs.
- ix)** The minimum office space should be at least 150 sq. ft for rest of India and 100 sq. ft for hilly areas which are above 1000 meters from sea level. Besides the office may be located in the commercial area and equipped with telephone, fax, computers etc. Its surroundings should also be neat and clean. There should be sufficient space for reception and easy access to the toilet facilities.
- x)** The turn-over of the firm from Tourist Transport operations only should be a minimum of Rs. 25.00 lakh for rest of India and Rs. 10.00 lakh for the North - Eastern region, remote & rural areas duly supported by a Certificate issued by Statutory Auditor of the firm. In this regard, the turn over through foreign exchange and INR must be mentioned separately, by the Statutory Auditor of the firm.
- xi)** The applicant should be income tax assessee and should submit copy of acknowledgement certificate as a proof of having filed income tax return for current assessment year.

9.6.5 Guidelines for Recognition / Renewal or Extension as an Approved Inbound Tour Operator (ITO) [Revised with effect from 18th July 2011]

The following conditions must be fulfilled by ITO for grant of recognition / renewal or extension by MOT:

- i) The application for grant of recognition / renewal or extension shall be in the prescribed form and submitted in duplicate along with the required documents.

(ii) ITO located in rest of India should have a minimum Paid up Capital (or Capital employed) of Rs.3.00 lakh and Rs. 50,000/- in the case of North - Eastern region, remote and rural areas, duly supported by the latest Audited Balance Sheet / certificate of the Statutory Auditor of the firm.

(iii) The turn-over in terms of foreign exchange earnings by the firm from inbound tour operations only during the preceding financial year or calendar year should be a minimum of Rs. 25.00 lakh for rest of India and Rs. 5.00 lakh for the North - Eastern region, remote and rural areas duly supported by firm's Statutory Auditor's certificate.

However, for the North - Eastern Region, the firm's turn - over in Rupee earnings would be treated as Foreign Exchange earnings, provided there is documentary evidence that such earnings are from inbound tour operations only. This could be certified by the firm's Statutory Auditor.

(iv) ITO should have an office under the charge of the owner or a full time member of their staff, who is adequately trained / experienced in matters regarding transport, accommodation, currency, customs regulations and general information about tourism and travel related services. However, greater emphasis may be given to effective communication skills and knowledge of foreign language other than English.

There should be a minimum of four qualified staff out of which at least one should have Diploma / Degree in Tourism & Travel Management from a recognized University, IITTM or an institution approved by AICTE. The owner of the firm would be included as one of the qualified employees.

The academic qualifications may be relaxed in case of the other two staff members who are exceptionally experienced personnel in Airlines, Shipping, Transport, PR Agencies, Hotels and other corporate bodies and those who have two years experience with MOT approved tour operators.

For the agencies located in the North - Eastern region, remote and rural areas, there should be a minimum of two staff out of which one should be a qualified employee with a Diploma / Degree in Tourism & Travel Management from a recognized University, IITTM or an institution approved by AICTE. The owner of the firm would be included as one of the qualified employees.

(v) ITO should have been in operation for a minimum period of one year before the date of application.

(vi) The minimum office space should be at least 150 sq. ft for rest of India and 100 sq. ft for hilly areas which are above 1000 meters from sea level. Besides, the office may be located in neat and clean surroundings and equipped with telephone, fax and computer reservation system etc. There should be sufficient space for reception and easy access to toilets.

(vii) ITO should be an income tax assessee and should have filed Income Tax Returns for the last or current assessment year.

(viii) For the monuments protected under the Ancient Monuments and Archaeological Sites & Remains Act, 1958 (24 of 1958), the ITOs should deploy / engage the services of Regional Level Tourist Guides trained and licensed by Ministry of Tourism, Government of India or other guides authorized by the Government of India or under orders of the Hon'ble Court(s).

For other monuments and destinations, the guides authorized under the orders of the appropriate authority, if any, of the concerned monument / destination should be deployed / engaged by ITOs.

(xi) ITO shall contract / use approved specialized agencies in the field of adventure options and related services for the tourists.

9.7 Generally Required Documents for Approval / Renewal

1. Application form duly filled in.
2. Two attested photographs pasted on both the copies of application form.
3. Documentary proof (preferably registration certificates from govt.) in support of beginning of operations of your firm.
4. Copy of Complete Audited Balance Sheet for the latest financial year.
5. Income Tax Acknowledgement for the latest assessment year.
6. Service Tax Registration Number from the concerned authority.
7. ***Certificate of Chartered Accountant stating your*** amount of paid-up capital.
8. Reference letter from Bank on its letterhead (***Original***) regarding your firm's bank account.
9. Details of staff employed giving names, educational qualification & experience if any in tourism field (***copies of certificates to be enclosed***), and length of service in your organization.
 - a) As per the guidelines, any agency applying to Ministry of Tourism, Government of India should have at least four employees as staff, out of which two should have Degree/Diploma in Travel & Tourism Management from a recognized University / Institution.
 - b) The academic qualifications may be relaxed in case of the other two staff members who are experienced personnel in Airlines, Shipping, Transport, PR Agencies, Hotels and other corporate bodies, Tourism related organizations and those who have two years experience with Ministry of Tourism approved tour operators.
 - c) Similarly, for the agencies located at North - East, religious, remote and rural areas, there should be a minimum of two qualified staff, out of which one should have Diploma / Degree in Travel & Tourism Management.
10. List of Directors/Partners or name of the Proprietor.

11. *Details of office premises* (whether located in commercial or residential area, office space in sq. ft. and accessibility to toilet and reception area)
12. *Certificate of Chartered Accountant on original letter head in support of your turnover* during the last financial/calendar year.
13. Documents duly attested by competent officer.
14. DD for the requisite amount *towards processing fees*

9.8 Summary

Small and medium tourism enterprises comprise all businesses, which by their own definition, operate in the tourism industry and employ up to 100 employees and include sole operators not employing any staff. Specifically, micro businesses are those that employ between one and four workers, small businesses employ between five and 19 employees and medium businesses employ between 20 and 100 employees. Tourism can contribute to the goal of sustainable development as well as development of local economies if it is linked to the local economies.

In the recent past, focus in tourism has shifted to pro-poor tourism. One objective of pro-poor tourism is to increase the positive impacts of tourism on poor people, increase participation of the poor in the tourism industry as well as increase the economic benefits of the poor from tourism activities. This can be realized by limiting leakages through the use of micro and small scale enterprise products, increasing tourist expenditures and promoting linkages between tourism and the local economy through activities in which the poor participate such as small scale enterprises.

Indian business travellers are most likely to splurge during trips by availing hotel room upgrades, high end meals and room service during their visit, compared to those from other countries, a study has found. Indians were at the top when it came to upgrading their hotel rooms during business trips, while they were placed second when it came to enjoying high-end meals, a joint study by Expedia-Egencia on 'Future of Travel' has found.

"India is amongst the fastest growing business travel markets globally and is expected to be a USD 50 billion market by 2017. The business travel industry in India is maturing very quickly. So this is the right time to start a venture of travel trade.

9.9 Glossary

Enterprise	Enterprise involves measures to encourage individuals to become entrepreneurs and equip them with the necessary skills to make a business successful. In essence enterprise is about spotting opportunities, creating new ideas and having the confidence and capabilities to turn these ideas into working realities (Nixon, 2004)
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Social entrepreneurship	Social entrepreneurship involves using entrepreneurial skills for the public good rather than for private profit, that is using imagination to identify new opportunities and determination to bring them to fruition.
Account	Record of a business transaction. When you buy something on credit, the company you are dealing with will set up an "account". This means that they set up a record of what you buy and what you pay. You should do the same thing with any customers to whom you give credit.
Benchmarking	A method used to compare the relative performance ranges of different businesses. It is an effective way of identifying areas for business improvement.
Best Practice	Best performance of a function or process or methods that lead to exceptional performance.
Brainstorming	A technique of solving problems in which members of a group put forward ideas to resolve the issues raised.
Break Even	Break-even point represents the volume of sales at which total revenue equals total costs.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Capital	This has several meanings, but usually refers to the amount of money in the business belonging to the proprietors or shareholders.
Overheads (indirect or fixed costs)	Expenses which do not vary with the level of production or number of employees and which cannot be attributed to production costs, e.g. lighting, rent, rates.
Partners	More than one person owns and manages a business. All have equal responsibility.
Positioning	Positioning is how a product appears in relation to other products in the same market.
Shareholder	A person or entity that owns shares of stock in a company or mutual fund.
SME	Small and Medium-sized Enterprise. The technical definition covers companies that have less than 250 employees, (50 for a small business) and are less than 25% foreign owned.
Social Enterprise	An enterprise whose primary aim is to meet some social rather than business need. Examples include charities, co-operatives and community businesses. Although generally run as not-for-profit enterprises, their success usually depends on application of the sound business practices described on this website.
Socio-Economic Background	Social class (grade A to E) which is of course related to ones income, is used to identify the kinds of people who buy your product and hence to target more of them.

Sole Trader	An individual running a business. All revenues and payments from the business are incorporated within the individual's personal financial and tax affairs.
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9.10 Answer to Check Your Progress

1. An entrepreneur who plans to sell tour packages opines: "Since the disposable income of the population is increasing every year, the demand for holidays is bound to increase with time. I, therefore, don't see any problem for my firm from the demand side." What are your comments?
2. Conduct the market analysis of the travel companies in your city and figure out with which type of tourism product you would like to launch your travel agency business.

9.11 Bibliography

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- Raymond E. Miles; Grant Miles; Charles C. Snow, *Collaborative Entrepreneurship: How Communities of Networked Firms Use Continuous Innovation to Create Economic Wealth*. Stanford University Press, 2005
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9.12 Suggested Readings

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- Bill Meyer, *Cash Flow: A Practical Guide for the Entrepreneur*, Perc Press.
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9.13 Terminal Questions

1. What are the implications of 'marketing orientation' on the process of product selection?
2. What are the different steps need to follow and factors to be considered before opening a tourism business enterprise?
3. What are various types of organisation? In case of tourism business what are the skill required.
4. What are the governmental guidelines in India for obtaining the license to operate as a travel agency?

UNIT 10: CHOICE OF SITE AND TECHNOLOGY, FINANCING OPTIONS

STRUCTURE:

- 10.1 Introduction
- 10.2 Objectives
- 10.3 Location Decision
- 10.4 Location Analysis
- 10.5 Selection Criteria
- 10.6 Financing Decisions
 - 10.6.1 Types of Financing
 - 10.6.2 Sources of Finance: Debt and Equity
- 10.7 Successful Entrepreneurs Use Combinations
- 10.8 Summary
- 10.9 Glossary
- 10.10 Answer to Check Your Progress
- 10.11 Bibliography
- 10.12 Suggested Readings
- 10.13 Terminal Questions

10.1 INTRODUCTION

By studying the previous unit you must have now learnt how the entrepreneur conducts the detailed analysis i.e. technical, financial, economic and market study before putting up a comprehensive business plan. For successful implementation of this plan, entrepreneur has to numerous crucial decisions namely location of business, layout (the arrangement of physical facilities), and procuring funds for financing the business needs. This unit deals with all these aspects of plant location and financing.

10.2 OBJECTIVES

Present unit aims at choice of site and technology; financing options. After going through this unit you will be able to:

- Understand the concept of location design and location analysis for choosing the site of the business;
- Understanding the financial decisions and sources of finances;
- Know the success stories of successful entrepreneurs.
- Identify and discuss the general factors involved in determining the location of a business.

10.3 LOCATION DECISION

Almost every entrepreneur has to face the problem of deciding the best site or location for setting up an office. Location decision deals with the choice of region or area of operation and the selection of a particular site for setting up a business. The choice of the location is made only after considering cost and benefits of different alternative sites or conducting a detailed cost benefit analysis. This decision is not only financial but also a strategic decision that cannot be changed easily once taken. If at all, some location changes are needed, some considerable loss is always involved, which can give a setback to whole business.

Thus the location should be selected as per the requirements of the business and prevailing circumstances. Each individual location is a different case in itself and requires different and detailed analysis. An entrepreneur should always try to make an attempt for finding an optimum or ideal location.

What is an ideal location?

It is important decision to choose an ideal location, but the question is which location is said to be ideal. An ideal location is the one where:

1. The cost of the product can be kept to minimum,
2. It has a large market share,
3. It has a large chunk of prospective customers,
4. It has the least risk but the maximum social gain,
5. It has the minimum cost to set up the business,
6. Is the place of maximum net advantage or which gives lowest per unit cost of each product?

For achieving this objective, small-scale entrepreneur can make use of location analysis for this purpose.

10.4 LOCATION ANALYSIS

Location analysis is a dynamic and ever changing process where an entrepreneur undertakes an analysis to compare the appropriateness of the chosen site or location as compared to the other location alternatives available

in the market place. Thus, the overall location analysis may consist of the following different types of analysis:

1. **Demographic Analysis:** It involves the study of the population in the area where the business is proposed to be set up, in terms of, age composition, educational level, per capita income, occupational structure, gender ratio, lifestyle and other demographic and psychographic factors.
2. **Trade Area Analysis:** Under this analysis the entrepreneur would also check the viability of accessing the trading area from alternative locations. Thus, it is an analysis of the geographic area that is going to serve the business with continued clientele.
3. **Competition Analysis:** This kind of analysis helps an entrepreneur to estimate the location, nature, size and quality of competition in a given trade area.
4. **Traffic analysis:** This analysis helps an entrepreneur take a rough idea about the quantum of potential customers that would pass by the proposed site, during the working hours of the shop. In other words you analyze the total footsteps in the trade area. The traffic analysis is aimed at judging the alternative sites in terms of vehicular traffic as well as the pedestrian passing a given site.
5. **Site economics:** Under this type of analysis different sites available are evaluated in terms of establishment and operational costs. Establishment costs generally involve costs incurred for permanent physical facilities like building, equipment, furniture, fixtures, fittings etc. but operational costs involve incurring of recurring expenses i.e. for running business on day to day basis, which are also called as running costs.

Following is an example which can explain what has been discussed above. Two sites A and B are evaluated in table 10.1 in terms of above mentioned two costs as follows:

Table 10.1 Comparative costs of alternative sites

Costs	Site A (Rs.)	Site B (Rs.)
Cost of establishments:		
Land and Buildings	10,00,000	9,00,000
Equipment	1,00,000	1,00,000
Transport facilities	20,000	30,000
Total (A)	11,20,000	10,30,000
Cost of operations:		
Taxes and insurance	10,000	9,000
Wages and Salaries	1,00,000	70,000
Water, power and fuel	10,000	8,000
Total (B)	1,20,000	87,000
Grand Total (A+B)	12,40,000	11,17,000

The above cost statement clearly shows that site (B) is preferable as compared to site (A) keeping in mind economic considerations only. It can also be seen that in some respects site (A) has lower costs, however the total cost involved is lower than site (B).

Now we put forward another table which shows the earnings from the two sites as below

Table 10.2 Earning from two alternative sites

	Site A (Rs.)	Site B (Rs.)
Total revenue	15,00,000	13,00,000
Cost Involved (As per Table 10.1)	12,40,000	11,17,000
Profit	2,60,000	1,83,000

Now this table may change the previous decision of choosing site A over site B. thus, by applying the definition of ideal location which is the place of maximum net advantage or which gives lowest unit cost of production and distribution, site A should be preferred over site B.

10.5 SELECTION CRITERIA

There are other factors and considerations for selecting a suitable location, which are given below:

1. Availability and nearness to the sources of raw material.
2. Natural or climatic conditions.
3. Access to market: small businesses, whether in retail or wholesale should be located within the vicinity of densely populated areas.
4. Availability of Infrastructural facilities like that of developed industrial sheds or sites, nearness to railway stations, link roads, airports or sea ports, availability of water, electricity, public utilities, means of communication and civil amenities are important, especially for the small scale businesses.
5. Availability of technically qualified and trained managers along with skilled and non-skilled labour.
6. Proximity to Banking and financial institutions.
7. Locations with links: to develop industrial areas or business centers result in savings and cost reductions in transport overheads, miscellaneous expenses.
8. Strategic considerations of safety and security should also be given due importance.
9. Government influences: Both positive and negative incentives given to motivate an entrepreneur to choose a specific site are made available by the local, state or central government. Positive incentives may include cheap overhead facilities like banking, electricity, transport, subsidies, tax relief and liberalized norms. Negative incentives may include restrictions for setting up business in some areas.

From the discussion above, it is now very much clear that location of a new business set up is a vital decision for any entrepreneur, because it influences the cost of the product to a large extent. In some cases, one may find that location may even contribute to 10% of the total cost of product offered to clients. Therefore, an appropriate location is essential for the efficient and effective working of a business. A firm may fail just due to a bad location or may lead to restricted growth and efficiency due to bad location.

10.6 FINANCING DECISIONS

Obtaining money for an entrepreneurial company is not very easy. The key is preparing a right business plan, and then develop a verbal pitch, develop a marketing strategy. It takes intimate knowledge, and unbounded enthusiasm. A business plan show how much money is required and at what time. It will tell the type of funds i.e. if it should be debt or equity. From this, you can then develop a financial plan which in turn will help an entrepreneur narrow in on the type of investor you will be seeking. It will be helpful if you understand the following accepted "stages of growth" used by all financing sources.

1. **First Stage:** At this stage there is just an idea, a concept, a blueprint, or no business plan or market research has been undertaken. In this stage only creating of human resource take place, which generally includes the promoters who further take the decision in further development of the company. At this venture capitalists prove to be of great help. At this stage risk level is quite high and every investor would not be very interested. Personal savings and financial help from friends and family becomes the major source of finance.
2. **Second Stage:** At this stage the company has become operational. Here, the initial management team is in place and the company has faced some good and bad experiences. At this stage the main task of the business is to penetrate into the market. Venture capitalists and personal and family / friends' funds prove to be helpful and handy at this stage as well.
3. **Third Stage:** At this stage the business starts flourishing. The company starts expanding the venture by adding more assets and sales volume. Second-level of management is being hired at this stage. At this level of business the promoters may approach the banks for further financing as the business has become attractive.
4. **Fourth Stage:** At this stage the entrepreneur may start looking for shifting from a private organization to a public organization, selling out or merging. The next challenge is to start all over again, but with deep pockets.

With an understanding of the above mentioned stages of development of entrepreneurial companies, we can now look into the various types of financing available to an entrepreneur.

10.6.1 Types of Financing

Entrepreneurial managed companies are constantly looking for new capital and it is not so easy to up come by the situation. Successful entrepreneurs always understand the sources of finance and how to raise them for the business. Experienced entrepreneurs understand that the financing of companies is done in different stages and that they also have to be very flexible in the various sources of available finance and choosing one or a combination of them. It happens many a times that budding entrepreneurs think and believe that they can easily and successfully generate sufficient cash inflows as when required and achieve the desired financial success. However, it is always easier said than done. Thinking that raising funds is an easier task, does not work in today's highly rapid and dynamic business climate, especially in many medium and high tech areas. This section discusses the various sources from where an entrepreneur can raise funds for the business and the possible problems he or she may have to face while raising them.

10.6.2 Sources of Finance: Debt and Equity

As discussed in the stages the main problem for an entrepreneur is to raise funds in the initial stages only. Thus, initial financing can be the hardest part of launching their new business. There are a number of popular myths that an idea, a new startup team, and an elementary business plan will get the entrepreneur funds from some venture capitalist without realizing that traditional venture capital i.e. venture capital funds that are supported by institutional investors, will only finance a fraction of some percent of the new initiatives that are started each year. They are not aware of the fact that almost 90 percent plus of startup money come from private sources, i.e. personal, family or friends' sources and it is up to the individual entrepreneur to identify and sell their proposed project to these financing sources.

Debt Sources

A. Lease Financing: In case of a lease financing the leasing Company (Lessor) owns the Asset and the Lessee (Borrower) keeps Controls, Operations, and Uses it. Lessee pays a regular and fixed amount of lease rental to the lessor. Lifespan of lease is limited i.e. few months to even several yearRs. It is very similar to a collateralized Loan i.e. where the leased asset is kept as collateral.

A lease contract is just as serious as any other loan agreement. It has been observed that in most of the countries; almost 10-30% of fixed assets owned by Companies are actually on lease i.e. Warehouses, offices, equipment, fixtures, machinery, computers, cars, furniture, etc.

The two parties of lease agreement are:

- Lessor (Leasing Company)
- Lessee (Borrower)

General Advantages of Leasing from Lessee's (Borrower / user) Point of View:

- Less risk is involved in leasing as compared to investing own amount of money in expensive fixed assets in entirely a new business.
- More suitable for hi-tech assets that become Obsolete quickly.
- When product demand and hence equipment life is uncertain.
- Lender has to share portion of operational risk and maintenance costs

B. Financial Lease: As being one of the most significant financing tools in the modern business world, Financial Lease uses finance leases to leverage assets. A Financial Lease (or Capital Lease) is a lease that is primarily a method for raising finance to fund the capital assets, rather than on rental basis. Example of Financial Lease: You need to buy a quad core computer hardware system complete with all peripherals; but you do not have enough money to make the purchase. You approach a computer hardware store and negotiate the final price for the whole system at Rs. 30,000. After this you contact a leasing company to buy that computer system for you and lease it to you in return for a monthly installment or rental of say, Rs. 3000 per month. After one year, if you have successfully paid all the lease rentals on time, the Leasing Company will transfer the Ownership to you after the termination of the leasing agreement. Thus, it is a commercial arrangement where:

- The lessee (borrower) will select an asset (equipment, vehicle, software);
- The lessor (finance company) will purchase that asset;
- The lessee will use the asset during the lease;
- The lessee promises to pay a series of fixed amount of rentals or installments (monthly / quarterly / half yearly / yearly) for the use of that asset;
- The lessor will recover a large chunk or whole of the cost of the asset along with the interest from the rentals paid by the lessee;
- The lessee has the option to acquire ownership of the asset at the end of the agreement (e.g. paying the last rental, or bargain option purchase price);

In lease financing the lessor recovers both the full Value of Asset i.e. Principal amount and the Profit (in form of interest or mark up). Both the components are built into the lease rental amount paid by the lessee over the whole lifespan of the lease or the use of the asset. This is called fully amortized lease. Fully Amortized Lease is a lease wherein the lessor recovers the principal amount plus interest amount.

Advantage of Financial Lease for Lessee

- If factory needs to buy new machine on short notice or urgently and does not have enough finances at the time of purchase.
- Leased Assets (and lease liabilities) can some times be treated as off the balance sheet items. Accounting Standards (i.e. FASB USA) in some

countries restricts this. So generally speaking, Lease does affect the debt ratio & Capital Structure in a similar way as any other Loan on Balance Sheet.

- If Company is not able to justify an increase in the assets on the Balance Sheet based on some historical earnings. Capital expenditure in Leased Asset can be 'Expensed' out gradually.
- Lease Rentals are a tax deductible expense just like other interest payments.
- It is always beneficial as long as the IRR from leased equipment or asset is higher than that of cost of lease financing.

C. Operating Lease (or Service Lease): Operating Lease offers both financing as well as maintenance, wherein often the Lessor is the Supplier or the Vendor of the Asset. Operating Lease is not fully amortized and is also cancellable. For Example: A Car rental company (Lessor) charges a client Rs. 2000 per day for renting out a new Toyota Innova car along with a driver. You can lease that car for 2 days. You will pay the Lessor an amount of Rs. 4000. But, the value of the car might be Rs. 10 lacs. The Lessor does not expect the lessee to pay the entire amount for using the car for mere a period of 2 days. The car rental company will take care of the service and maintenance of the car and keep it in good condition so it can be rented out to other people / customers as well. In this way, the lessor can recover the whole value of the car from 500 days of lease rent ($= \text{value} / \text{daily rental} = \text{Rs. } 10,00,000 / \text{Rs. } 500$). Thus, the 500 days become the Payback Period (without considering the maintenance costs and profit margin). The lessee can always cancel this kind of lease and return the car after 1 day. Now in this case the lessee has to pay just Rs. 2000. Other Examples of operating lease: IBM for Computer Hardware, Boeing for Airplanes does this kind of leasing. By not fully amortizing operating lease means that the leasing company does not expect to recover the whole amount or value of asset from one single lessee.

D. Sale & Lease-Back: Sale & Lease-Back is one of the most Interesting Leasing Scheme. It is a creative use of Financial Lease where the Seller of the asset becomes the User or the lessee. In this case the user sells his asset to a leasing company in return for lump sum cash and then repays to the lessor or Leasing Company in form of equal lease rentals over a period of time to buy back that very asset. It is considered to be a very creative way of mobilizing your asset to raise debt.

Example of Sale & Lease-Back: user need Rs. 10,00,000 to start a business and the only asset you own is a car. In this case the user can approach to a Leasing Company and ask them to buy the car for Rs. 10,00,000 and then later lease the car back to you for 1 year. In this case, the Leasing Company will take up the ownership of the car and give the lessor Rs. 10,00,000 cash to start your business.

Leasing fixed assets saves drainage of cash for working capital (to cover inventory and other day to day and routine expenses), which is generally difficult to finance, especially for an unproven and new business. However, one should not put so much money down that you actually end up spending the same amount of cash as you would have, if you had actually bought that asset with some down payment.

E. Bank loans: Banks are like the supermarket of debt financing. Banks provide short term, midterm as well as long term financing, and financing all types of asset needs, which include working capital, for equipment and real estate. Because of this an entrepreneur can always easily generate enough amount of cash flow to cover the interest payments (which are tax deductible) and then return the principal amount.

Types of Bank Loans

These days' banks have a variety of loans on offer for different loan seekers, especially for those who enjoy a good track record of repaying their bills (having a good credit history) and have a stable job get these loans passed easily. One need to have a proof of identity and monthly or annual income to get bank loans, and some types of bank loan may also require some collateral or mortgage such as a car or property, Fixed Deposits etc. The most important thing at this point of time is to make sure that you are aware of the different types of bank loans available and on offer. There is always a difference between any two types of bank loans. Some of types of bank loans are discussed below:

1. **Personal Bank Loans:** These are that type of bank loan which are granted to an individual, instead to a group of persons. The personal bank loan can further be divided into many different categories like secured and unsecured loans.

- **Unsecured Personal Loans:** These types of bank loans allow a borrower to obtain a check or cash and then pay it back in fixed equal installments over a pre specified fixed period of time. In such kind of loan, no specific loan purpose is required. In case of unsecured personal loans nothing is placed as a security or collateral against the loan. The borrower will simply give his word to the bank that he will ensure all the payments on time and as per the terms and conditions agreed upon. The rate of interest unsecured loans is generally quite a higher than that of secured loans, so the bank ensures they get their money early in case the borrower gets fail to pay back the loan.

- **Secured Personal Loans:** In case of the secured personal loans, the bank issues cash or a check to the loan seeker, as was in case of unsecured personal loans. The loan seeker has to provide the bank with some collateral such as a savings account, fixed deposits or a property in case the loan doesn't get repaid. These kinds of bank loans are the most common which are offered by the banks. In case the borrower is not able to pay back the loan according to

the set conditions, the bank reserves the right to repossess whatever you put up for the loan as collateral.

2. **Auto Loans:** In general, almost all kinds of banks provide these auto loans for purchasing new and used vehicles and for repair of older ones. In case an entrepreneur requires a loan to purchase some car for business purpose he need not shell out the whole amount at once, rather he can take up such loan and take the possession of the car for the use in business. In case the consumer is not able repay the amount borrowed the vehicle or the car is repossessed by the bank.

3. **Mortgage Loans:** These types of bank loans are also a type of secured loan through which bank allows the loan borrower to live in the home while paying it off over time. In this case the house in which the borrower lives is kept as mortgage for the loans. Usually, a down payment is required to get the loan approved and the house becomes the property of the bank if payments are not made or in case of default.

4. **Computer Loans:** One of the different bank loans types are computer loans. There are many banks which offer loans to purchase new computers from major companies. The loan check is given to the computer company, and the borrower chooses goods as approved and then makes payments.

5. **Investment Bank Loan:** These kinds of bank loans are usually taken to make a comparatively bigger major purchase, such as your mortgage. These kinds of bank loans need credit checks which are rigorous because of the large amount of money involved. These are also considered as secured loans because if you do not pay them back, the offshore bank accounts can sell off your investment to earn the money you owe them.

6. **Customers:** An Advance payment from customers also acts as source of finance, especially for a new entrepreneur. This is generally done when the terms and conditions are not very stringent. Hence, it can give an entrepreneur the cash needed, which is available at a relatively low cost and help to keep the business growing at a steady pace. Such advances from the customers also indicate a level of commitment and loyalty by that customer towards operations of the business. About half of the world beating entrepreneurs are said to be funded by their customers only. Taking advances from customers allowed them to grow faster and with limited resources, creating trust among the customers and to operate with relative impunity with respect to their investors.

F. Friends and family members: If an entrepreneur is lucky enough, friends and family members might prove to be the most lenient investors out of the bunch. These are such investors who would not ask for any mortgage or collateral or tend to make you pledge your house, and they might even agree to sell their interest in your company back to you for a nominal return. And moreover they may grant you loan at very nominal cost or even free of cost.

The best feature of any type of debt is that the cost of the debt i.e. the interest payments are tax deductible. For example, if you have to pay an interest amount of Rs. 10,000 and the tax rate is 40%, you effectively pay Rs. 6,000. This can be explained as; if you pay interest of Rs. 10,000 you show your profits less with the same amount and thus less tax liability. Indirectly you reduce the interest payment.

Equity

A. Venture Capital Funds: Venture capital fund is an investment fund that gathers money from investors seeking private equity stakes in some startup and small and medium size enterprises or budding entrepreneurs having a strong growth potential. These investments are generally associated with high risk and high return opportunities. Theoretically, venture capital funds give an individual investor an opportunity to get in early at a startup stage of the company or in special situations in which there is an opportunity for some exponential growth. In the past, venture capital investments were only accessible to professional venture capitalists.

B. Angel equity: Individual private investors are commonly and affectionately known as "angels." and "White-Knights." Along with family and friends, they provide the vast majority of start-up funding for entrepreneurial companies. They may invest in either debt or equity or combinations. Thus, if you must sell an ownership stake to get your company off the ground, start by finding a respected industry executive who is willing to invest a reasonable amount and give your venture credibility with other investors. Angel equity is funded by an investor who provides financial backing for small startups or entrepreneurs. Angel investors are usually found among an entrepreneur's family and friends. The capital they provide can be a one-time injection of seed money or ongoing support to carry the company through difficult times. Angel investors give more favorable terms than that of other lenders, as they are usually investing in the person himself rather than the workability of the business. They are more focused on helping the business succeed, instead of looking for earning huge profits from their investment. Angel investors are actually the exact opposite of a venture capitalist.

10.7 SUCCESSFUL ENTREPRENEURS USE COMBINATIONS

Unlike oil and water; debt and equity and external funding do mix well. In fact, it is an entrepreneurial secret. The best managed companies always keep a mix bag of their financing sources and choices. They would never depend upon a single type or source of finance. Now which to use, and when, of what amount, becomes a matter of individual option and opinion. Although there are some pretty well established precedents for making the decision. Entrepreneurs' personal investments, including both personal assets

along with family and friends' equity and loans, are usually what finances the initial business or seed stage companies. Development or Start-Up stage companies usually seek fundings from venture capital firms, angel investors, early-stage, and various other types of grants from both foundations and government sources. Early or initial stage companies may receive financing from leasing companies, bank loans, and research and development partnerships (for further incremental product development). Strategic partnerships are also often entered into at this stage of business with potential customers, suppliers, and manufacturers. Companies at the next stage, which is full scale and experiencing expanding marketing, often receive additional money inputs. This money comes from second and larger rounds of traditional venture capitalists. Larger companies that are looking for better product distribution opportunities; institutional investors, and more venture leasing companies, and additional strategic partner (often seeking secondary distribution and marketing rights for both domestically and for foreign countries). After this i.e. the third stage, this entrepreneurial venture faces some heavy choices to consider. Here is the main harvest level (Third and Fourth Stage) which is quite natural if the plan is to build a company and then at later time sell out. Still more money is needed to introduce something new, but their choices here are a lot broader i.e. more venture capital, being acquired (perhaps by one of the earlier stage strategic partners), or selling out to a cash rich company.

So Debt or Equity?

Here we mention that successful entrepreneurs use both types of funds i.e. debt as well as equity but the question arise here is that how do we distinguish which source to opt for and when and in what quantities? Most of the times the use of debt requires that there should be some money invested in form of some equity. A general rule of thumb is that a rupee of early stage equity can support a rupee of debt, if there is some additional security to back the debt. The lender would always want to have their debt secured or backed by some asset. At the same time they also feel that the value of the asset will decrease over the period of time. Debts in the initial stages are generally of short term in nature i.e. one year or less, and are to be paid back out of the sales receipts. Short term debts are conventionally utilized for funding working capital and for purchase of small equipment, tools and machinery. On the other hand long term borrowing i.e. for duration of one year or more, can be utilised for some permanent working capital needs, but most of times it is used to fund property, equipment, machinery or other fixed assets that may also serve as collateral against the debt. It is evident that entrepreneurs generally finance the start ups with more of the debt as compared to equity. For example, if they negotiate extended credit terms with different suppliers, this restricts flexibility to negotiate prices. Highly leveraged i.e. debt financed,

companies are found to be constantly undercapitalized and also experience continuing cash flow problems as they tend to grow.

While choosing between debt and equity, there is one big positive point in using debt financing. Debt does not dilute or decrease the equity position of the entrepreneur and it also provides nice returns on the capital invested. However, in case the credit costs go up, or sales are not upto the desired targets, cash flows really get pinched and also may lead the entrepreneur towards bankruptcy. To avoid this unfavorable situation successful entrepreneurs adopt different combinations of debt and equity from time to time. Their aim is to create increasingly higher valuations or profit structures.

10.8 SUMMARY

The road to starting a successful business can be a long one, filled with many hurdles and obstacles along the way. And perhaps there is no part of that journey more challenging than finding the right way to fund your business. While the process may sound daunting, there is a light at the end of the tunnel for future business owners, who now have a multitude of ways to finance their business. Starting a business requires financing. Today there may be as many funding sources as ever, yet finding the money needed to start or even expand a business can be tricky. Not every kind of financing may be right for your small business. In fact, when it comes to funding of small businesses, one size definitely *does not* fit all. With changing times, it's important to look for new opportunities.

10.9 GLOSSARY

Account	Record of a business transaction. When you buy something on credit, the company you are dealing with will set up an "account". This means that they set up a record of what you buy and what you pay. You should do the same thing with any customers to whom you give credit.
Adding Value	Providing something extra, over and above your competitors, which makes your proposition more attractive than theirs e.g. personal service.
Asset	Anything of worth that is owned by the business. The assets of a business are money in the bank, accounts receivable, securities held in the name of the business, equipment, fixtures, property or buildings, merchandise for sale or being made, supplies and all things of value that the business owns.
Audit	A process carried out by an accountant (auditor) on all limited companies each year to check that the financial

	records are correct. The auditor cannot be the company's own accountant. Sole traders and partnerships do not need to have their accounts audited.
Balance Sheet	A statement of the assets and liabilities of the business at any given time.
Break Even	Break-even point represents the volume of sales at which total revenue equals total costs.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a business over a period of time.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Capital	This has several meanings, but usually refers to the amount of money in the business belonging to the proprietors or shareholders.
Capital Expenditure	Money spent on the purchase of an asset.
Cash Flow	The difference between total cash coming in and going out of a business over a period of time.
Partners	More than one person owns and manages a business. All have equal responsibility.
Positioning	Positioning is how a product appears in relation to other products in the same market.
Pre-Selling Campaigns	Marketing activities prior to product launch.
Profit and Loss Account	Statement showing sales costs, expenses and profit (or loss) for an accounting period, normally one year.
Profit Margin	The ratio by which a company's income exceeds its outgoings.
Revenue Expenditure	Money spent in the running costs of the business.
Shareholder	A person or entity that owns shares of stock in a company or mutual fund.

10.10 ANSWER TO CHECK YOUR PROGRESS

1. What are the basic steps in system of bringing a product/service from an idea to a finished product/service?
2. Ask at least ten entrepreneurs in your city and try to gather information on the issues of site and technology selection.
3. How does production design relate to technology determination and equipment selection?

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10.13 TERMINAL QUESTIONS

1. Discuss various stages involved in product design.
2. Identify major aspects that determine process of choice of financing option for a SSE.
3. Explain why location decisions are important. Identify and discuss the general factors involved in determining the location of a business.
4. What were the considerations used in designing the product /service? How do considerations for designing services vary from designing those for product?
5. What were the criteria used while selecting the technology in use? What were their sources of information regarding the technology?

UNIT 11: OWNERSHIP STRUCTURE AND ORGANISATIONAL FRAMEWORK

STRUCTURE:

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Types of Business Structures in India
 - 11.3.1 Sole Proprietorship
 - 11.3.2 Partnership Firm
 - 11.3.3 Limited Liability Partnership
 - 11.3.4 Huf (Hindu Undivided Family)
 - 11.3.5 Co-Operative
 - 11.3.6 Company Form of Business
- 11.4 Choosing an Appropriate Form of Business
- 11.5 Organizational Framework
 - 11.5.1 Work Specialization
 - 11.5.2 Departmentalization
 - 11.5.3 Chain of Command
 - 11.5.4 Span of Control
 - 11.5.5 Centralization and Decentralization
 - 11.5.6 Formalization
- 11.6 Common Organizational Designs
- 11.7 Summary
- 11.8 Glossary
- 11.9 Answer to Check Your Progress
- 11.10 Bibliography
- 11.11 Suggested Readings
- 11.12 Terminal Questions

11.1 INTRODUCTION

This chapter deals with two broad areas of any business that an entrepreneur must focus onto. The first part presents the different types of ownership structures that are available to be formulated. It give a variety of options to chose one or one may opt from one of the basic structures and gradually move on to more organized ones with the growth of the business. The ownership structure may depend on the total worth invested, members of the organization, types of customers, volume of sales and other factors. The second part of the chapter deals with the framework of the organization i.e. after deciding upon the ownership structure one would take a decision on how to organize the whole entity under some framework. There are also a certain number of options available and an entrepreneur may chose on out of them.

11.2 OBJECTIVES

Present unit aims at ownership structure and organizational framework. After going through this unit you will be able to:

- Understand the various types of business structures prevailing in India;
- Differentiate between the various business structures;
- Describe how to choose appropriate business;
- Comprehend the various factors in organisational framework;
- Know about the common organisational designs.

11.3 TYPES OF BUSINESS STRUCTURES IN INDIA

The following are the different business structures in India:

- 11.3.1 Sole Proprietorship
- 11.3.2 Partnership Firm
- 11.3.3 Limited Liability Partnership
- 11.3.4 HUF (Hindu Undivided Family)
- 11.3.5 Co-operative
- 11.3.6 Company form of business

11.3.1 Sole Proprietorship Firm

Sole proprietorship is the oldest and most widespread form of business in India. It is a one man run organisation where a single individual owns, manages and controls the entire business. The liability of the owner in this case is unlimited. A Sole Proprietorship business is suitable where the market is limited, localized and where customers give importance to personal attention. This form of organisation is suitable where the nature of business is simple and requires quick decisions. This type of organisation is suitable where the capital required is less and the risk involved is not high. It is also considered suitable for the production of goods which involve manual skill e.g. handicrafts, filigree works, jewellery-making, tailoring, haircutting, etc.

The key features are:

1. Ownership by a one single individual who has a legal title to the assets and properties of the business.
2. The proprietor and the business enterprise are one and the same in the eyes of the law.
3. The owner of the business is the sole manager of the business.
4. The liability of proprietor is unlimited.
5. The entire profit goes to the sole proprietor. Similarly, he also bears the entire risk or losses of the firm.
6. The entire capital of the business is provided by the owner. He may raise more funds from outside through borrowings
7. There are less legal formalities.

It has been rightly opined that "one man control is the best technique to run a business in the world, if that man is big enough to manage everything." Although sole proprietorship business suffers from certain limitations, it has its own merits. Besides its limitations, it is suitable because it involves low capital investment, personalised services, quick decisions and flexible operations, besides being equipped to serve local needs as well as those of big businesses.

11.3.2 Partnership Firm

A partnership is defined as a relation between two or more persons who have agreed to share the profits of a business carried on by them or any of them acting for all. The owners or the members of a partnership business are individually known as partners and collectively as a firm.

In a partnership firm, individuals from different walks of life, areas, with different ability, managerial talent and skill, combine to form a business. This increases the administrative strength of the organisation, the financial resources, the skill and expertise, while reducing the risk.

Such kind of firms are most suitable for comparatively small businesses such as retail and wholesale trade, professional services including travel & tourism, medium-sized mercantile houses and small manufacturing units.

Generally, it is seen that many organisations are initially started as partnership firms and, later, when it is economically viable and financially attractive for the investors, it is converted into a company.

The key features of a Partnership Firm are:

1. A minimum of two persons are required to start a partnership business. The maximum number of partners can be 10 in the case of a banking business, and maximum of 20 in any other type of business.
2. The partners can share profits in any ratio as agreed or equally if not specified.
3. The relation between the partners of a partnership firm is created by contract which may be verbal, written or implied and it is known as the "Partnership Deed".
4. The business in a partnership firm may be carried on by all the partners or any of them acting for all.
5. There is a Principal - Agent relationship between all the partners. There should be mutual trust and faith.
6. The law does not recognise the firm as a separate entity distinct from the partners. Therefore, the partners in a firm have unlimited liability.
7. The registration of a partnership is not compulsory.

A partnership firm is most suitable in the case of a business where the initial capital requirement is medium i.e. it is neither too large nor too small. In a partnership firm, partners with different abilities, managerial talents,

skills and expertise combine with each partner's contribution based on some area of specialisation and past experience.

11.3.3 Limited Liability Partnership (LLP)

LLP is a new corporate form of business to provide an alternative to the conventional partnership business, with unlimited personal liability on the one hand, and on the other hand, the statute based governance structure of the limited liability company, so that the businesses can systematize themselves and operate in a more flexible, innovative and efficient manner. For the purpose the government passed the LLP Act, 2008 in January, 2009. LLPs have proved to have an advantageous position over Partnership Firms and Companies for small and medium-sized businesses. A registered "Limited Company" in India, whether private or public, has a lot of complex formalities, including some compulsory board meetings, auditing etc. The additional expenditure in managing a Private Limited Company makes LLPs comparatively attractive for small organisations. The main features of an LLP are:

1. Just like any other company, an LLP is also a body corporate. This means that it has got its own existence as compared to a conventional partnership firm. An LLP and its partners are distinct entities in the eyes of the law. An LLP will be known in its own name and not by the name of its partners.
2. It is very easy to form an LLP, as the process of its formation is very simple as compared to that required by companies and it does not involve much of formality.
3. LLPs exist as separate legal entities from the personal life of the partner. Both the LLP and the person who owns it are separate entities and both function separately. Liability for repayment of debts and lawsuits incurred by the LLP lies on LLP itself and not on any or all of the owners. Any business with potential for lawsuits should consider the incorporation an LLP; it will offer an added layer of protection
4. The LLP Act, 2008, gives an LLP the utmost freedom to manage its own affairs. The LLP Act does not regulate the LLP to a large extent; instead it allows the partners the liberty to manage it as they wish. The partners can decide the way they want to run and manage the LLP, in the form of an LLP Agreement.
5. An incorporated LLP has perpetual succession. Notwithstanding any changes in the partners of the LLP, the LLP will be the same entity with the same privileges, immunities, estates and possessions. The LLP shall continue to exist till it is wound up in accordance with the provisions of the relevant law.
6. It is easy to become a partner or leave the LLP and also to transfer the ownership in accordance with the terms of the LLP agreement.

7. Another major benefit of incorporation is the taxation of an LLP. LLPs are taxed at a lower rate compared to a company. Moreover, LLPs are not subject to Dividend Distribution Tax compared to a company, so there will not be any tax while profits are distributed among the partners.

11.3.4 HUF (Hindu Undivided Family)

An HUF is similar to sole proprietorship and partnership but with some differences. In an HUF only family member can take the membership of business. Every birth of a male child in the family adds to the number of coparceners and every death of a coparcener reduces the number. No outsider is allowed to be a member in HUF. In an HUF all coparceners have an equal share in the profit of the business, however, the management and decision making authority in the business lies in the hands of the senior most family member who is known as the Karta. The liability of each member of HUF is limited to the extent of his/her share in the business, but the liability of the Karta is unlimited. A Joint Hindu family business continues to exist on the death of any coparcener. Even on the death of the Karta, it continues to exist as the next senior most family member, generally the elder son, becomes the next Karta. However, a joint Hindu family business can be dissolved at any time, either through mutual agreement between members or by division of its assets.

The success of the Joint Hindu Family business is mostly dependent upon the efficiency of the Karta along with the mutual understanding between the coparceners. Nevertheless, this type of business is losing its ground with the gradual decline in the Joint Hindu family system.

11.3.5 Cooperatives

A cooperative entity is an entity which is formulated by a set of individuals having a common interest can come together to form a co-operative society. Unlike a partnership firm the minimum membership required to form a cooperative society is 10 and the maximum number of members is unlimited. A cooperative needs to be registered under the Co-operative Societies Act, which is mandatory. Once the cooperative is registered, it becomes a body corporate and enjoys certain privileges like that of a joint stock company. The primary objective of any cooperative entity is to render services to its members, in particular, and to society in general. Every member of the cooperative possesses a right to take part in the management of the business run. Each member has got the right of one vote. Generally the members elect a committee known as the Executive Committee to look after the day to day administration and the said committee is responsible to the general body of members. A cooperative society starts with the funds contributed by its members only in the form of units called shares. It can also easily raise loans and secure grants from the government. The return on capital

subscribed by the members is in the form of a fixed rate of dividend after necessary deductions from the profits.

When the purpose of business is to provide service rather than to earn profit and to promote a common economic interest, the co-operative society is the only alternative. Co-operatives are also preferred as it is easier to raise capital through assistance from financial institutions and the government. Generally, a co-operative society is suitable for small and medium-sized operations. However, the large-sized 'IFFCO' [Indian Farmers and Fertilizers Cooperative] and the Kaira Co-operative Processing Milk under the brand name 'AMUL' are the illustrious exceptions.

11.3.6 Company form of Business

The company is different and distinct from its members in law. It has its own name and its own seal, its assets and liabilities are separate and distinct from those of its members. It is capable of owning a property, incurring debts, and borrowing money, having a bank account, employing people, entering into contracts and suing and being sued separately. The liability of the members of the company is limited to their contribution to the assets of the company up to the face value of shares held by them. A company does not die or cease to exist, unless it is specifically wound up or the task for which it was formed has been completed. Membership of a company may keep on changing from time to time, but that does not affect the life of the company. Death or insolvency of a member does not affect the existence of the company. Shares in a company are freely transferable, subject to certain conditions, such that no share-holder is permanently or necessarily wedded to a company. When a member transfers his shares to another person, the transferee steps into the shoes of the transferor and acquires all the rights of the transferor in respect of those shares. A company is an artificial person and does not have a physical presence. Therefore, it acts through its Board of Directors to carry out its activities and enter into various agreements. Such contracts must be under the seal of the company. The common seal is the official signature of the company. The name of the company must be engraved on the common seal. Any document not bearing the seal of the company may not be accepted as authentic and may not have any legal force. A company is administered and managed by its managerial personnel i.e. the Board of Directors. The shareholders are simply the holders of the shares in the company and need not necessarily be the managers of the company.

• **Private Limited Company:** A private company is a company which has the following ingredients:

1. The Shareholders' right to transfer shares is restricted.
2. The number of shareholders is limited to fifty.
3. An invitation to the public to subscribe to any shares or debentures is prohibited.

• **Public Limited Company:** A Public Limited Company is a company limited by shares in which there is no restriction on the maximum number of shareholders, transfer of shares and acceptance of public deposits. The liability of each shareholder is limited to the extent of the unpaid amount of the face value of the shares and the premium thereon, in respect of the shares held by him.

However, the liability of a Director / Manager of such a company can, at times, be unlimited. The minimum number of shareholders is 7. A company form of business is suitable where the volume of business is quite large, the area of operation is widespread, the risk involved is great and there is a need for huge financial resources and manpower. It is also preferred when there is a need for professional management and flexibility of operations. In certain businesses, such as banking and insurance, business can only be undertaken by joint stock companies.

11.4 CHOOSING AN APPROPRIATE FORM OF BUSINESS

The selection of a suitable form of business organisation on the basis of ownership and management is one of the most important tasks of the entrepreneur. Once the form of organisation is chosen, it is very difficult to switch over to another form, because it needs the winding-up of the existing organisation which is a waste of time, effort and money. Therefore, the form of an organisation must be chosen after careful thought and consideration. There are a number of factors to be considered while selecting an appropriate form of business organisation. Let us look at those factors which are inter-related and inter-dependent as well:

- ✓ Nature of business
- ✓ Volume of business
- ✓ Area of operation
- ✓ Finance
- ✓ Ownership and control
- ✓ Liability
- ✓ Independence

Laws governing various types of organisations

Sr.	Type of organization	Law Pertaining
1	Partnership	Indian Partnership Act, 1932
2	HUF (Hindu Undivided Family)	Hindu Law
3	Co-operative	Co-operative Societies Act, 1912 and State Co-operative Societies Act.
4	Private Limited Company	The Companies Act, 1956
5	Public Limited Company	The Companies Act, 1956
6	Public Sector Unit (PSU)	Special Parliamentary Act
7	Unlimited Company	The Companies Act, 1956
8	Limited Liability Partnership	Limited Liability Partnership Act 2008 and Rules 2009

11.5 ORGANIZATIONAL FRAMEWORK

The theme of this part of the chapter is to explain the organization's framework. Strategy, size, technology, and environment determine the type of framework an organization will have. For simplicity's sake, structural designs can be classified around one of two models: mechanistic or organic. The specific effect of structural designs on performance and satisfaction is moderated by employees' individual preferences and cultural norms. The importance of these models of organizational framework should not be overlooked.

An organizational framework defines how job tasks are formally divided, grouped, and coordinated. There are six key elements:

11.5.1 Work specialization

11.5.2 Departmentalization

11.5.3 Chain of command

11.5.4 Span of control

11.5.5 Centralization and decentralization

11.5.6 Formalization

11.5.1 Work Specialization

Work specialization says that work should be divided among the employees. No single should be given the whole process to do; instead the whole process should be divided among different tasks, which are performed by respective specialized employees. This is illustrated with the help of example of Ford Company run by Henry Ford. Henry Ford became famous and rich by building automobiles on an assembly line, demonstrating that work can be performed more efficiently by using a work specialization strategy.

Every worker was assigned a specific, repetitive task. By breaking jobs up into small standardized tasks, the company was able to produce cars at the rate of one every ten seconds, while using employees who had relatively limited skills. In nutshell, the entire job is broken into a series of steps, which is then completed by a separate individual. Following Ford, most manufacturing jobs in industrialized countries were being done this way. Management saw this as a means to make the most efficient use of its employees' skills. Managers also looked for other efficiencies that could be achieved through work specialization:

- a. Training for specialization is more efficient from the organization's perspective.
- b. Employee skills at performing a task successfully increase through repetition.
- c. It increases efficiency and productivity and thus encouraging the creation of special inventions and machinery.

For much of the first half of this century, it was viewed that work specialization is an unending source of increased productivity. But later on as the time passed, there became increasing evidence that this specialization concept can be carried too far. The human diseconomies from specialization—boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover—more than offset the economic advantages. In such cases, enlarging the scope of job activities could increase productivity. Most entrepreneurs today see work specialization as neither obsolete nor as an unending source of increased productivity. Entrepreneurs need to recognize the economies it provides and the problems it creates when carried too far.

11.5.2 Departmentalization:

As we learnt in the previous point that work should be divided among workers, but should be done carefully so that they don't mismatch. Thus, grouping of these specialized jobs together so common tasks can be coordinated is called departmentalization. Departmentalization on the basis of functions performed, is one of the most popular ways to group various activities. For example, in a manufacturing concern a manager might organize his / her plant by separating engineering, accounting, manufacturing, personnel, and purchasing specialists into common departments. Similarly in case of a travel agency one may divide the whole work under different departments like, marketing, product design, transport, liasoning etc. The major advantage to this type of grouping is obtaining efficiencies from putting like specialists together.

Functional departmentalization achieves economies of scale by placing people with common skills and orientations into common units. Tasks can also be departmentalized by the type of product the organization produces. Procter & Gamble recently reorganized along these lines. Each major product—such is placed under the authority of an executive who will have complete global responsibility for that product. The basic advantage to this type of departmentalization is to increase accountability for product performance under a single manager. Another way to group is on the basis of some geography or territory.

For example, the sales function may have northern, southern, western, central, and eastern regions. Departmentalization can also be done on the basis of processes involved. For example Reynolds Metals aluminum tubing plant where production is organized into five departments. This method offers a basis for the homogeneous categorizing of activities. Process departmentalization can be used for processing customers as well as products. For example, at the state motor vehicles office you might find:

- a. Validation by motor vehicles division
- b. Processing by the licensing department
- c. Payment collection by the treasury department

Large sized organizations may use all of the forms of departmentalization or a combination of few or may stick to one only. A major Japanese electronics firm organizes each of its divisions along functional lines—its manufacturing units around processes, its sales around seven geographic regions, and each sales region into four customer groupings. Rigid, functional departmentalization is increasingly complemented by teams.

11.5.3 Chain of Command

In the past few decades, the chain of command used to be a basic criterion in the design of organizations. The chain of command is termed as an unbroken line of authority that extends from the top of the organization to the lowest level and clearly defines who reports to whom. In simple terms it describes the hierarchy in an organization that needs to be followed. It answers the two fundamental questions: “To whom do I go if I have a problem?” and “To whom am I responsible?”

There are broadly two complementary concepts with chain of command i.e. authority and unity of command. Authority is the rights inherent to management to pass orders and expect those orders to be obeyed. The unity of command principle helps preserve the concept of an unbroken chain of authority. It states that a person should have only one superior to whom he or she is directly responsible.

Times change, and so do the basic belief of design of an organization. The concepts of chain of command are slowly losing their relevance today because of the advent of technology and the trend of empowering employees. A low level employee today can also access information in seconds that 30 years ago used to be available only to top managers. Similarly, computer technology increasingly allows employees anywhere in an organization to communicate with anyone else without going through formal channels. Cross functional and self managed teams and the creation of new structural designs make the unity of command concept less relevant.

11.5.4 Span of Control

How many employees a manager can efficiently and effectively direct is an important question. All things keeping constant, the wider or larger the span, the more efficient the organization. Wider spans are expected to be more efficient in terms of cost. However, at a different point of time, wider spans also reduce effectiveness. Narrow or small spans have their own advantages. By keeping the span of control to five or six employees, a manager can easily maintain a close control. Narrow spans have three major drawbacks:

- a. First, as already described, they are quite expensive as they add levels of management.
- b. Secondly, they make vertical communication within the organization more complex and difficult.

- c. Finally, narrow spans of control encourage overly tight supervision and discourage employee autonomy.

The trend in recent years has been toward keeping a wider span of control. Wider spans are consistent with efforts by companies with a motive to reduce costs, cut overhead, speed up decision-making, increase flexibility, get closer to customers, and empower employees.

To ensure that performance does not get affected because of these wider spans, organizations are constantly investing heavily in employee training.

11.5.5 Centralization and Decentralization

In some organizations, top managers make all the decisions. This is highly centralized. On the other hand there are organizations where decision making is pushed downwards to those managers who are closest to the action. This kind of activity is highly decentralized. Thus centralization refers to the degree to which decision making is concentrated at a single level of authority. A centralized organization is essentially different structurally from one that is decentralized. The concept includes just formal authority. The organization is said to be centralized when top management makes the key decisions of the organization with little or no input from lower level personnel. The more that lower level personnel provide input, the more decentralization the organization is. Thus, in a decentralized organization, actions can be taken more quickly to solve problems, more people provide input into decisions, and employees are less likely to feel alienated. There has been a marked trend toward decentralizing decision making. For example, Sears and JC Penney have given their store managers considerably more discretion on what merchandise to stock.

11.5.6 Formalization

Formalization refers to the degree to which jobs within the organization are standardized. A highly formalized job gives the job incumbent a minimum amount of discretion over what is to be done, when it is to be done, and how he or she should do it. Employees can be expected always to handle the same input in exactly the same way. The greater the standardization, the less input the employee has into how the job is done. Low formalization — job behaviors are relatively non-programmed, and employees have a great deal of freedom to exercise discretion in their work. The degree of formalization can vary widely between organizations and within organizations.

11.6 COMMON ORGANIZATIONAL DESIGNS

A. The Simple Framework: The simple framework is characterized most by what it is not rather than what it is:

- a. It has a low degree of departmentalization, wide spans of control, authority centralized in a single person, and little formalization.
- b. It is not elaborated.
- c. One individual has the decision-making authority.
- d. The simple framework is a “flat” organization; it usually has only two or three vertical levels.

A simple framework is most widely adopted in small businesses in which the manager and the owner are one and the same. The major strength of a simple framework lies in its simplicity itself. A simple framework is said to be fast, flexible, inexpensive, and accountability is also clear. One major limitation is that it is difficult to maintain in anything other than small organizations. It proves to be insufficient as an organization grows because its low formalization and high centralization tend to create information overloading and high work pressure at the top. When an organization begins to employ over 100 people, it becomes very difficult for the owner or the manager to make all the decisions. If the framework is not changed and made more elaborate, the firm often loses momentum and can eventually fail. The simple framework's other weakness is that it is risky as every decision is based on the mind of one person only. Illness can literally destroy the information and decision making center of the company.

B. The Bureaucracy: The bureaucracy is characterized by highly routine operating tasks that are achieved through specialization. Here the organization has very formalized rules and regulations which are followed very strictly. The authority in this case is centralized and the tasks are grouped into functional departments. The bureaucracy does not like to keep a wider span of control. The major strength of such type of set up is it has the ability to perform standardized activities in a highly efficient manner. Putting similar specialties together in functional departments results in higher economies of scale, least duplication of personnel and equipment, etc. Bureaucracies get by nicely with less talented and less costly middle- and lower-level managers. However it is taken by some shortcomings also like: Specialization under bureaucracy sometimes creates subunit conflicts; functional unit goals can override the organization's goals. Also under bureaucracy the bosses may show obsessive concern with following the rules.

C. The Matrix Framework: A matrix framework is widely used in travel agencies, advertising agencies, aerospace firms, research and development laboratories, construction companies, hospitals, government agencies, universities, management consulting firms, and entertainment companies. It actually combines two forms of departmentalization; functional as well as the product. Thus it carries strengths of both the types. The strength of functional departmentalization; putting similar specialists together and the pooling and sharing of specialized resources across products. Its major drawback is the difficulty of coordinating the tasks. On the other hand product

departmentalization facilitates coordination. It also provides clear responsibility and accountability for all activities related to a product, but with duplication of activities and costs. The most apparent structural characteristic of the matrix is that it breaks the unity of command concept. Its strength is its ability to facilitate coordination when the organization has a multiplicity of complex and interdependent activities. The dual lines of authority reduce tendencies of departmental members to protect their worlds. It facilitates the efficient allocation of specialists. The major disadvantages of the matrix lie in the confusion it creates, its propensity to foster power struggles, and the stress it places on individuals. Violation of unity of command concept increases ambiguity which often leads to conflict. Confusion and ambiguity also create the seeds of power struggles. Reporting to more than one boss introduces role conflict, and unclear expectations introduce role ambiguity.

New Design Options

A. The Team Framework: When management uses different sets of teams as its central coordination device, it is called as a team framework. It actually breaks down departmental barriers and decentralizes decision making even to the level of the work team. Team frameworks also require employees to be specialists but being a generalist also. In smaller companies, the team framework can define the entire organization. In larger organizations, the team framework complements what is typically a bureaucracy. Team framework enhances the efficiency of bureaucracy's standardization by adding the flexibility that teams bring. This type of framework is widely used by travel and tour companies.

B. The Virtual Organization: The basic idea of the virtual organization is that it is a small organization that outsources its major business functions, which is also referred to as modular or network organization. This type of organization is highly centralized, with little or no departmentalization. This is the type of organization which is extremely being used by the travel operators. Operators here do not keep its own resources for transport, hotels, guiding and other services. Every activity is being outsourced from some specialized supplier. The only job of the operator in this case is to coordinate among all. This structural form allows each project to be staffed with the talent most suited to its demands, rather than having to choose just from those people the operator employs. When large organizations use the virtual framework, they frequently use it to outsource manufacturing. Companies like Nike, Reebok, and Dell Computer do business without having their own manufacturing facilities. Virtual organizations create networks of relationships that allow them to contract out business function where management feels that others can do it better or more cheaply. The virtual organization stands in a sharp contrast to the typical bureaucracy in that it outsources many generic functions and concentrates on what it does best. The major advantage to the virtual

organization is its flexibility. The primary drawback is that it reduces management's control over key parts of its business.

11.7 SUMMARY

By the end of this chapter we are now able to understand that when an entrepreneur has to start a new venture in the tour and travel business he or she has a variety of option available to decide from. An entrepreneur may decide any one ownership structure from basic sole proprietorship to complex public limited companies. Also after deciding the type of ownership structure an entrepreneur will also have to choose one of the frameworks to run the business.

11.8 GLOSSARY

Asset	Anything of worth that is owned by the business. The assets of a business are money in the bank, accounts receivable, securities held in the name of the business, equipment, fixtures, property or buildings, merchandise for sale or being made, supplies and all things of value that the business owns.
Balance Sheet	A statement of the assets and liabilities of the business at any given time.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a business over a period of time.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Capital	This has several meanings, but usually refers to the amount of money in the business belonging to the proprietors or shareholders.
Focus Groups	A professionally moderated discussion among a group (four or more participants) of individuals whose opinions are thought to reflect those of the product's intended purchasers.
Positioning	Positioning is how a product appears in relation to other products in the same market.
Revenue	Money spent in the running costs of the business.
Expenditure	
Shareholder	A person or entity that owns shares of stock in a company or mutual fund.
SME	Small and Medium-sized Enterprise. The technical definition covers companies that have less than 250 employees, (50 for a small business) and are less than 25% foreign owned.
Socio-Economic Background	Social class (grade A to E) which is of course related to ones income, is used to identify the kinds of people who buy your product and hence to target more of them.

11.9 ANSWER TO CHECK YOUR PROGRESS

1. Talk to some entrepreneurs about to set up their own business. What is the form of business organisation they have in mind? Describe two important reasons they cite for choosing the desired form.
2. What difference you can draw from a partnership firm and proprietorship?
3. For the business of a national level travel agency proposed to operate in Inboun Tour Packages with what work specialization you require the staff?

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11.12 TERMINAL QUESTIONS

1. What is the difference between a Private Ltd. Company and Proprietorship firm?
2. What do understand by centralization and decentralization? Discuss the implementation of these two concepts in different organisations.
3. What do you understand by chain of command and span of control in the organisation?
4. What are the steps need to be considering for choosing the appropriate type of business?
5. What are the major advantages that the company form of organisation has over others? What are the important distinctions between a private and a public limited company?

UNIT 12: ROLE AND IMPORTANCE OF ENTREPRENEUR IN ECONOMIC GROWTH

Structure:

- 12.1 Introduction
- 12.2 Objectives
- 12.3 Concept of Entrepreneurship and Development
- 12.4 Role Of SSE's In Developing Countries
- 12.5 Constraints to SSE Development
- 12.6 Entrepreneurship Links with Economic Growth
- 12.7 Entrepreneurial Activities in Economic Growth
 - 12.8 Theories of Entrepreneurship and Economic Growth
 - 12.8.1 Classifying the Theories
 - 12.8.2 What Is The Role of an Entrepreneur In Economic Development?
 - 12.8.3 Successful Entrepreneurs of India
- 12.9 Summary
- 12.10 Glossary
- 12.11 Answer to Check Your Progress
- 12.12 Bibliography
- 12.13 Suggested Readings
- 12.14 Terminal Questions

12.1 INTRODUCTION

In this unit our main focus is on the economic aspects of entrepreneurship. The economic definition of entrepreneurship by some researchers and authors, (Cantillon 1755) claims that “Undertakers are a class of economic agents, making decisions on market transactions in the face of uncertainty”. (Knight 1921) defines “entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty”. (Schumpeter 1934) “Describes the entrepreneur as the bearer of the mechanism for change and economic development, and entrepreneurship as the undertaking of new ideas and new combinations, innovations”. “Probably the most important pioneer in the area views innovation as the critical link between entrepreneurship and economic growth” (Schumpeter 1934).he said that “economic development is a process of new series new markets new sources and new organization which help to develop economic growth”.

12.2 OBJECTIVES

Present unit aims at role and importance of entrepreneur in economic growth. After going through this unit you will be able to:

- Understand the relationship between entrepreneurship and development;
- Comprehend the role of SSE's in developing countries;
- Know the constraint in the success path of SSE development;
- Elaborate different theories of entrepreneurship in relation to economic development.

12.3 CONCEPT OF ENTREPRENEURSHIP AND DEVELOPMENT

The concept of entrepreneurship defines in different ways because it has wide range of meanings. Today entrepreneurship most seen as under taking innovation and brings risk. Most economics and sociological is says entrepreneurship is a process and not a static phenomenon. Entrepreneurship has to do change and is also commonly associated with choice related. We can also define entrepreneurship as “Creating or seizing an opportunity and pursuing it regardless of the resources currently controlled “or Entrepreneurship is more than just a mechanical economic factor (Pirich 2001). Over the past few years there has been a great deal of attention paid to the subject of entrepreneurship, stemming primarily from the discovery by economic analysts that contribute considerably to economic growth and vitality. Many definitions of entrepreneurship can be written in the literature describing business processes. The earliest definition of entrepreneurship, dating from the eighteenth century, used it as an economic term describing the process of bearing the risk of buying at certain prices and selling at uncertain prices. Later definitions described entrepreneurship as involving the creation of new enterprises and that the entrepreneur is the founder. (Peter Kilby, 1984) once entrepreneurship compare with the imaginary animal, the Heffa lump, It is a large and important animal which has been hunted by many individuals using various ingenious trapping devices. All who claim to have caught sight of him report that he is enormous, but they disagree on his particularities. Not having explored his current habitat with sufficient care, some hunters have used as bait their own favorite dishes and have then tried to persuade people that what they caught was a Heffa lump. However, very few are convinced, and the search goes on (Kilby, Hunting the Heffalump, Entrepreneurship and Economic Development, 1971).

A definition which is about entrepreneurship that successfully explain the roles of entrepreneur "The manifest ability and willingness of individuals, on their own, in teams within and outside existing organizations, to perceive and create new economic opportunities (new products, new production

methods, new organizational schemes and new product market combinations) and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions" (Wennekers and Thurik 1999). "Entrepreneurship is elaborating a behavioral characteristic of a person; Entrepreneurs may exhibit it only during a certain phase of their career or only with regard to certain activities" (Carree and Thurik 2002).

Many definitions are described as a behavioral aspect. "The entrepreneur is the coordinator of production and agent of change" (Schumpeter). "The entrepreneur is not primarily as someone who initiates change, but who facilitates adjustment to change by spotting opportunities for profitable arbitrage" (Kirzner). "Emphasized the uncertainty attached to the exploitation of opportunities" (Knight 1921). "The entrepreneur is anyone who can „perceive an economic disequilibrium, evaluate its attributes and if it is found to be worthwhile to act, reallocate their resources" (Schultz 1975). "The way in which entrepreneurs discharge these functions would often, although not exclusively, be through the creation of a new firm" (Hart 2003).

12.4 ROLE OF SSES IN DEVELOPING COUNTRIES

Small-scale rural and urban enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SSEs employ 22% of the adult population in developing countries (Daniels & Ngwira, 1992; Daniels & Fisseha, 1993; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995). However, some authors have contended that the job creating impact of small scale enterprises is a statistical flaw; it does not take into account offsetting factors that make the net impact more modest (Biggs, Grindle & Snodgrass, 1988). It is argued that increases in employment of Small and Medium Enterprises are not always associated with increases in productivity. Nevertheless, the important role performed by these enterprises cannot be overlooked. Small firms have some advantages over their large-scale competitors. They are able to adapt more easily to market conditions given their broadly skilled technologies. However, narrowing the analysis down to developing countries raises the following puzzle: Do small-scale enterprises have a dynamic economic role?

Due to their flexible nature, SSEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995). Small-scale enterprises (SSEs) perform useful roles in ensuring income stability, growth

and employment. Since SSEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional dispersion and their labour intensity, it is argued that small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus, facilitating long term economic growth.

12.5 CONSTRAINTS TO SSE DEVELOPMENT

Despite the wide-ranging economic reforms instituted in the region, SSEs face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm & Mead, 1987; Steel & Webster, 1990). A set of constraints identified with the sector is presented below.

- **Input Constraints:** SSEs face a variety of constraints in factor markets (Levy, 1993). However, factor availability and cost were the most common constraints. The specific problems differ by country, but many of them are related, varying according to whether the business perceived that their access, availability or cost was the most important problem and whether they were based primarily on imported or domestic inputs (World Bank, 1993; Parker et al, 1995).
- **Finance:** Credit constraints pertaining to working capital and raw materials are major one for SSEs. This stems from the fact that SSEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SSEs often cannot obtain long-term finance in the form of debt and equity.
- **Labour Market:** This seems a less important constraint to SSEs considering the widespread unemployment or underemployment in developing countries. SSEs generally use simple technology, which does not require highly skilled workers. However, where skilled workers are required, an insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations.
- **Equipment & Technology:** SSEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SSE competitiveness. Besides, other constraints on capital, and labour, as well as uncertainty surrounding new technologies, restrict incentives to innovation. International Markets Previously insulated from international competition, many SSEs are now faced with greater external competition and the need to expand market share.

- **Regulatory Constraints:** Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at the firm-level. High start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SSEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SSE operations.
- **Managerial Constraints:** Lack of Entrepreneurial & Business Management Skills: Lack of managerial know-how places significant constraints on SSE development. Even though SSEs tend to attract motivated managers, they can hardly compete with larger firms.
- **Institutional Constraints:** The lack of cohesiveness and the wide range of SSE interests limit their capacity to defend their collective interests and their effective participation in civil society. Associations providing a voice for the interests of SSEs in the policy-making process have had a limited role compared to those of larger firms. Many of the entrepreneurs associations have yet to complete the transition of their goals from protectionism to competitiveness (World Bank, 1993).

12.6 ENTREPRENEURSHIP LINKS WITH ECONOMIC GROWTH

The role of an entrepreneur in economic development is to bring about growth. An entrepreneur can introduce new ideas into a fledgling economy that can help the country grow. For example, the introduction of capital into the area that allows business to expand and grow. Entrepreneurs may also introduce tried and true ideas from other countries into developing countries in an attempt to bring the country into modern times. The exact process by which this will occur varies by the needs of the country, the supplies of the country, and the cost versus financial ability of the country or the entrepreneur.

There are many factors that influence the growth of economic progress. These factors are climate, education, property rights, saving propensity, presence of seaports, etc. The empirical growth literature has found that a large number of economic and non-economic variables that may influence economic development. Not all economists suggest that the entrepreneur a main role to explain economic development. However, some suggest that the entrepreneur as one of the main characters. For example (Holcombe 1998) finds that, “the engine of economic growth is entrepreneurship”. Entrepreneurship is “at the heart of national advantage”. Relating the role of entrepreneurship in stimulating economic growth, many links have been explained. The objective of this paper is to provide a critical overview of recent empirical research on the relationship between entrepreneurship and economic growth. There are many ways in which entrepreneurship may impact on economic growth. Entrepreneurs may produce important creation by entering markets with new items or production processes. There have been efforts to empirically explain the role of

entrepreneurship in economic performance, especially at the firm, region or industry level.

An important point in our discussion is to consider whether entrepreneurial activity plays a similar growth-stimulating role in highly developed economies and in developing countries. In early development stage countries the concern is with starting and accelerating growth, and in providing impetus to the structural transformation of economies, in the developed economies the concern is largely with finding new sources of productivity growth.

Since the last 1980s many studies which examined the relationship between entrepreneurship in term of economic performance. It is very clear the positive performance by firm will positively effect on country economic growth. This literature analyzes the contribution of entrepreneurship in economic growth at the firm level. Because in 1980s and 1990 have seen the reevaluation of the small firms and renewed attention for entrepreneurship. The main difference among the small and large organizations one is the roles of ownership and management. In small firms mostly one person or a small group of people controlling and which shapes the firm and its future. So in recent years renewed attention has been given to the role of entrepreneurship in economic growth. There are also some differences in organizations if the size less distribution has influence on growth. This will be done by using elements of different fields like macro economic growth, historical views on entrepreneurship, industry economics etc. there is enough proof that economic activities moved away from large firms to small firms in linking entrepreneurship to economic growth (hander wennekers).

Throughout the history the entrepreneur pass many steps and fallow many rules (Hebert & link 1989). "Entrepreneurship is at the heart of national advantage" (porter 1990). Studies measure economic performance in term of firm growth. Another important thing is to know about entrepreneur. Authors define entrepreneur as "The entrepreneur is someone who specializes in taking responsibility for and making judgmental decisions that affect the location, form, and the use of goods, resources, or institutions." The main contribution of entrepreneurship in economic growth may be single out as "new one". This is related to startup of new business and change of innovation into economically viable entities whether or not in the course of doing so; they operate or create a firm.

Generally economic growth haven redistricted to the realm of macro-economic. However different tradition linking growth to industrial organization dates back at least to Schumpeter (1934). According to this tradition, performance, measured in terms of economic growth, is shaped by whether or not the industry structure utilizes scarce resources as efficiently as possible. Find two systematic responses by a series of empirical studies in the industry structure to the changes in the underlying determinants.

The first is that an increased role for small firms and the industry structure is generally shifting toward small firms and the second is that the extent and timing of this shift varies across countries. Brock and Evans in 1989 provided four more reasons of shifting and argue that the shift away from large firms is not confined to manufacturing industries. One is the changes in consumer tastes second is the increase in labor supply, leading to lower real wages and coinciding with an increasing level of education third is the fact that we are in a period of creative destruction and forth relaxation of regulations. Acs in 1992 is among the first to discuss them. He describes more points of the increased importance of small firms“ entrepreneurship, like roads of innovation, industry dynamics, and job creation. He also disrobes two claims. First one is, small firms serving as agents of change because of their entrepreneurial activity and playing an important role in the economy. Second is a small firm creating an important share of new jobs and source of considerable innovative activity, stimulating industry evolution, and are key references “because of their consideration of the role of smallness in the process of innovative activity”. The Global Entrepreneurship Monitor concludes that there is a closer relationship between entrepreneurial activities, defined as start-up activities, and economic growth.

12.7 ENTREPRENEURIAL ACTIVITIES IN ECONOMIC GROWTH

The rates of entrepreneurial activity strongly different even Countries in similar stages of economic development. The GEM Global Executive Reports show big differences between countries for example France, Japan, Belgium and Sweden with low entrepreneurial activity and countries like the Canada, U.S., Australia and South Korea with high entrepreneurial activity. Some developing countries like Brazil and Mexico are at the top of the list of countries with high entrepreneurial activity. An example of Italy given for the latter situation that countries may not only have too few self-employed, but may also have too many. In case entrepreneurial activity would be important for economic growth, we should find some countries that are high rate of entrepreneur activity and also grow relatively fast. There are many other factors that may explain economic progress butt the usual ceteris paribus condition applies here. These include some factors like schooling, inflation, investment in fixed assets, climate, institutional quality and property rights. When we compare countries in different stages of economic development, we should also be careful. When we compare the High start-up rates of developing countries with high developed economies are perhaps less a sign of economic strength.

We describes a view of entrepreneurship, link with others, that see “entrepreneurship as a ubiquitous in society, but with different impacts on economic development, which will depend on whether entrepreneurial ability is allocated towards productive, or non-productive, destructive or evasive

ends". The latter, contrary allocation „misallocation“ of entrepreneurial ability may obstruct for economic growth. It is not only the absence of good institutions that may result in the incompatible allocation of entrepreneurial ability. Low economic growth in itself may cause the bad allocation of ability and entrepreneurship. In many underdeveloped countries this is however also an important reason why new entrepreneurial ventures are often pent up. Entrepreneurs are impotent during and after conflict and the activities of entrepreneurs during conflict, especially of ‘destructive’ entrepreneurs who benefit from the conflict. Authors suggest that at least six attributes need to be taken into circumstance in addressing the role of entrepreneurs in post-conflict condition. Entrepreneurial ability has impact on the success of a firm, which in turn matters for the prospect of the entrepreneur returning a loan. Because banks cannot detect any entrepreneur’s ability and interest rates on start-up capital will reflect average entrepreneurial ability. If the part of entrepreneurs of low ability increases, it will show the higher borrowing costs, which impose a negative out wordiness on high ability entrepreneurs. Who will consequently borrow and invest less. The low ability entrepreneur might a barrier for economic growth through the impact of entrepreneurial ability on the productivity of employed workers. (Schumpeter, 1934) argues that “new combinations we call enterprise; the individuals whose function it is to carry them out we call entrepreneurs”. Second is the role of realizing profit opportunities and we tagged this role as “Kirznerian” entrepreneurship (Kirzner, 1997). The third is the role of assuming the risk associated with uncertainty and we tagged this role as “Knightian” entrepreneurship. When an individual create a new product or starts a new business, this can be explained as an entrepreneurial act in terms of each of the three types of entrepreneurship. The individual is an innovator, has realized up to this time unnoticed profit source and he takes the risk that the product or venture may turn out to be a failure. Their study based on their study the history of economic thinking regarding entrepreneurship. (Hébert and Link, 1989) describes the following „synthetic“ definition of who would be an entrepreneur and what he does, “the entrepreneur is someone who specializes in taking responsibility for and making judgmental decisions that affect the location, form, and the use of goods, resources, or institutions”. This definition is not sufficient when we searching for links between entrepreneurship and economic growth. The movements of realizing and innovating new economic sources and the competitive extent of entrepreneurship need more concentration. The mail role of entrepreneurship to economic growth might be singled out as being 'newness'. This includes the start-up of new business but also the change of 'inventions and theme into economically workable entities, whether or not, in the course of doing so they create or mange a organization“ (Baumol 1993, p. 198).It is important to investigate to what extent the impact of entrepreneurial activity is similar across stages of economic development.

In this section we will discuss our two key variables, the TEA rate capturing a modern view on entrepreneurial energy and the GCI rate encompassing a range of alternative explanatory variables.

12.8 THEORIES OF ENTREPRENEURSHIP AND ECONOMIC GROWTH

Here now we will provide an outline of some of the basic approaches used to define the relationship between entrepreneurship and economic growth.

12.8.1 Classifying the Theories

In the early 20th century the study of entrepreneurship was central to a number of leading economic theorists, then comparatively ignored for some last years until it was redeveloped in the 1970s. In a recent study, (Steele, 2000) highlight criticism against traditional theoretical theories or approaches to economic growth. Steele questions the underlying neoclassical assumptions of a social equilibrium and individual optimization. . In 1911 Theory of Economic Development was published in German and in English in 1934. In 1934 The Theory of Economic Development, describes the impotence of the entrepreneur as prime cause of economic growth. Theory describes how the creative entrepreneur challenges incumbent organization by promoting new creations that make current technologies and products disused. This method of innovation destruction is the main quality of what has been called the Schumpeter Mark I regime. The Knightian entrepreneur has also been called as the “neo-classical entrepreneur” for example in the neo-classical (equilibrium) frame work; entrepreneurship is explained by fundamental attributes of people like “taste” for uncertainty. Schumpeter/Baumol The German tradition focuses on the entrepreneur as an creative and inspirer, the implementer of creative destruction, (Schumpeter 1934 and Baumol 1968). “The role of the entrepreneur is primarily stressed in Schumpeter’s earlier work on competitive capitalism. In the later works on capitalism, large firms are seen as the vehicle of economic progress Instability, disequilibria, and economic development” (Brouwer, 2000). (Yu, 1997) “concludes that Schumpeter’s objections to the orthodox system relate to the use of equilibrium models and static analysis as well as the assumptions of rational behavior and profit maximization”. (Schumpeter 1934) says that the risk of trying new creations, being entrepreneurial, and of itself depend on the capitalist and not on the entrepreneur.

Neoclassical Growth Theory

Under traditional neoclassical theories, there are restriction imposed on entrepreneurship by perfect competition, accurate information, and rational behavior. An alternative to the latter restriction could also be the absence of

time lags between results and decision (Lydall, 1998). There are many growth models that can be tagged (more or less) neoclassical, only (Solow, 1956) growth model received much attention as compare to any other model. A basic result of the Solow model is that collection of capital cannot account for neither substantial international differences in per capita output or historic growth of per capita income. The model is on the biases of CRS production functions, where output is link with capital and effective labor. The growth rate is completely driven by advances in knowledge or technological progress. In the Solow model entrepreneur does not exists. The sympathetic reader could possibly discern the existence of an implicit entrepreneur encompassed by the notion of knowledge. However, in the model knowledge or effectiveness of labor is incompletely defined and can, therefore, be attached to various and many factors that possibly could influence growth. Furthermore and as pointed out by (Romer, 1990) “since the growth rate of knowledge is exogenously given, growth is modeled by assuming its existence”. The other thing in this section, the differentiation will be made between the “old” neo-classical growth theory and the “new”, endogenous growth theory. For a long time off period neo-classical growth theory saturated solely on the relationship between labor and capital to the process of economic growth. The main theme of the new growth theory is to endogenize the long-run rate of economic progress.

(Baumol, 1993) says “that so far as capital investment, education, and the like are concerned, one can best proceed by treating them as endogenous variables in a sequential process in other words, these variables affect productivity growth, but productivity growth, in turn, itself influences the value of these variables”. After some time off period some attempts have been made to link entrepreneurship in growth models. There two reasons of Entrepreneurship did not fit in the traditional, theoretical neo-classical models. Firstly, models of general equilibrium do not take into account the dynamics of “innovating entrepreneurship and secondly the neo-classical maxim of accurate competition finds that there are no profit opportunities for entrepreneurs left. “The new growth theory puts emphasis on the endogenous role of innovation and human capital formation in explaining economic growth. On the other hand, in spite of the strong technological dynamism of today it is well to remember that in world history technological creativity has been an exception rather than a rule” (Mokyr, 1990).

12.8.2 What is the Role of an Entrepreneur in Economic Development?

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country. The entrepreneur acts as a trigger head to give

spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. The major roles played by an entrepreneur in the economic development of an economy are discussed in a systematic and orderly manner as follows.

(1) Promotes Capital Formation: Entrepreneurs promote capital formation by mobilising the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such types of entrepreneurial activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

(2) Creates Large-Scale Employment Opportunities: Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

(3) Promotes Balanced Regional Development: Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries leads to more development of backward regions and thereby promotes balanced regional development.

(4) Reduces Concentration of Economic Power: Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

(5) Wealth Creation and Distribution: It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

(6) Increasing Gross National Product and Per Capita Income: Economic growth is measured in terms of a sustained increase in real income. It is the entrepreneurial communities who complement and supplement the economic growth increase per capita income by identifying and establishing profitable business ventures. Entrepreneurs are always on the lookout for opportunities. They explore and exploit opportunities, encourage effective

resource mobilisation of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

(7) Improvement in the Standard of Living: Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. Entrepreneurs supplement the economic growth by enhancing the physical quality of life. Establishment of enterprises leads to increase in employment avenues both directly and indirectly. Consequently, poverty is alleviated as per capita income grows. This results in improving the physical quality of life which is an indicator of economic growth.

(8) Promotes Country's Export Trade: Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.

(9) Induces Backward and Forward Linkages: Entrepreneurs like to work in an environment of change and try to maximise profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.

(10) Facilitates Overall Development: Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialisation is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

(11) Betterment in Standard of Living: Improvement in the standard of living of the people is a quality feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by taking on newest innovations in the manufacture of goods and services at lower price. This allows the people to get better quality goods at lower costs which results in the betterment of their standard of living.

(12) Increase in National income: Entrepreneurs always keep their eyes open for opportunities. They explore and utilize opportunities, make

effective resource mobilization of capital and skill, raise new goods and services and develop markets for growth of the economy. The goods and services produced are for consumption within the country and to meet the demand of exports. Thus the national income is increased and increase in national income is certainly a sign of economic growth.

(13) Effective Utilization of Resources: Entrepreneurship is all about putting to better use the resources which are considered to be of low value with an aim of earning income. An entrepreneur comes up with ideas of how to use what others may consider waste. This improves the economy of a country through taxes and creation of jobs which improves the standard of living of the beneficiaries. The Kenyan sisal plant is, for example, being used by small scale entrepreneurs to weave quality bags such as “ciondo”, table mats, lamp shades etc. These items sell internationally.

(14) Growth of Infrastructural Facilities: Entrepreneurs help in the growth of infrastructural facilities such as roads, bridges, buildings, factories, etc. which are the cornerstones of economic growth. Establishment of factories and industries in a particular locality presupposes the growth of infrastructural facilities.

(15) Promotion of Technology: New firms must often have an innovative edge on their competition in order to survive, particularly in younger and high-technology industries where competitive pressure and firm churning are high. As such, they are often the source of new processes or products and contribute to productivity improvements in the economy as a whole.

(16) Empowerment of Women through Enterprise: Women entrepreneurs are the prime movers of women empowerment. In this context, empowerment through enterprise involves access to resources and markets, actual ownership and active control. These things lead to equity and equality among men and women and act as a lever for social stability and results in economic growth.

(17) Conservation Agent: Entrepreneurship allows for maximum utilization of natural resources. Many entrepreneurs in waste management field have turned cow waste into a profitable venture. Also entrepreneurs launch their venture in their own society and they remain more sustainable in their approach.

Further, to retain the entrepreneurial approach to economic growth, countries must now provide opportunities for education directed specifically at entrepreneurial skills.

Financing of entrepreneurial efforts and networking among potential entrepreneurs must also be aided by the Government. Though the most of the Governments offers policies encouraging the entrepreneurial efforts, the Government’s overall role should be lessened so that the authority of the free market and individual self-interest can be appreciated.

12.8.3 Successful Entrepreneurs of India

Here are a few entrepreneurs and companies who actually defined new businesses/products and shaped India:

- **Jamsetji Tata (1839- 1904):** Founder of the Tata group, this entrepreneur from Gujarat is honoured by many as the father of Indian industry. The multi billion company we see today had its first phase in a trading firm started by J N Tata in 1869 with an initial capital of Rs 21,000.
- **Dhirajlal Hirachand Ambani (Dhirubhai Ambani) (1932 – 2002):** Dhirubhai Ambani was an Indian rags-to-riches business tycoon who founded Reliance Industries in Mumbai with his cousin. From a poor worker in the fifties to one of the country's largest megacorp, Ambani's journey to the pinnacle was at flashing speed.
- **N. R. Narayana Murthy (1946):** A co-founder of Infosys, N. R. Narayana Murthy is the man who is often attributed for much of India's IT revolution. He left no stone unturned to put Bangalore on the global map and make India a soft power. Infosys, the company he co-founded in 1981 with Rs 10,000 in capital is now a \$7 billion company and also the second largest software exporter from India.
- **Dhiru Bhai Ambani:** Dhiru Bhai Ambani built India's largest private sector company. Created an equity cult in the Indian capital market. Reliance is the first Indian company to feature in Forbes 500 list Dhirubhai Ambani was the most enterprising Indian entrepreneur. His life journey is reminiscent of the rags to riches story. He is remembered as the one who rewrote Indian corporate history and built a truly global corporate group. Dhirubhai Ambani was named the Indian Entrepreneur of the 20th Century by the Federation of Indian Chambers of Commerce and Industry (FICCI). A poll conducted by The Times of India in 2000 voted him "greatest creator of wealth in the century".
- **Lalit Modi:** Lalit Modi, the President and Managing Director of Modi Enterprises is an innovative and self-motivated personality who has instrumented his success in the field of business. He has been the engineer behind the Indian Premier League (IPL) which has had four successful seasons. He has also held several high ranking positions in many cricket associations. In the past, Modi served as the Vice-President of BCCI, president of the Rajasthan Cricket Association and is presently the Vice-President of the Punjab Cricket Association.
- **M.S. Oberoi:** M.S. Oberoi can be aptly termed as the father of the Indian hotel industry. Rai Bahadur Mohan Singh Oberoi was among the first to recognize the potential of the tourism industry, its ability to contribute to India's economic growth and generate direct and indirect employment. He worked tirelessly to put Indian hotel industry on global tourism map. Today, The Oberoi Group owns or manages 37 luxury and first class

international hotels in seven countries. M.S. Oberoi was elected to the Rajya Sabha in 1962 and in 1972. He was also elected to the Lok Sabha in 1968.

12.9 SUMMARY

Above mentioned are the names of a few entrepreneurs who have hit the glamour circuit. There are many other entrepreneurs and companies who changed the face of India, but are being talked about in low tones, in rare columns and in rarer features. Entrepreneurship is about working towards what one truly loves and cares about. Let us celebrate the spirit of entrepreneurship, keep the fire alive and strive hard to change the economic face of our country.

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important inputs in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. The entrepreneur can undertake any type of the following categories of innovation i.e. the introduction of a new good or a new quality of a good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw materials and the carrying out of a new organisation of any industry.

12.10 GLOSSARY

Social
entrepreneurship

Social entrepreneurship involves using entrepreneurial skills for the public good rather than for private profit, that is using imagination to identify new opportunities and determination to bring them to fruition.

Account

Record of a business transaction. When you buy something on credit, the company you are dealing with will set up an "account". This means that they set up a record of what you buy and what you pay. You should do the same thing with any customers to whom you give credit.

Adding Value

Providing something extra, over and above your competitors, which makes your proposition more attractive than theirs e.g. personal service.

Benchmarking	A method used to compare the relative performance ranges of different businesses. It is an effective way of identifying areas for business improvement.
Best Practice	Best performance of a function or process or methods that lead to exceptional performance.
Companies	A Company is a type of business structure created and regulated by state law. What sets the company apart from all other types of businesses is that a company is an independent legal entity, separate from the people who own, control and manage it.
Focus Groups	A professionally moderated discussion among a group (four or more participants) of individuals whose opinions are thought to reflect those of the product's intended purchasers.
Niche Markets	A small or little explored market which mass market corporate may miss, giving smaller companies the opportunity to design their offering to fit its particular requirements.
SME	Small and Medium-sized Enterprise. The technical definition covers companies that have less than 250 employees, (50 for a small business) and are less than 25% foreign owned.
Social Enterprise	An enterprise whose primary aim is to meet some social rather than business need. Examples include charities, co-operatives and community businesses. Although generally run as not-for-profit enterprises, their success usually depends on application of the sound business practices described on this website.
Socio-Economic Background	Social class (grade A to E) which is of course related to ones income, is used to identify the kinds of people who buy your product and hence to target more of them.

12.11 ANSWER TO CHECK YOUR PROGRESS

1. Identify ten more entrepreneurs from India and discuss their case of success.
2. Mention the strategies adopted by top ten successful entrepreneurs in India. Also discuss their contribution in the economic development of our country.
3. Identify three gray areas of entrepreneurship having vast scope and potential as far as economic growth and potential business is concerned.

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12.13 SUGGESTED READINGS

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12.14 TERMINAL QUESTIONS

1. Write an essay on the role played by entrepreneurs in economic development of the country?
2. What activities a successful entrepreneur can do for the contribution to the economic development of a country. Consider the case of the India for the discussion.
3. Discuss the theories and entrepreneurs with reference to economic development.

Block 4: Management of SSE's

UNIT 13: MANAGERIAL PROCESSES IN SSE'S

Structure:

- 13.1 Introduction
- 13.2 Objectives
- 13.3 Management of Small-Scale Enterprises
- 13.4 Management Development Issues in SSE Sector
- 13.5 Enterprise Management
- 13.6 Managerial Functions
 - 13.6.1 Planning
 - 13.6.2 Organising
 - 13.6.3 Directing
 - 13.6.4 Controlling
 - 13.6.5 Time Management
- 13.7 Lessons of Experience and New Ideas
- 13.8 Summary
- 13.9 Glossary
- 13.10 Answer to Check Your Progress
- 13.11 References
- 13.12 Suggested Readings
- 13.13 Terminal Questions

13.1 INTRODUCTION

By now you have learnt how to identify a business opportunity, make a feasibility analysis covering marketing, financial and other aspects (legal, environment, etc.). Once you take a plunge to start a new venture then the entrepreneurial role will be taken over by the managerial role. In the first unit you have already learnt the functions that an entrepreneur has to perform. Also how entrepreneurship is different from management. Now in this unit we will elaborate the functions that an entrepreneur has to perform as a manager.

For a successful entrepreneurial hunt, the individual is required to perform a double role—one that of an entrepreneur and the other that of a successful manager. Entrepreneurs are often achievement oriented who seek challenges and new activities. The management responsibility of an entrepreneur is much more than that of a paid manager and is full of challenges which can be both thrilling and enterprising.

13.2 OBJECTIVES

Present unit aims at managerial processes in SSE's. After going through this unit you will be able to:

- Develop familiarity with various functions of a manager;
- Know exactly what are the tasks, which an entrepreneur has to undertake in the course of managing his enterprise;
- Understand the issues in managing the small scale enterprise;
- Know the emerging management issues in SSE's.

13.3 MANAGEMENT OF SMALL-SCALE ENTERPRISES

To avoid academic discussion, management is here simply defined as the way a commercial/business activity is organized. While it is realised that management in small enterprises normally is personalised rather than being institutionalised, still the management of small enterprises can improve their position vis-a-vis competitors by introducing management practices that give consistency and viability to the administration of the entire business.

The very ownership of a business tends to create elitist attitudes and self-orientation. It imposes a monocular vision which limits the company's capacity to respond positively and aggressively to business opportunities and changing business conditions. A person who stands head and shoulders over his colleagues in perceived authority can create benefits as well as disadvantages for the business. In cases where he is a poor manager even though a good entrepreneur, his domination might prevent the enterprise from obtaining the skills and methods which are needed for further growth. A gap is thus created between the manager/owner's perception of the situation and his own abilities on the one hand and of the actual needs of the business on the other.

Small enterprises often apply a minimum of formalisation. They achieve the output without much of differentiation in job content. The built-in informality facilitates a smooth response to minor disruptions but it renders at the same time excuses for not establishing and enforcing proper performance standards. Due to the informality of the business and to the fact that most small enterprises are operating with short product cycles, the managers / entrepreneurs do not conceptualise their situation in terms of opportunities, expertise or strength. The enterprise might as a consequence implement decisions on the basis of invalid assumptions or a misperception of the situation.

Discipline at workplace is affected in cases where a small enterprise is filled with relatives of the owner or manager, especially if there are elderly relatives since in many cultures it is difficult or even impossible to govern or reprimand such an older relative / employee. The extended family system, where it operates, requires that in the recruitment of employees for such a

family business, relations of the owner/manager have to be considered irrespective of other employment criteria.

Since many entrepreneurs of small enterprises lack managerial experience when they start their business career, there is often a tendency of basing decisions and actions on hope and dreams rather than solid data. There are for example numerous cases of small enterprises going into bankruptcy because of the simple fact that they did not know how to price their goods or services. In such cases, even the introduction of the most basic management principles could improve the performance of the enterprises. In short, the following characterises organisation and management of small enterprises:

- The entrepreneur succeeds in business due to his technical skills, not because of his ability to conceptualise market opportunities or plan ahead in strategic terms;
- In contrast to large companies, which can usually afford specialist staff, the small enterprise manager is a relatively isolated individual trying to deal with long-term policy issues and day-to-day operational problems simultaneously;
- Small enterprise managers often operate without adequate quantitative data or other information, rather following the strategy of other successful entrepreneurs;
- Due to low wages, limited job security and a low status from working in a small-scale enterprise, the manager cannot easily recruit and keep qualified employees.

Due to these shortcomings, many small enterprises fail to adjust in response to environmental changes, introduction of new technology or similar developments. When the skills and experience of the owner/manager become outdated, the enterprise slips into stagnation.

Given the characteristics of small enterprises, with many tiny units on the border between formal and informal sector supplementing the income of the entrepreneur's family, the need for management improvement are more basic or different from those of many other lines of business. Due to the informal and irregular manner in which operations are carried out, often as a complement to agricultural work, the financial flows of the enterprise are not separated from the economy of the family. Proper books and records are rarely maintained and the assets of the enterprise not insured.

13.4 MANAGEMENT DEVELOPMENT ISSUES IN SSE SECTOR

Management support to the small enterprise sector covers the whole range of issues from identification/selection of entrepreneurs, initial management training, support through extension services and functional support to strengthening of small enterprise development agencies and development of national policies on promotion of small enterprises.

Many countries have training programmes for the small enterprise sector but lack a specific education and training policy for small enterprises development. A number of issues need to be resolved before policies can be implemented at the national level. In the first place, potential entrepreneurs have to be identified. Even when selection procedures are used, only a relatively small percentage of graduates actually start and succeed in business. Some experts believe that wasted effort and financial loss can best be avoided by a self-selection process whereby rigorous exercises completed before attending a formal training programme allow participants to judge their own entrepreneurial potential.

Another issue is to determine the appropriate level of training. Assuming that entrepreneurship can be induced, should the starting point for entrepreneurship development be the primary, secondary, post-secondary or post-tertiary education level? The answer to this question will depend to a certain extent on the type and level of training of the personnel involved in small enterprises development assistance. It is sometimes argued that including entrepreneurship training in the primary or secondary curriculum would mean devoting less attention to basic skills such as languages, mathematics and science. This is countered by those who maintain that entrepreneurial attitudes take a long time to develop and should therefore be taught as early as possible. One reason for introducing self-employment concepts to children at the primary level in developing countries is that many of them do not pursue their formal education at the secondary level. The cost of doing so would be minimal yet it would enable young people to be informed of the possibilities of self-employment as a career. An issue of interest is also whether early entrepreneurship training should be sector oriented in order to gear potential entrepreneurs towards expanding lines of business or if the training should be kept general.

In some industrialised countries, post-secondary educational institutions provide special training programmes for potential entrepreneurs. In the developing countries, too, university-level business programmes sometimes cater to the specific needs of small enterprises. Governments are now having to decide whether to introduce basic changes in the educational system so as to offer business education and training for various age-groups. Financing entrepreneurship development programmes is also an important issue. In some countries, the entire cost is borne by the government, in others by the participants. The decision in this matter will depend to a large extent on the type of small enterprises being aimed at (modern small enterprises, craftworkers, informal sector entrepreneurs, self-employed women, etc.). As to whether the government or the private sector should be responsible for such programmes, opinions differ, some arguing that overall government control is essential to coordinate the programme and others that the government should not be involved in any part of the programme that can be carried out by the

private sector. In some instances entrepreneurship development programmes are offered jointly by government and private sector organisations. There is considerable controversy, too, over whether the programme should stop at business creation and the participants be left entirely to their own ventures once they have received their initial training or whether, on the contrary, follow-up counselling and even other types of assistance such as credit should be available for the first year or two of operation of a new small enterprise as part of the programme.

Given the particular characteristics of the forest-based small enterprise sector with small, family based units distributed in rural areas, successful assistance programmes will probably differ considerably from most existing approaches. One key issue is whether to concentrate on those with the largest potential for entrepreneurship and assume that the local community will benefit eventually rather than using scarce resources to support income supplementing activities with little scope for improvement. Although very small income generating business ventures are important from the individual's point of view and contribute to employment and national production output, it can still be argued that due to the irregular nature of activities the productivity of assistance to such tiny units is less than that of support to somewhat larger and more permanent enterprises.

In the field of social science, during the past 50 years, extensive research has been carried out regarding the issue how human beings learn and acquire skills. Although much is known today about the learning process, relatively few research projects have focussed on how successful businessmen obtained their entrepreneurial and managerial skills. Available evidence indicates that the development of entrepreneurial and managerial skills is a process different from most other learning. The importance of the childhood, early experience from working life as well as an environment favourable to business ventures are all ingredients necessary for the development of entrepreneurial attitudes and talents. Although the issue whether entrepreneurship can be taught or is inherited is still debated, there is today fairly strong support for the assumption that such traits can be developed through well designed training programmes as will be further discussed below. When it comes to development of managerial skills, the issue is not whether they can be transferred by training but rather to what extent the quality of training programmes can be improved to the level where they attract the attention of hardworking entrepreneurs. A vast number of small business training institutions throughout the world are offering more or less comprehensive training programmes geared towards the local business community. Many of these efforts fail, often because the programme design is poor. Too many programmes are containing over-sophisticated components and abstract training materials far from the reality of the entrepreneur. In many cases, the programmes are also over-ambitious in terms of the commitment

expected from the entrepreneurs. Few successful, or moderately successful entrepreneurs can manage to stay away from their businesses for long periods, something which is unfortunately often not taken into account among training officers designing the programmes.

13.5 ENTERPRISE MANAGEMENT

Operating an enterprise involves performance of a host of functions, be it production, marketing, finance, HR or overall administration and coordination. Entrepreneur in a developing country context typifies the owner-manager stereotype. As such he is the administrative head of his enterprise. Given the smallness of the size it may not be possible for him to appoint specialists in all the areas. He may have to do with some general purpose assistants subject to his direct command and supervision. He may, thus, be the sole manager of his enterprise.

Although different products or services require different operations, yet, these operational functions are governed by common management principles. As a manager, one has to forecast the future; find out relationship among different operations and the effect one has over other; find out methods and procedures for reviewing and controlling inadequacy of resources. Because of misunderstanding of such differences between ‘operation’ and ‘management’ many a time first generation entrepreneurs fail to manage enterprises and face various problems such as:

- Scarcity of funds
- Shortage of fire fighting operations
- Meagre productivity
- Inadequate marketing
- Wastage and inefficiency due to unplanned decisions
- Stagnation or even closure

To avoid such situations and to achieve success there may be a need to manage enterprise by acquiring management skills appropriate to perform various managerial functions such as planning, organizing, directing and controlling operations.

13.6 MANAGERIAL FUNCTIONS

Small business has its own distinguishing features. The entrepreneur himself often acts as the manager and looks after more than one function. Therefore, managerial practices used successfully in big firms cannot be blindly used in small-scale units. Basic managerial functions in large and small business are the same. But the manner in which these functions should be carried out can be different. Essentially, management implies distinct processes of Planning, Organizing, Directing, and Controlling resources both human and material, to achieve an identified objective.

13.6.1 PLANNING

Managing starts with planning. An entrepreneur with a definite and well defined plan has more chances of success than another who tries to start an enterprise without planning. According to Killen” planning is the process of deciding in advance what is to be done, who is to do it, how it is to be done and when it is to be done”. Planning involves thinking and decision and is, therefore, called a logical process. Planning is a continuous process as changes in plans have to be made from time to time to take care of changing environment.

Many a times, a vague approach is adapted to planning in a small firm. There is a false impression that small firms are uncomplicated and do not require planning. The small-scale entrepreneur does not want to engage his employees in the planning process due to the desire to keep the secrets with him. Personal accountability for results, lack of expert staff and not having planning skills are other major obstacles to planning in small firms. The owner or manager of a small enterprise is too involved in day-to-day operation to try planning before commencing actual operation. But they need pre-planning most because small firms have limited resources to conquer their upcoming problem and cannot afford to finance losses that can take place while adjusting to unanticipated happenings/changes.

Planning is the process of thinking in advance and drawing a design of activities before actual operations can take place. This helps in predicting obstacles, identifying the resources required for the venture and help to compare the final result of the whole operations with the planned ones.

Further, it prevents wastage and optimizes returns from human and financial resources.

Steps in Planning: Planning involves seven steps.

1. Setting objectives – recognizing and clearly relating the problem.
2. Analysis of situation – environment, resources and significant forces.
3. Collecting and linking details and information.
4. Searching for alternatives to attain the objectives.
5. Evaluating and comparing the alternatives.
6. Choice of alternatives.
7. Preparing the plan of action for execution.

A good plan should be able to answer the following questions:

- (i) What is to be done?
- (ii) Why must it be done?
- (iii) When it is to be done?
- (iv) Where it is to be done?
- (v) Who will do it?
- (vi) How will it be done?
- (vii) How much control should be used?

13.6.2 ORGANISING

An entrepreneur needs an enterprise which can achieve the business objectives. During the function of organising he leads human resources to successful completion of the project, arranging the functions and activities into different levels in the organization structure, thus facilitating the assignments of personnel according to their capabilities, skills and motivation.

According to Peter F. Drucker the process of organizing consists of three steps - activities analysis, decisions analysis and relation analysis.

(i). Activities Analysis: It consists of the following:

- a) Determining the main functions for achieving the objectives of the firm.
- b) Various sub-functions in each major function.
- c) Amount of work in each major function and its sub-function.
- d) The position required to perform the activities.

(ii) Decisions Analysis: It consists of the following:

- a) Choosing the basis of departmentalization so that functions could be grouped into specialized units. Generally, functional departmentation is appropriate for small-scale units. Customers, Products and territories are other important base of departmentalization.
- b) Choosing the type of organization structure so that departments are incorporated into a formal structure.

(iii) Relations Analysis: The authority, responsibility and accountability of every position and its relationship with other positions are clearly defined. Various positions are manned with persons having the necessary education, training, experience and other qualifications.

To obtain best possible benefit from each employee it is necessary to delegate functions as far-down in the organization as possible. Owners of small firms are often reluctant to delegating authority to their employees even though they expect them to do all functions allocated to them that require authority. For effective completion of tasks, it is necessary that responsibility accompanies the necessary authority.

13.6.3 DIRECTING

In directing a manager has to supervise, guide, lead and motivate people so that they can achieve set targets of performance. In the process of directing his subordinates, a manager ensures that the employees fulfill their tasks according to the set plans. Directing is the executive function of management because it is concerned with the execution of plan and policies. Directing commences organized action and sets the whole organizational machinery into action. It is, therefore, the life giving function of an organization. This is the area where the mastery of the art and science of management is put to test. An entrepreneur's leadership style determines the work atmosphere and culture of the organization. Above all, he must motivate

employees by setting a good example, setting practical targets of performance and providing satisfactory monetary and non-monetary benefits.

In directing a manager has to perform the following tasks:

- (a) Issuing orders and instructions
- (b) Supervising workers
- (c) Motivating i.e. inspiring to work efficiently for set objectives
- (d) Communicating with employees regarding plans and their implementation.
- (e) Leadership or influencing the actions of employees.

13.6.4 CONTROLLING

Controlling is the process of ensuring that the organization is moving in the desired direction and that progress is being made towards the achievement of goals. The answer to a profitable organization is the skill of the owner or manager to control operations. He has to establish standards of performance, procedures, goals and budgets. With these guides, he supervises job progress, workers performance and the financial condition of the business. The controlling function of the owner manager includes:

- **Setting of standards:** - Control presumes the existence of standards against which actual results are to be evaluated. Standards can not control on their own but they are the targets against which actual performance can be measured. Therefore they should be set clearly and accurately. They should be precise, adequate, and feasible.
- **Measurement of actual performance:** - The actual performance is measured and evaluated in comparison with the set standards. Preferably measurement should be such that variation may be identified in advance of occurrence and prevented by suitable action. Where work involved is of quantitative nature measurement of performance is not difficult. But when the work is not quantifiable measurement becomes difficult. Periodical reports test checks and audits are helpful in precise measurement of performance
- **Analysis of variances:** - Comparison of actual performance with standards will reveal variation. Variations are analysed to identify their cause and their impact on the organization. Corrective action can be possible only where the causes of the problem spots have been identified. Clarification may be called for sudden variation.
- **Taking corrective action:** - Control means action on the basis of measurement and evaluation of results. Wherever possible self-determining device should be used for bringing back actual results in line with the standards. Standards should be revised wherever necessary. Other steps to prevent deviations can be re-organization, improvements in staffing and directions etc. The real meaning of control lies in the commencement and follow-up of remedial action. At this stages control unites with planning.

13.6.5 TIME MANAGEMENT

In managing an enterprise time is of essence especially for a small scale entrepreneur who has to perform the dual role of an entrepreneur as well as of a manager in his business. The entrepreneur can bring substantial changes in his firm's performance by managing time more efficiently. Management of time involves the following steps.

(i) Time Analysis: First of all a systematic study is made to find out the proportion of total time spent by the entrepreneur and his workers on different activities.

(ii) Finding Critical Activities: Critical or vital activities should receive greater time. Activities taking more than the justified time need to be identified. Irrelevant or time wasting activities should be eliminated.

(iii) Time Allocation: A time schedule should be prepared. Proper time should be allocated to each activity. The tasks one wants to do but for which he does not have time should be noted.

(iv) Stick to Time Schedule: The most difficult step in time management is to complete each activity within the schedule time period. For this purpose, it is necessary to delegate task to subordinates, to organize every workday and to continuously evaluate the time management system

13.7 LESSONS OF EXPERIENCE AND NEW IDEAS

Finally, through its long history of executing field-projects, the International Labour Organisation (ILO) has gained considerable experience in designing and implementing business creation projects. The following are the main lessons learned in this area:

- A business creation or entrepreneurship development programme should start with the human-being and his business idea rather than with general plans for industrial development in the particular area or with market opportunities identified by experts. Identifying persons with the entrepreneurial qualities and who believe in what they are doing/want to do is more important than the line of business as such;
- Efforts should be made to select those people most likely to succeed in business. A properly designed and implemented promotion for the business creation programme guarantees that a sufficient number of applications are received to cater for a reasonable number of potential entrepreneurs;
- The subsequent selection process should reveal the applicant's background, age, earlier working experience, the realism of his business idea, motivation, entrepreneurial attitudes and other relevant information. The necessary information can often be best obtained by the use of a battery of forms, tests and a structured interview;
- The aim of the training is to let those selected develop their usually infantile business ideas into feasible and viable proposals. The training

component should cover all major areas of management, introduced one at a time as the business idea grows more mature. When, for example, the entrepreneur is gathering information about his potential market, he is also given a theoretical content in terms of sessions on marketing. In such a way, a group of entrepreneurs develops their respective business ideas, step-by-step getting familiar with new management topics.

Since the training is practical-oriented and the entrepreneurs/trainees expected to be quite active, they are given a number of specific tasks to carry out as part of the learning process. The task could be for each to compile a list of suppliers of raw materials for their potential business, something which might become useful once their enterprises are started. It is then up to the individual entrepreneur to use available means to carry out the assignments and prove that he has entrepreneurial talents.

The built-in difficulties in these training tasks are also functioning as selection mechanisms, if the entrepreneurs do not accomplish the tasks they drop out of the programme. Only those with a good commercial spirit and perseverance survive the training phase;

- The outcome of the training should for each entrepreneur be a well conceived business-plan, and a full-fledged loan application which can be submitted to a commercial bank;
- Usually, commercial banks are preferred to soft loan schemes. Firstly, an independent bank will make its own assessment of the proposal and thereby add views on the viability of the proposed business. Secondly, by interacting with an independent, commercial institution, the entrepreneur will immediately gain a realistic perception of how to deal with banks and of the real cost of capital. Finally, by approaching a commercial institution at an early stage, the entrepreneurs are given the opportunity to build up a relation of mutual trust with the bank, something they can benefit from later on.

13.8 SUMMARY

Business of every size must be managed or they will close down to. Though there are many similarities between managing a big business and a small one, major differences are also there. Managing a small business is a difficult job. A manager has to perform many activities well with lesser resources as compared to large competitors. The hopes of consumers, associates, and workers are increasing to the point that small business can hardly exist without understanding the tools and practices of professional management. The functions of management by convention are planning, organizing, directing and controlling a company. To an extent, these are the major functions that a manager performs whether he is in a large business or a small business. These four functions are continuous and interconnected. Management do each of them all the time. A manager has to do some planning, some organizing, a lot of directing and some controlling every day.

These four functions are interconnected in that there is progressive cycle to their achievement. Planning begins the process as the manager determines what to do. Organizing involves bringing together the resources (financial, human, or material) to achieve the plan. Leading is the process of getting the best possible from these resources. Controlling is comparing what was planned with what was actually accomplished. If a variation exists between what was planned and what was actually accomplished (which is almost always the case), a new plan is needed and the sequence begins again.)

13.9 GLOSSARY

Account	Record of a business transaction. When you buy something on credit, the company you are dealing with will set up an "account". This means that they set up a record of what you buy and what you pay. You should do the same thing with any customers to whom you give credit.
Asset	Anything of worth that is owned by the business. The assets of a business are money in the bank, accounts receivable, securities held in the name of the business, equipment, fixtures, property or buildings, merchandise for sale or being made, supplies and all things of value that the business owns.
Benchmarking	A method used to compare the relative performance ranges of different businesses. It is an effective way of identifying areas for business improvement.
Best Practice	Best performance of a function or process or methods that lead to exceptional performance.
Break Even	Break-even point represents the volume of sales at which total revenue equals total costs.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a business over a period of time.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Cash Flow	The difference between total cash coming in and going out of a business over a period of time.
Fixed Assets	Assets such as machinery, land and buildings which the company do not intend to sell and which are intended for use within the business.
Franchise	The right to use the name of another company, and to sell its products or services in exchange for a royalty. The franchisee agrees to abide by the conditions set out in the franchiser's agreement.
Overheads (indirect or fixed costs)	Expenses which do not vary with the level of production or number of employees and which cannot be attributed to production costs, e.g. lighting, rent, rates.

Profit and Loss Account	Statement showing sales costs, expenses and profit (or loss) for an accounting period, normally one year.
SME	Small and Medium-sized Enterprise. The technical definition covers companies that have less than 250 employees, (50 for a small business) and are less than 25% foreign owned.

13.10 ANSWER TO CHECK YOUR PROGRESS

1. Write the following steps in a logical sequences Finding alternatives, Setting objectives, Choice of alternatives, Analyzing the environment, Setting the plan of action, Collecting, information, Comparison of alternatives. Discuss the management issues in all the steps.
2. Write the meaning of “Directing” in your own words.
3. What are the roles of proprietor or manager in small scale enterprise? Suppose you are running your own travel agency in national capital of India.

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13.13 TERMINAL QUESTIONS

1. Define and explain the terms: entrepreneurship, enterprise management.
2. Explain the planning process in small scale enterprises.
3. How would you organize small business?
4. Explain communication process in small business.
5. How can a small scale enterprise manage his time effectively?
6. Write a note in controlling in small business.

UNIT 14: MANAGING HUMAN RESOURCES IN SSE'S

Structure:

- 14.1 Introduction
- 14.2 Objectives
- 14.3 HR Management and SSE's
 - 14.3.1 Objectives of Human Resource Management
- 14.4 Sme's In General and the Indian Scene
 - 14.4.1 Evolution of HR Practices
 - 14.4.2 Indigenous Practices and Effectiveness in Indian Smes
- 14.5 Human Resource Management for Small Businesses
- 14.6 Human Resource Management Guidelines
 - 14.6.1 Retaining Employees
 - 14.6.2 Employee Performance
- 15.7 Key HR Tasks that are Critical to Small Business Enterprises
- 14.8 Summary
- 14.9 Glossary
- 14.10 Answer to Check Your Progress
- 14.11 Bibliography
- 14.12 Suggested Readings
- 14.13 Terminal Questions

14.1 INTRODUCTION

The word 'resource' refers to the productive power of natural goods. Human resource is, therefore, the productive power in human beings. They are the ones who provide the resources and also reap the benefits of the products or services. A proper planning is required for developing and utilising the human resources and also for recognising the need and use of the same. Human resource planning broadly forms the action plan for developing the human resources by taking stock of the infrastructure present and required. The planning process is very vital since unlike the material resources, human resources have the unpredictability and the mental poweress of human nature to consider.

Human Resource planning may be defined as a strategy for the acquisition, utilisation, improvement and preservation of the human resources of an enterprise. It is the activity of the management which is aimed at co-ordinating the requirements for and the availability of different types of employees. This involves ensuring that the firm has enough of the right kind of people at the right time and also adjusting the requirements to the available supply. The same can be applicable at a macro level say HRP for an industry like tourism or a government planning at the national level. The major activities of manpower planning include:

- Forecasting future manpower requirements either in terms of mathematical projections of trends in the economy and developments in the industry or of judgemental estimates based upon specific future plans of the company.
- Inventorying present manpower resources and analysing the degree to which these resources are employed optimally.
- Anticipating manpower problems by projecting present resources into the future and comparing them with the forecast of requirements to determine their adequacy, both quantitatively and qualitatively.
- Planning the necessary programmes of recruitment, selection, training, development, motivation and compensation so that future manpower requirements will be met.

14.2 OBJECTIVES

Present unit aims at managing human resources in SSE's. After going through this unit you will be able to:

- Understanding the human resource issues and concepts in SSE's;
- Know the historical development of the concept and applicability in Indian context;
- Figure out the human resource guidelines in small scale industries;
- Understand the key task that HR managers of SSE need to follow.

14.3 HR MANAGEMENT AND SSE's

In the era of globalization, business environment becomes highly dynamic with high risk and uncertainty. This uncertainty decreases market share and increases organizational inefficiency. The increasing attention on human resource management (HRM) in small and medium enterprises (SMEs) is a comparatively recent phenomenon. HR-researchers have largely ignored the SMEs, even though smaller companies could be fruitful subjects for empirical investigation because of their numbers, the growth-rates and not least diversity in the qualitative aspects of management practices. Thereby HRM in SME's has been a white spot on the map, and this despite the characteristic Indian industrial structure, i.e. the large proportion of SMEs; the

long tradition for a rather institutionalized and well unorganized labor market, which could provide a basis for a more professional approach to human resources, and finally the supposed very good basis for future competitiveness, due to the values characterizing employees as well as managers in Indian companies, i.e. democratic management style in which a moderate approach to a situation is followed whether at work or in a social places. As a democratic manager, you still need to give instruction but before you do that, you will solicit ideas and opinion from your staffs and you allow the voice of your staffs and make your own decision based on those feedback. Sometimes the decision made are similar to the feedback but not always the case in the case of a Democratic Management Style) informal organizing, flexible working arrangement etc.

While much of our knowledge concerning traditional HR topics (e.g., recruiting, compensation, or performance management) in large firms may also apply in small or emerging organizations, evidence suggests that new ventures are different and that management of people within them may not clearly map to management within larger, more established organizations. ‘Firms profess that people are the source of their competitive advantage, whether they be technological experts, accommodating customer service experts, or visionary managers. . .At a time of unparalleled technological development, it is the human resources that paradoxically spell success or failure for all firms, and especially entrepreneurial ones’ (Katz, Aldrich, Welbourne, & Williams, 2000, p. 7).

14.3.1 Objectives of Human Resource Management

For the effective management and human resource in the organizations following points to be kept in mind:

- 1) To ensure optimum use of human resources currently employed.
- 2) To assess or forecast future skill requirements.
- 3) To provide control measures to ensure that necessary resources are available as and when required.
- 4) A number of specific reasons for attaching importance of manpower planning and forecasting exercise are to:
 - Link manpower planning with organisational planning,
 - Determine recruitment levels,
 - Anticipate redundancies,
 - Determine optimum training levels,
 - Provide a basis for management development programmes,
 - Cost the manpower in new projects,
 - Assist productivity bargaining,
 - Assess future accommodation requirements,
 - Study the cost of overheads and value of service functions,

- Have a competitive edge over other service providers, and
- Decide whether certain activities need to be subcontracted, etc.

The objectives above are relevant for any type of SSEs though as per its specific requirements the firm may add more to it, like, meeting the increasing demands of tourists, providing right service at the right moment or meet the demand of changing trends and fashions in tourism.

14.4 SME'S IN GENERAL AND THE INDIAN SCENE

SMEs are generally started by a single entrepreneur or a small group of people, and are often managed by owner– managers (Ritchie, 1993). Their organization structure is mostly flat. SMEs do not have many layers (mainly due to small number of both employees/supervisors and specializations) because the owner/s is/are mostly at the helm of affairs (which still keeps them bureaucratic as most of the times employees do not dare to challenge the supervisors/ owner/s). Nevertheless, it adds to their flexibility (Scott, Roberts, Holroyd, & Sawbridge, 1989). Many researchers argue that entrepreneurs seek to derive several advantages by undertaking operations at a smaller level in terms of flexibility, informality, sustainability, and structural adaptability. On the contrary, larger firms find it difficult to derive such benefits from their operations (e.g., Gibbs, 1997; Hendrickson & Psarouthakis, 1998; Matlay, 2000; Pfeffer, 1994; Storey, 1994). SMEs are known to focus more on the operational aspects and neglect people-management issues. Technological advancements have contributed to significant changes to the nature of present production systems. This has also impacted the nature of work, workers and the skills involved. While small entrepreneurs do imbibe these advancements in their operations, they do not recognize the critical role of effective HR policies for their success. Nevertheless, the need for a skilled workforce in SMEs certainly emerges during periods of such technological changes. In particular, SMEs have to undergo some change when they compete with global companies and other large buyers, as they are dependent on supply contracts from the same. This puts considerable pressure on SMEs to control both their costs and quality and meet the different legal requirements. This is a serious challenge for SMEs, especially for those operating in developing countries with labor-intensive technologies, where labor cost is a major concern (e.g., Stewart & Beaver, 2003). Many of them resort to questionable practices, such as employment of child labor to reduce labor costs and violation of labor standards including denial of minimum wage, and other minimum-work conditions. Most of them also lack access to relevant data and information about new markets, legal provisions regulating their working, and product innovations, which hinders their survival. Their accessibility to professional management tools is almost absent. Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play

crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country. Graph below shows the projected figures of employment in small scale industries from year 2007 to 2012.

Source: Annual Report-MSME-2012-13. (Projected data for the years 2007-08 to 2011-12).

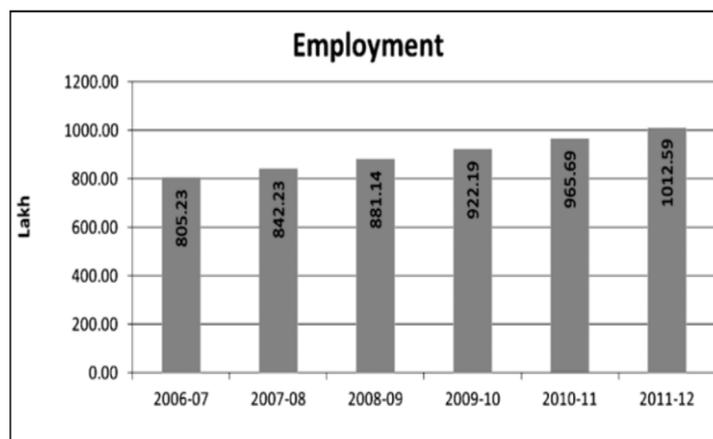
14.4.1 Evolution of HR practices

One way in which to do so is to examine HR practices as they evolve in emerging organizations. Aldrich (1999) rightly points out that we know very little about how HR evolves in firms until those firms reach older stages of growth and have become medium or large in size. Very few studies focus on issues concerning emerging firms, and instead focus on HR within small yet established organizations. While recent models have begun to incorporate growth stage or life cycle of the venture (e.g., Balkin, 2003; Cardon, 2003) they have only been applied in the context of single elements of HR practices, such as compensation or recruiting. Perhaps looking at the informal as well as formal mechanisms through which very small and small firms manage their employees would provide a better practical and theoretical view of truly small and emerging firms and how their synergistic HR approaches develop.

14.4.2 Indigenous Practices and Effectiveness in Indian SMEs

Owners of SMEs do not normally adopt state-of-the-art people management practices. SMEs do not feel like disturbing the local ways of the workplace structuring, especially when they know that the status quo is delivering the goods. The success of SMEs largely depends upon the enthusiasm, competency, resources and commitment of a single person

(owner) around whom the enterprise revolves. Not all SME entrepreneurs envisage any grand vision and capability building so as to grow exponentially. They stick to informal and loose structures in their



operations, and remain where they are. More than other business issues, people issues are more likely to be taken for granted by them.

14.5 HUMAN RESOURCE MANAGEMENT FOR SMALL BUSINESSES

Human resource management is something that we all must do if we are going to be successful. The reason is simple; *human resources are the most important assets* we have in most small businesses.

1) Have a Staffing Plan: Before you start to think about hiring, you'll need at least a *basic staffing plan*. The plan should sort out how many employees you expect to hire, the type of employee you're looking for, and what they will be expected to do. The plan should also address how the employee expenses will be covered. A staffing plan should be well coordinated with the business plan, and it should address items of discussion that will likely take place during candidate interviews.

2) Here are the basics of a staffing plan;

- Objectives, both near and long term
- Characteristics and culture of your employee(s)
- Approach to finding new employees
- How you're going to keep good employees
- Training and transition
- Funding of employees
- Job descriptions
- Organization chart

The staffing plan has to provide a vision. In the absence of a vision, it's easy to go off course or go nowhere at all. In addition to helping you understand your plans for growth, a staffing plan is also useful to help communicate to lenders and prospective employees just what kind of organization you are trying to create and maintain.

3) Finding Good Employees: An important part of good human resource management is finding the right employees. This is where the idea of culture comes into play. Human resources are the most important asset an organisation has, so organisations want them to be of high value to them, and that means they need to have the same culture as employee and that of the organization. Here are ways of finding new employees:

- Ads in publications (general or trade specific)
- Word of mouth by current employees, associates and customers
- Campus recruitment activities
- Professional recruiters
- Government employment services and agencies etc.

If you expect to have regular growth in your business, then you'll need to spend a considerable amount of time recruiting. Don't take hiring lightly. Make good selections and take care of employees through effective human resource management actions.

4) Screening Potential Candidates: There are many ways to screen potential employees. Let's look at several key ways that reflect good human resource management techniques.

First, be selective as to your **recruiting grounds**. Ideally, current employment should reflect:

- Challenge
- Tenacity
- Hard work
- Useful skills

Secondly, take a good hard look at **employment history** as shown on the resume or application.

- Aiming high
- Job advancement
- Good judgment
- Reasonable risk taking
- Accomplishment
- Reasonable loyalty

5) Personnel Interviews: Here is where you can distinguish between "the good, the bad, the ugly, and the bizarre". *Take your time* and be comprehensive as well as methodical.

6) Hiring: Except in the most informal of situations, hiring should always be done with an offer letter. The letter should spell out all the particulars of the job including;

- Compensation
- Benefits
- Responsibilities
- Performance Expectations
- Probationary Period
- Reporting Requirements
- Desired Start Date
- Work Location

It needs to be made clear at the start what is being offered, and what is expected. If it's in writing, then it's difficult to have a misunderstanding. The offer letter helps document the contractual relationship between the new employee and the employer.

14.6 HUMAN RESOURCE MANAGEMENT GUIDELINES

If your organization is going to be rather large, you might want to put together guidelines to explain human resource management policies that you intend to follow. The guidelines should address things like:

- At Will Employment
- Compensation

- Perquisites and Bonuses
- Performance Reviews
- Lay Offs
- Terminations
- Conflicts of Interest
- Disciplinary Process
- Vacation Time
- Sick Time
- Family Time
- Leave of Absence
- Employee Behavior

14.6.1 Retaining Employees

Implementing your small business ideas will require good staff. Once you find them, you don't want to let them go elsewhere. During an employee's time with a company, there are a number of forces that act on him or her that influence behavior. Think of these influences as little nudges. We can refer to them as "*push*" and "*pull*". In the most simplistic of terms, you're either pushing an employee towards the door, or pulling them deeper into the folds of your organization.

Assuming that you've made a good hire and you want to keep employees, the trick is to recognize individual needs of employees and cater to those needs, within reason, in order to keep pulling them away from the door. Even if you can't pull them away from the door, at least don't do things to push them out the door. Many things in life offer us a "push" and a "pull". Some things push us away from where we are, and other things pull us toward a new place to be. Typically it takes both a push and a pull to make an employee change jobs.

To retain employees, your human resource management philosophy should be to eliminate things that push employees out. It should also, within reason, provide a number of things that keep pulling employees into the organization. Both approaches should be successful in retaining good employees as they both counteract the "pulls" from outside organizations. The important thing is to identify your key employees and make certain they are being treated well. Interact with them on a regular basis to make certain that you understand what makes them tick, and be aware of concerns they may have about job satisfaction.

14.6.2 Employee Performance

A traditional approach to human resource management is to conduct annual employee performance appraisals. Consider the following for performance appraisals of employee:

- Poor performance needs to be identified and corrected immediately;
- Good performance needs to be rewarded - anytime it occurs;
- Performance that gets rewarded will surely be recognized and repeated;
- There are many different ways to reward good performers;
- Poor performers are often your fault;
- Pay for performance is a great idea;
- Time delayed bonuses are a great idea;
- Making performance improvement contracts is a good idea;
- Be aware that "relative deprivation" is at work everywhere across your organization;
- You can change employee status and pay based on performance.

A modest performing employee enjoys "home office" work while other much higher performing employees, who have already paid their "dues" with plenty of field work, are still out on the road giving up much personal time with friends and family back home because they don't go home each night like our modest performer. Even a work location can be seen as a reward for performance. When apparent rewards are bestowed on others less deserving, morale can suffer. A good human resource management policy is "*firm and fair*" with a good helping of understanding and compassion for others. Nevertheless, you're there to meet customer needs and provide for yourself, and your employees should be there to support your efforts.

The success of a small business relies on how the entrepreneurs manage and operate the business. There are a lot of people starting a small business every day, but because of the lack of knowledge, they end up with an empty pocket. It is critical that one must consider how the business should operate. As a business owner, you should have clear understanding on your business plan and this should include your operational decisions in order to meet your business goals and objectives.

When we say business operation, we are referring to a detailed analysis of how you are going to provide your products and services in the marketplace. It is important that you can identify the strength of your business so that you can work it out in the production stage and be on a competitive edge. In your business plan strategy, you should clearly state your operational approach. The operation stage relies on the people. You should create a business structure so that you can easily identify the people who are qualified to do the job. Always look at the qualifications of your people because the success of your business operation is in their hands.

A successful business operation also relies on how well you manage your business. You can't operate well if there's a lack of management. There are many challenges involved in managing a business because this will include

the totality of the business, meaning one must have to check on every aspect of your business.

One of the greatest challenges in managing a business is the financial aspect. Oftentimes, this is the culprit which causes small businesses to fail. Inadequate funding can make business operation stop. You must have a good management skill to save the business with low capital. Business management also includes marketing. This is one area of business which you should work out because no matter how excellent your products and services are, you cannot achieve sales if there are no marketing strategies being implemented. It is the responsibility of the one who manages the business to create a good marketing strategy as well as deploy people who are capable of doing these marketing strategies.

The best way to manage and operate a business is by empowering your people to become leaders. To ensure smooth business management and operations, listen to your employees and tend to their needs. A good manager should know how to reach out to the employees. You must always remember that you cannot operate your business well if there are unresolved conflicts within your employees. Help your people to improve on their personal careers. You are not only helping them to become better, but you are also helping your business to become better.

In closing, operating and managing a business is not an easy task. But if you know what you are doing and you implement some techniques, you can operate and manage your business more smoothly. Help your business reach its full potential, manage it well and implement good operational approach. Establish a good relationship with your people, and together as a team, you can sail your way towards business success.

14.7 KEY HR TASKS THAT ARE CRITICAL TO SMALL BUSINESS ENTERPRISES

Human resources are viewed as a key factor in a company's ability to build and sustain competitive advantage and therefore play a critical role in business enterprises. Over the past few decades, human resource management has changed and become more complex – mostly due to external factors such as technology, a growing litigious environment, customer demands, foreign competition or the globalization of business. But it has never been more important for the business owner to have a strong understanding of core human resource issues -- and not only is it important -- it's becoming mandatory for continued success.

Whether an entrepreneur outsources human resource functions or not; there are some human resource issues better dealt with and understood by the business owner. The importance of training your employees is a human resource function entrepreneurs must spend time on – especially when looking at a future vision for your company. It's critical to insure that your employees

are ready to handle the technological and environmental changes that are likely to impact your business. Employee training shouldn't stop with your new hire orientation procedures. Organizational training needs are ongoing, particularly in today's economy.

Not only can a strong human resource understanding be a unique source of sustained competitive advantage, but smart recruitment, policy implementation, performance management and training can add significant value to any firm. Here is a look at three human resource tasks that need to know about:

1. Positioning Employees for Success with an Ongoing Needs Assessment

Process: The smartest ways to ensure employees have the necessary training to best position your business for long term success is with an ongoing needs assessment process. This doesn't have to be complicated, but the process involves understanding where your organization is now, in terms of employee skills, and where it needs to be in the future. Identifying gaps between employee's current abilities and what they need to do now and in the future is vital to keep your company competitive. As you go through this analysis, consider the strengths and weaknesses in your company. Common areas for improvement in many companies is helping supervisors better manage for performance. Many people are promoted into managerial positions because they're technically good at their jobs, but they aren't trained as managers to help their subordinates achieve peak performance.

This is one of the critical needs that business owners notice in their staff – functional management training. This is consistent with the fact that one of the most critical issues facing entrepreneurs with growing businesses is the importance of developing high-potential employees that can perform multiple roles under various stages of growth.

2. Identify Training Issues with an Employee Development Plan: Once you have assessed your organization's training needs, you can identify which gaps are actually training issues. An employee development plan will move your organization closer to its long term strategic goals. Strategically, it's clever to identify the technological and environmental factors that will influence your business's ability to remain competitive. For example, leadership training can be an important component of succession planning. Software training increases competitiveness as companies automate. This is a fruitful human resource exercise for business owners and hones their overall skills.

Companies committed to employee training can realize the benefits of improved employee satisfaction and retention. Keeping highly trained and motivated employees overwhelmingly contributes to your company's success and gives you a competitive advantage.

3. Effectively Communicating Policies and Practices with Employees: The business owner is often the only one that can create a learning culture in

business. Begin by clearly communicating your expectation that employees should take the steps necessary to hone their skills to stay on top of their professions or fields of work. Communicate to your employees the specific training needs and targeted results you've established as a result of your needs analysis.

It's helpful to provide a solid orientation to your company's culture, including your learning culture, to any new employees you hire. Every successful training and development program also includes a component that addresses your current and future leadership needs. Your employees are your principle business asset. Lead by example, if employees see you committed to continually honing your skills, they're likely to follow. Due to their small size, small businesses can lack management capacity and they can't afford costly support services like financial, human resource, legal etc. To be successful, they must develop strong management teams and adopt a culture of learning. Building a great company has a lot to do with how people work together and this is another critical area of human resources that business owners must delve into. Policies and practices can improve the way your employees interact, while minimizing the personnel obstacles that can cause problems. How can you make sure your employees have clear expectations and are treated fairly as they work to help build your company? The answer is the way you address key elements of your workplace policies. People like to have a clear understanding of their role in a company as well as the roles of others. Successful teams have well-defined roles or positions and clear reporting structures that spell out who's in charge and how tasks are to be accomplished. Entrepreneurs also have to share a clear understanding of what is and what is not acceptable behavior within the company. Laying out rules helps employers with liability issues and compliance. It's also important to state consequences for violations so that employees know what to expect and have fair warning of those expectations. This is extremely important because an employee who feels they've been treated unfairly can create a great deal of liability. Do your employees have an employee handbook or policy guide? What about training or forms for guidance? Tools like these are vital to avoid liability, but also decrease the time you spend dealing with people issues instead of business matters. As the leader of the company, it's significant that you get involved in these important human resource functions and often essential to your success.

14.8 SUMMARY

“Once a new venture is founded, becomes an organization, and hires its first employees, human resource issues and forces that exist in—and influences the success of—all organizations come into play. Indeed, growing evidence suggests that an inability on the part of some founders of new ventures to successfully manage HRM issues is an important factor in their ultimate failure” (Baron, 2003, p. 253).

Effective management of human resources is one of the most crucial problems faced by small firms (Deshpande & Golhar, 1994; Hornsby & Kuratko, 1990). “A new organization’s division of labor emerges through a series of local adaptations only partially controlled by founders’ plans” (Katz et al., 2000, p. 10). Yet often founders spend more time worrying about the scalability of their phone system or IT platform rather than the scalability of their culture and practice of managing workers (Baron & Hannan, 2002). This occurs even when “that same founder would declare with great passion and sincerity that “people are the ultimate source of competitive advantage in my business” (Baron & Hannan, 2002, p. 29).

Our literature review suggests that HR decisions made early in a venture’s creation process profoundly impact downstream success of businesses, these choices evolve and change over time and organizational development, and that practitioners and scholars, in fields of both HR and entrepreneurship, do not spend enough time focused on the downstream impacts of these choices. “Any plan for launching a new enterprise should include a road map for evolving the organizational structure and the HR system, which parallels the timeline for financial, technological and growth milestones” (Baron & Hannan, 2002, p. 30). So too should our scholarship concerning human issues in entrepreneurial ventures include a more careful and comprehensive understanding of the evolving and dynamic nature of HR management in small and emerging enterprises. In short, our responsibility as scholars is to design carefully thought-out integrative studies that explore what we do not yet know about managing nonfounder employees in entrepreneurial ventures.

14.9 GLOSSARY

Enterprise	Enterprise involves measures to encourage individuals to become entrepreneurs and equip them with the necessary skills to make a business successful. In essence enterprise is about spotting opportunities, creating new ideas and having the confidence and capabilities to turn these ideas into working realities (Nixon, 2004)
Balance Sheet	A statement of the assets and liabilities of the business at any given time.
Benchmarking	A method used to compare the relative performance ranges of different businesses. It is an effective way of identifying areas for business improvement.
Best Practice	Best performance of a function or process or methods that lead to exceptional performance.
Brainstorming	A technique of solving problems in which members of a group put forward ideas to resolve the issues raised.

Break Even	Break-even point represents the volume of sales at which total revenue equals total costs.
Cash Book	A daily record of payments and receipts.
Cash Flow	The difference between total cash coming in and going out of a business over a period of time.
Companies	A Company is a type of business structure created and regulated by state law. What sets the company apart from all other types of businesses is that a company is an independent legal entity, separate from the people who own, control and manage it.
Fixed Assets	Assets such as machinery, land and buildings which the company do not intend to sell and which are intended for use within the business.
Focus Groups	A professionally moderated discussion among a group (four or more participants) of individuals whose opinions are thought to reflect those of the product's intended purchasers.
Franchise	The right to use the name of another company, and to sell its products or services in exchange for a royalty. The franchisee agrees to abide by the conditions set out in the franchiser's agreement.
Partners	More than one person owns and manages a business. All have equal responsibility.
Positioning	Positioning is how a product appears in relation to other products in the same market.

14.10 ANSWER TO CHECK YOUR PROGRESS

1. Motivated employees in the organization are very important for the success of the business. What steps you will take to carry on HR practices in your travel agency?
 2. What are the issues of human resource management in small scale organizations in India? What are the regulatory frameworks for the protection of human rights?
 3. Enlist the responsibilities and duties of a marketing manager toward its subordinate staff.
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14.13 TERMINAL QUESTIONS

1. What do you understand by human resource management? What are the objectives of human resource management in an organization?
2. What are skills required for the effective human resource management in small scale organization?
3. Discuss the importance of retaining employees in the organizations and also need to check the performance of the employees.

UNIT 15: PERFORMANCE ASSESSMENT AND CONTROL OF SSE's

STRUCTURE:

- 15.1 Introduction
- 15.2 Objectives
- 15.3 Small-Scale Business
- 15.4 The Concept of Small Business Performance
- 15.5 Methods of Assessing Performance in SSE's
- 15.6 Factors Influencing Performance Measurement in SSE's
- 15.7 Milestones of an "Ideal" SSE PMS
 - 15.7.1 Assessment
 - 15.7.2 Design
 - 15.7.3 Implementation
 - 15.7.4 Communication / Alignment
- 15.7.5 Review
- 15.8 SSE's Own Responsibilities for Control
- 15.9 Control Cash, Debtors and Inventory in Business
 - 15.9.1 Control of Cash in Business
 - 15.9.2 Control of Debtors in Business
 - 15.9.3 Control of Inventory in Business
 - 15.9.4 Internal Controls in Business
- 15.10 Summary
- 15.11 Glossary
- 15.12 Answer to Check Your Progress
- 15.13 Bibliography
- 15.14 Suggested Readings
- 15.15 Terminal Questions

15.1 INTRODUCTION

Over the last few decades there has been a tremendous growth in SSEs. More and more of such enterprises are now struggling to survive due to immense pressure created both by globalization and giant multinational companies (e.g., Mulhern & Stewart, 2003). As SSEs contribute significantly to a nation's gross domestic product (GDP) and provide employment to a large number of people, therefore it is in the interest of governments to encourage their survival and growth. Their failure could lead to a situation of unemployment and consequent social tensions. To ensure viability of help to the SSE sector, the Indian government has been analyzing the need for a shift in its approach towards their growth. So far they have been looked at as an area of government subsidy in different spheres of their working, which has resulted in a situation of pure 'governmental patronage'.

In this regard now a need is being felt for a paradigm shift; as a result banks are being encouraged to look at the provision of credit to SSEs, more as an opportunity for profit rather than a social obligation under directed subsidized credit (Government of India, 2006). We believe it is important to re-examine different aspects of working of the SSEs and their foundational strengths.

15.2 OBJECTIVES

Present unit aims at performance assessment and control of SSE's. After going through this unit you will be able to:

- Describe the need for performance assessment and control for a small scale enterprise;
- Discuss the measures of total performance assessment;
- Explain the significance of short term and long term measures of performance;
- Describe and apply the cost and asset performance measures.

15.3 SMALL - SCALE BUSINESS

The small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). Small - Scale businesses are driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Harris et al, 2006; Sauser, 2005). Furthermore small scale business has been recognised as a feeder service to large- scale industries (Fabayo, 2009). While the contributions of small businesses to development are generally acknowledged, entrepreneurs in this sector face many obstacles that limit their longterm survival and development. Scholars have indicated that starting a business is a risky venture and warn that the chances of small - business owners making it past the five-year mark are very slim (ILO, 2005). Some researches into small-business development have also shown that the rate of failure of small scale businesses in developing countries is higher than in the developed world (Marlow, 2009).

There is no single criterion for classifying business enterprises as small or medium scale globally. In a study carried out by International labour Organization (2005), over 50 definitions were identified in 75 different countries. However, evidence from literature shows that in defining small-scale business, reference is usually made to some quantifiable measures such as: number of people employed by the enterprises, investment outlay, the annual turnover (sales) and the asset value of the enterprise or a combination of these measures. The small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift

countries out of poverty (Wolfenson, 2001). The dynamic role of small and medium enterprises (SSEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that SSEs employ 22% of the adult population in developing countries (Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1993).

15.4 THE CONCEPT OF SMALL BUSINESS PERFORMANCE

Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Chandler & Hanks, 1993; Jarvis, Curran, Kitching, & Lightfoot, 2000; Lachman & Wolfe, 1997; March & Sutton, 1997; Murphy, Trailer, & Hill, 1996; Rodsutti & Swierczek, 2002; Watson, Newby, & Woodliff, 2000).

Whilst it is generally agreed that performance should be viewed in relation to one or more goals (Etzioni, 1964) the issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established. Organizational theories and the accounting literature, driven by classical economic theory emphasize profit maximization as the central goal of the firm (Jarvis, Kitching, Curran, & Lightfoot, 1996). These theories, modeled on large enterprises, generalize the concept of performance and fail to take account of differences in goals between firms of varying sizes (LeCornu, McMahon, Forsaith, & Stanger, 1996). The separation of ownership and control from management in large firms and the agency relationship gives rise to profit maximization as a performance goal, measured by indicators such as return on assets and return on investment (Jarvis et al., 2000).

The situation is different in small businesses where ownership and control as well as management of the firm are usually vested in one key person (the owner-manager). The owner-manager does not only dictate the goals of the firm but also exerts a powerful influence on the way the firm pursues these goals (Glancey, 1998; LeCornu et al., 1996; Verheul, Risseeuw, & Bartelse, 2002; Watson et al., 2000). Consequently, researchers have challenged the application of the conventional goal of profit maximization to the assessment of performance in small firms, advocating instead non-financial goals that portray the 'big picture' of the small firm (Ryan, 1995). The major goals of the small firm must be first understood before its performance can be assessed (Birley & Westhead, 1990; Jarvis et al., 1996; LeCornu et al., 1996; Watson et al., 2000).

Owner-managers pursue a range of goals, emphasizing in particular survival and stability of the firm (Jarvis et al., 2000; Tsai, MacMillan, & Low, 1991). Other goals pursued include efficiency, market share, liquidity, size, leverage, growth, customer satisfaction, quality of products, contribution to

community development, and employment of family members (Glancey, 1998; Murphy et al., 1996). Assessment of performance in small firms must therefore take account of a range of goals, both financial and non-financial. Since research interest in the small business sector derives from its contribution to economic development, performance of individual firms in the sector can be assessed by the extent to which they add value to the economy (Kotey & Meredith, 1997).

GEM, (2004) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualised, operationalised and measured in different ways thus making cross-comparison difficult.

Cooper et al (1992) examined various factors which influence business performance such as: as experience, education, occupation of parents, gender, race, age, and entrepreneurial goals. While, Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorised the factors that affect their performance into five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization), network affiliation (contacts and membership in organizations); human capital (level of education, skills) and environmental influences (location, sectoral participation, and socio political variables).

Thibault et al. (2002) suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the performance as small scale business operators.

The most comprehensive summary of factors influencing performance was noted in a literature review by Theo, et, al. (2007) to include: individual characteristics, parental influence, business motivation and goals, business strategies, goals and motives, networking and entrepreneurial orientation. Others include environmental factors.

15.5 METHODS OF ASSESSING PERFORMANCE IN SSE's

According to Neely et al. (2002), performance assessment area is balanced and dynamic system, which gives a holistic view that uses different measures and perspectives. The various measurements and perspectives are tied together and continuously monitor the internal and external context of organizations. Despite the extensive research that has been carried out to investigate the needs and characteristics of performance assessment in large organizations, there is a scarcity of published research relating to SSEs (Hudson et al., 2001). Basically, performance assessment models and

frameworks are designed to support assessment in measuring their performance, analyzing and improving their performance through better decision making.

Particularly, it is important to remark on the evolution of focusing on performance from a financial perspective to a non-financial perspective. Garengo et al. (2005) summarized these performance assessment models as below:

1. Performance measurement matrix (Keegan, et al., 1989).
2. Performance pyramid system (Lynch & Cross, 1991)
3. Performance measurement system for service industries (Fitzgerald, et al., 1991)
4. Balanced Scorecard (Kaplan & Norton, 1992, 1996)
5. Integrated performance measurement system (Bititci, et al., 1997)
6. Performance Prism (Neely, et al., 2002).
7. Organizational Performance measurement (Chennell et al., 2000)
8. Integrated Performance measurement for small firms. (Laitinen, 1996, 2002)

Even though, from the literature, there is evidence that SSEs already have performance assessment models in place, Manville (2006) stated that, to date, there are still significant barriers in the implementation of these systems in the SSE context.

An integrated performance assessment system is defined as an information system that enables the performance assessment process to function effectively and efficiently. This model underlines two main facets of the performance measurement system: Integrity and Deployment. Integrity refers to the ability of the performance measurement system to promote the integration of various areas of business; and deployment refers to the deployment of business objectives and policies throughout four levels where the higher level becomes a stakeholder of the lower level. The Performance Prism (Prism) reflects the growing importance of fulfilling stakeholders, i.e. shareholders, investors, customers, employees and suppliers requirements. In the Prism, there are five distinct but linked perspectives of performance identified that prompt the following questions for organizations to address when defining a set of performance measures:

- **Stakeholder satisfaction:** Who are our key stakeholders and what do they want and need?
- **Strategies:** What strategies do we have to put in place to satisfy the wants and needs of these stakeholders?
- **Processes:** what critical processes do we need to operate and enhance these processes?
- **Capabilities:** What capabilities do we need to operate and enhance these processes?

- **Stakeholder contribution:** What contributions do we require from our stakeholders if we are to maintain and develop these capabilities?
- Organizational Performance measurement was developed specifically for SSEs and is based on three principles:
- **Alignment**, i.e. the selected performance measures support the alignment between people's actions and company strategy;
- **Process thinking**, i.e. the measurement system makes reference to the process of monitoring, control and improvement systems; and
- **Practicability**, i.e. at any level in the company there is a consistent process for identifying measures that should be considered and for ensuring the quality and suitability of data.

Integrated performance assessment for small firms is specifically designed for SSEs. It is based on seven main dimensions of measures, classified as;

Two external dimensions;

1. Financial performance.
2. Competitiveness.

Five internal dimensions

1. Costs.
2. Production factors.
3. Activities.
4. Products.
5. Revenues.

The internal dimensions are used to monitor the whole production process, and the external dimensions are used to monitor the company's position in its competitive context. Analyses of these models show that performance assessment must be aligned with strategy and have multi-dimensional measures. The multi-dimensional measures are particularly important and help to overcome the limitations of traditional performance assessment systems that only focus on the financial dimension.

15.6 FACTORS INFLUENCING PERFORMANCE MEASUREMENT IN SSE's

The recurring problems of SSEs included a lack of capital and credit facilities; shortage of skilled workers and raw materials; inadequate infrastructure; lack of managerial, marketing and technical expertise; and limited applications of new technology. In addition, external environmental factors, such as fast changing technology, competition, economics, socio-cultural and international factors also have a significant effect on the success and failure of SSEs. Increased competition, dimension growth, continuous improvement and also significant development in information technologies are all reasons why performance measurement systems (PMS) in SSEs should be designed in an applicable manner.

The need for companies to align their performance assessment systems with their strategic goals is well documented in the literature. To address this need a number of frameworks and processes (approaches) for the development of performance assessment systems have emerged.

Interest on performance assessment systems has notably increased in the last twenty years. Particularly, it is important to remark the evolution of focusing performance from a financial perspective to a non-financial perspective. Since the middle of '80s in fact, companies manifested the growing need of controlling production processes and, more in general, business. Companies have understood that for competing in continuously changing environments, it is necessary to monitor and understand firm performances. Measurement has been recognised as a crucial element to improve business performance. A performance assessment system is a balanced and dynamic system that is able to support decision making processes by gathering, elaborating and analyzing information (Neely et al.2002).

The concept of “balance” refers the need of using different measures and perspectives that tied together give a holistic view of the organization. The concept of “dynamicity” refers instead to the need of developing a system which continuously monitors the internal and external context and reviews objectives and priorities.

An increasing competitive environment, the proneness of growing in dimension, the evolution of quality concept, the increased focus on continuous improvement and the significant developments in information and communication technologies are the most important changes in recent years that have created a favorable context for the implementation of performance assessment systems in SSEs, particularly in the service sector like tourism industry.

However, from the literature available it is possible to collect information regarding how SSEs manage performance measure processes. In first instance, there is evidence that many SSEs already have some kind of accounting systems in place, and these represent the base of their monitoring. Even though these accounting systems may be far from perfect, it nevertheless represents a concrete possibility of measuring various aspects of the financial performance of a company. The limits of traditional accounting systems have been largely discussed, and SSEs seem to perceive such limits and see the value of performance assessment systems, but today there are still significant barriers in the implementation of these systems in the SSE context. This evidence highlights the need to better understand SSE characteristics, in order to point out their needs and develop consequently tailored solutions.

Distinct factors influencing performance measurement in SSEs are;

- SSEs either does not use any performance assessment systems or they use incorrectly.

- Performance measurement implemented in SSEs rarely has a ‘holistic approach’.
- SSEs approach to performance measurement is informal, not planned and not based on a predefined model.
- SSEs have limited resources for data analysis.

From the topics studied in previous unites we can conclude that SSEs may be differentiated from larger enterprises by a number of key characteristics, which are generally described as follows and that represent the factors influencing the implementation of performance assessment systems within small firms.

- Personalized management, with little devolution of authority;
- Resource limitations in terms of management and manpower, R&D, finance, marketing, etc.;
- Reliance on small number of customers, and operating in limited markets;
- Flat and flexible structures;
- High innovatory potential;
- Reactive and fire fighting mentality;
- Informal and dynamic strategies;
- Tacit knowledge and little attention given to the formalization of processes;
- Misconception of performance measurement.

All these factors underline the differences between SSEs and large organizations and the need of a different approach to performance assessment system in SSEs.

Moreover, these factors could be useful to investigate crucial dimensions of performance assessment systems for SSEs.

15.7 MILESTONES OF AN “IDEAL” SSE PERFORMANCE MEASUREMENT SYSTEM

The limited resources of SSEs require approaches and models that respond to their specific needs and are efficient and easy to implement. Here we will provide description of the principal characteristics and dimensions of an “ideal” SSE performance measurement system, in order to define the bases for control design.

15.7.1 Assessment

According that SSEs already have some kind of accounting system in place, a new SSE performance assessment system should have a control system, able to evaluate the capability of the current system, in order to define a base for implementing eventual lacks identified. This element is very important for the success.

15.7.2 Design

Performance assessment system should reflect the company business, therefore there is need to design a specific architecture and proper measures. The design of performance assessment systems for SSEs must consider strategy linked with a strong focus on operational aspects the consideration of different stakeholders perspective, that is the ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors and then performance should be measured based on a holistic approach which incorporates the financial and non-financial measures as well as time element and the integration of external and internal parameters.

15.7.3 Implementation

Limited SSE managerial skills point out difficulties for successful performance measurement systems implementation (Noci, 1994). For this reason, once the framework and measures are designed, accurate indications for successful implementation should be clearly furnished (Balachandran, Lunghi, Taticchi, 2007). This is confirmed by numerous researches (Manville, 2006). A focused approach to performance measurement may also have advantages in attracting attention to and facilitating implementation of the measurement system (Hvolby, Thorstenson, 2001).

15.7.4 Communication / Alignment

A PMS must be designed and implemented in accordance with a company's business strategy in order to link the strategy to the objectives of functions, groups of people, and individuals, as well as to operational aspects (Garengo, Biazzo, Bititci, 2005). The aim of achieving company alignment should be accomplished with clear guidelines to effectively communicate performances inside the company. Communication is an important driver to achieve company alignment to strategy, but is not the only one. There is evidence in fact in literature that performance measurement systems should be joined by compensation systems to promote company alignment and performance growth (Balachandran, Lunghi, Taticchi, 2007).

15.7.5 Review

A dynamic performance measurement system should include system for reviewing measures and objectives that make it possible both to adapt the PMS quickly to the changes in the internal and external contexts, and systematically to assess a company's strategy in order to support continuous improvement. The review system should also verify if the performance measurement systems contribute to an overall improvement in performance (Robson, 2004) that is the general purpose of any performance measurement systems.

These dimensions have been employed to drive the literature review and further to evaluate the characteristics of Performance Measurement frameworks identified.

Governmental Responsibilities for Control of Small Scale Enterprises (SSEs)

Main Objective is to attribute clear responsibilities for SSE development. This should cover the key areas set out in the review with the focus on who is responsible for specific aspects of policy, in particular areas where co-ordination is needed between different departments of government, for example;

- Between ministries of employment and education in areas of entrepreneurship education and training or between ministries responsible for specific sectors with large numbers of SSEs, for example: Ministries of tourism, agriculture or crafts.
- Management of changes in regulation, responsibility for de-regulation or re-regulation will vary between departments. This can cause problems as even ‘independent’ agencies and ministries with major responsibility for SSE development are not in a position to initiate all relevant regulation or deregulation.
- The specific responsibilities of the private sector for specific SSE policies/programmes. SSE business associations, for example, may have responsibilities in licensing and in representing the private sector when policy changes are planned.
- The responsibilities of local and regional bodies for the delivery of particular programmes/projects, such as the operation of local business advice centers.
- The responsibilities of a national small business agency for key parts of the programme. This might cover the operation of management or advisory boards to the agency, responsibilities for meeting key counseling and training target, the management of business centres and their performance and the way in which this is reported to the relevant minister.
- Responsibility for communication and promotion to all key stakeholders. This will normally be the responsibility of a national small business agency or department and may take the form of an annual report on the state of small business.

15.8 SMALL SCALE ENTERPRISES (SSE's) OWN RESPONSIBILITIES FOR CONTROL

- **Formative evaluation:** Formative evaluations focus on: The concept – what is the targeted added value from the intervention and why is it needed? The process of identifying beneficiaries, if necessary segmented in groups. How the needs of beneficiaries (organisations and individuals) are analyzed

and grouped meaningfully. Products and services are embedded in the programmes designed to meet needs, covering the processes of:

- ❖ The setting of firms objectives;
- ❖ The determination of detailed content;
- ❖ The design of materials;
- ❖ The recruitment, selection and development of trainers/service providers;
- ❖ The proposed style of delivery;
- ❖ The competence of those delivering the programme/service;
- ❖ Location and timing of programme activity;
- ❖ Assessment and accreditation.
- **How the programme reaches its market, in particular**
 - ❖ The process of price setting (if necessary);
 - ❖ The choice of the marketing mix;
 - ❖ The channels used for reaching beneficiaries;
 - ❖ Public relations management;
 - ❖ How the programme is 'sold' to the public;
 - ❖ The procedure of evaluating success.
- **How the programme is organised and managed, in particular**
 - ❖ The soundness of budgeting and financing procedures;
 - ❖ The adequacy of control systems and performance measures;
 - ❖ The quality of leadership and motivation of staff;
 - ❖ The appropriateness of the organisation design (is it entrepreneurial?) and staff backgrounds;
 - ❖ Its effectiveness in acquiring resources;
 - ❖ Its success in engaging relevant stakeholders;
 - ❖ Its flexibility and degree of strategic orientation;
 - ❖ The soundness of its planning processes.
- **Summative evaluation**

Summative evaluation measures are taken at various levels of impact:

 - ❖ Like the service;
 - ❖ Like the service providers;
 - ❖ Like the location and amenities;
 - ❖ Benefit a lot or little;
 - ❖ Find it easy to participate and contribute;
 - ❖ Would like more, and what:

In the case of a training/counseling programme this would be a test of what has been learnt.

In the case of a service such as micro credit it would be how well the beneficiaries understand the process and how they can gain from it. In the broader policy context the impact measured is how well the policy has been internalised by the beneficiaries, and indeed the public as a whole.

15.9 CONTROL CASH, DEBTORS AND INVENTORY IN BUSINESS

Once business is up and running, one must control it - much like navigating a ship. A ship has a destination and business has goals. To reach its destination, a ship has navigational aids to measure progress and prevent it going off course.

Business planning sets out the vision. It also lists business goals and the strategy for attaining them. There is a close link between business planning and the control of business operations. The control process measures progress towards goals and enables to identify deviations from the plan. It enables to implement remedial action. Financial controls are critical but there are also other controls necessary for business success. To control business one need to:

- Obtain reliable information about business operation.
- Know how to use that information effectively.
- Identify and resolve problems before they become deep-seated.

There are four key areas where small businesses are especially vulnerable:

15.9.1 Control of cash in business

15.9.2 Control of debtors in business

15.9.3 Control of inventory in business

15.9.4 Internal controls in business

15.9.1 Control of cash in business

The control of cash involves control in a number of other areas. Cash position can be affected by:

- Declining sales, with firm fall-off in revenue;
- Debtors paying their accounts more slowly than expected;
- An opportunity arising for favourable speculative buying not covered in the purchasing budget;
- Price increases for materials, supplies, labour;
- Increases in operating costs;
- A smaller proportion of cash sales and a larger proportion of credit sales than expected.

A cash budget is often used as a planning and control tool but it does not do the control job. It will, however, highlight financial tight spots and indicate weaknesses requiring attention.

If the firm is having problems controlling cash-flow here are few tactics to improve cash position;

- Promote cash sales.
- Obtain payment for credit sales more promptly by screening customers seeking credit and by timely use of collection tools, especially the phone.
- Consider introducing progress payments, deposits with orders and use of credit cards.
- Carefully assess the true benefits of 'deals'.

- Obtain inventory on better terms – for example, consignment stock, extended credit terms, forward-dated invoices for seasonal purchases and discounts for prompt payments.
- Control the level of overtime worked, consider using part-time and casual staff rather than permanent staff and pay sales people on results.
- Evaluate the option of using sub-contractors instead of buying your own equipment.
- Rearrange annual payments, such as insurance, to times of less financial pressure, or pay smaller amounts more frequently.
- Ensure any short-term cash surpluses are invested.

15.9.2 Control of debtors in business

Extending credit to customers may help to gain more sales and revenue in the long-term but it becomes a significant cost to business if these do not control that credit effectively. If firm provide credit to customers they become your debtors. They may pay slowly or not at all, leaving you to manage a revenue and cash-flow problem. Be aware of the tell-tale signs of a deteriorating customer account:

- Accounts only partially paid each month;
- Late payments;
- Payments rounded off each month;
- Purchases beyond normal levels;
- Cheque not signed (delay tactic);
- Mistakes with date or amount of cheque (delay tactic);
- Development of an attitude of indifference by the customer.

15.9.3 Control of inventory in business

Holding inventory is costly. The costs include:

- Interest on funds invested;
- Cost of warehousing and storage facilities;
- Staff costs;
- Insurance;
- Deterioration of stock;
- Stock losses.

Here are some actions for efficient inventory control:

- Apply the 80/20 rule - 20% of inventory is likely to generate 80% of sales and 80% of sales are likely to come from 20% of customers.
- Document all orders for inventory – this will help with the important question: 'do I really need it?'
- Don't be afraid to say no – if you do not think a product or service will sell, don't buy it.
- Establish an adequate system for monitoring your level of inventory.
- Conduct stocktakes regularly.

- Determine the optimum level of inventory for business.
- Establish re-order points for replenishing inventory items.
- Make adjustments for changes in customer demand when planning orders.
- Familiarise with suppliers delivery capabilities.
- Order in the most economic quantities.
- Take advantage of purchase discounts.
- Keep track of slow-moving stock.
- Spot potential fast-movers.
- Balance your inventory by price, quality, season, size and type.
- Select inventory with target customers in mind.

15.9.4 Internal controls in business

How to ensure tight internal control in business? How can duties be allocated when there may be just one employee? The answer is that one must step in as owner and become part of the office and an unofficial auditor. Tight internal controls minimize stealing and embezzlement but depends on playing an active part in their implementation.

Actions to take for effective internal control;

- Open the mail and list receipts.
- Review the listing of mail receipts carried forward to the cash receipts journal.
- Personally sign all cheques.
- Personally approve all documentation in support of payments.
- Review the bank reconciliation – at random intervals, perform bank reconciliation.
- Review notices to be sent out to tardy debtors.
- Personally approve all debt write-offs and discounts.
- Periodically test-check accounts payable statements.
- Become familiar with all fixed assets of your business.
- Periodically supervise a physical inventory check.
- Use the services of an external accountant to review your accounting records and systems.

Other controls: There are many other controls that can put in place to help ensure business standards and goals are met, including:

- Monitor absenteeism
- Monitor employee turnover
- Monitor sales force performance
- New product development
- Monitor customer and office safety
- Employee productivity
- Public relations
- Monitor market share

- Monitor product quality
- Personally do all the hiring and firing
- Require all employees to take periodic holidays.

Reasons to Measure Activities in any Organisation:

- It gives history to compare;
- Measurements enable to recognize superior work;
- Performance measures inform about the problems in time to fix them;
- Tracking results is fun and exciting for team;
- Keeping score provides feedback on how employees are doing;
- Achieving goals gives everyone something to celebrate.
- Consistently meeting quality standards means happier customers.

Goals and Performance Measures

- Percentage of new customers to average number of customers.
- Percentage of lost customers to average number of customers.
- Percentage of win-back customers to average number of customers.
- Percentage of customers falling into very dissatisfied, dissatisfied, neutral, satisfied, and very satisfied categories.
- Percentage of customers who say they would repurchase from the firm.
- Percentage of customers who say they would recommend the firm to others.
- Percentage of customers who say that the company's products are the most preferred in its category.
- Percentage of customers who correctly identify the company's intended positioning and differentiation.
- Average perception of company's product quality relative to chief competitor.
- Average perception of company's service quality relative to chief competitor.

Measuring Performance Isn't Enough: While the above reasons are important to small business's profits, there are some potential traps in having measurements.

- Performance measures alone do nothing
- You must take action
- Top management must commit to the action you decide on
- Be sure that what you measure is the right measure

Performance Measures Alone Do Nothing: Performance measures are just numbers. If you have no context for what the numbers are saying, they are a waste. However, when advice enabling to read the story behind numbers, they can guide to more profitable actions.

- Do more of what is working
- Stop what is costing you money with no results

15.10 SUMMARY

From the discussion above in the present unit perspective, we can therefore make a safe conclusion that from policy perspective, in the long run, effective policies and programmes to support the development of small-scale enterprises depend critically on adequate knowledge of characteristics and constraints of small-scale business operators.

15.11 GLOSSARY

Enterprise	Enterprise involves measures to encourage individuals to become entrepreneurs and equip them with the necessary skills to make a business successful. In essence enterprise is about spotting opportunities, creating new ideas and having the confidence and capabilities to turn these ideas into working realities (Nixon, 2004)
Adding Value	Providing something extra, over and above your competitors, which makes your proposition more attractive than theirs e.g. personal service.
Asset	Anything of worth that is owned by the business. The assets of a business are money in the bank, accounts receivable, securities held in the name of the business, equipment, fixtures, property or buildings, merchandise for sale or being made, supplies and all things of value that the business owns.
Audit	A process carried out by an accountant (auditor) on all limited companies each year to check that the financial records are correct. The auditor cannot be the company's own accountant. Sole traders and partnerships do not need to have their accounts audited.
Balance Sheet	A statement of the assets and liabilities of the business at any given time.
Benchmarking	A method used to compare the relative performance ranges of different businesses. It is an effective way of identifying areas for business improvement.
Best Practice	Best performance of a function or process or methods that lead to exceptional performance.
Break Even	Break-even point represents the volume of sales at which total revenue equals total costs.
Budget	A plan, usually expressed in monetary terms, which projects the operation of a business over a period of time.
Business Plan	A document, which analyses your business activities in detail and predicts the expenditures of the business for at least the coming year. Usually presented to the bank to support a request for a loan and/or overdraft facilities.
Cash Book	A daily record of payments and receipts.
Cash Flow	The difference between total cash coming in and going out of a business over a period of time.

15.12 ANSWER TO CHECK YOUR PROGRESS

1. Visit few travel agencies in your city and get some information on the performance systems applicable by them.
2. In your opinion what should be the parameters to check the performance of a marketing plan of a big travel agency.
3. What steps would you like to take in your small organization to check the flow of the cash to, from and within?
4. Talk to at least three entrepreneurs, find out how they estimate their cash needs and plan their cash schedules.

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15.15 TERMINAL QUESTIONS

1. Describe in detail the methods of assessing performance in small scale enterprises. Also Comment upon the need for performance evaluation and control for a-small scale entrepreneur.
2. What are the factors influencing the performance in SSE's?
3. Write short notes on:
 - Control of cash in business
 - Control of debtors in business
 - Control of inventory in business
 - Internal controls in business

UNIT 16: MARKETING SSE's IN TOURISM: USE OF INTERNET AND CONSORTIUMS

Structure:

- 16.1 Introduction
- 16.2 Objectives
- 16.3 Need of Innovations in Tourism Industry
- 16.4 Factors Influencing ICT and Internet Adoption
 - 16.4.1 Use of Internet And Travel Trade
 - 16.4.2 Ict and Travel Agencies
 - 16.4.3 Technology in Tourism Marketing
 - 16.4.4 What Is Internet Marketing?
 - 16.4.5 Benefits of Internet Marketing
- 16.5 Internet Marketing Techniques in Travel Trade
- 16.6 What Is Consortium Marketing?
 - 16.6.1 Benefits of Internet Based Consortium Marketing
- 16.7 How Technology Is Changing Global Tourism
- 16.8 Summary
- 16.9 Glossary
- 16.10 Answer to Check Your Progress
- 16.11 Bibliography
- 16.12 Suggested Readings
- 16.13 Terminal Questions

16.1 INTRODUCTION

The development of the Internet and the World Wide Web (WWW) in the 1990s as a means for the global sharing of information and resources has made the traditional marketing practices obsolete (Buhalis, 1998). Through the Internet, information can be provided instantly to potential customers anywhere in the world, and the customer plays a more active role in the search for information. The ability of the web to facilitate two-way communication is a useful marketing tool. However, marketing on the Internet is not limited only to information distribution. It also has direct selling potential. Although direct selling is developing more slowly than the information distribution of the web, the potential for electronic commerce is tremendous. There is no accurate estimate of internet sites and users, but there is a clear trend for all of the major firms in the tourism industry to go online (O'Connor, 1999, pp. 100–109).

The Internet is expected to change the role of travel agencies as information providers. There are arguments for and against the disintermediation of travel agents (Buhalis, 1998, p. 416). The most extreme opinion suggests an end of travel agencies in the near future. As the power of the Internet grows and empowers customers to develop and buy their own itineraries, the very existence of the travel agents will be threatened.

On the other hand, the role of the travel agencies is expected to grow in importance, since their greatest ability is “to collate, organize and interpret large amount of data in a way that delivers the best value and the most exciting travel experiences for the customer” (O’Connor, 1999, p. 114). It is claimed that travel agencies provide not only information, but also advice. Therefore, as long as they strengthen their advice-giving capacity, they will remain secure in the chain of distribution (Bennet, 1993, pp. 261–262).

16.2 OBJECTIVES

Present unit aims at marketing SSE’s in tourism: use of internet and consortiums. After going through this unit you will be able to:

- Identify the need of innovation in tourism industry,
- Familiarize yourself with the concept of marketing mix and modern technologies used for marketing,
- Appreciate the need for proper integration of various elements of marketing mix,
- Take appropriate selection of technology in case of marketing tourism products.

16.3 NEED OF INNOVATIONS IN TOURISM INDUSTRY

As competition increases in the market, tourism businesses and organisations have found that improving service quality and visitor **satisfaction** are key factors in increasing market share. Yet, it is not clear to these businesses and organisations which of the two constructs is the means to an end, or, even whether they are separate constructs. If they are the same construct, then tourism managers need to focus on either improving visitor satisfaction, or service quality. The tourism industry is highly influenced, as an end user, by IT innovation. Especially, the rise of the Internet has expedited innovations in the sector and enabled new business models. It can be foreseen that this trend will continue and further on ICT will have a great impact on tourism. The growth of the Internet and new technologies in general, has influenced the overall sector and more specifically destinations, in terms of promoting themselves and approaching potential customers (visitors) who seek information and fulfil their purchase through the Web. Looking at the supply-side of travel and tourism, we can see ten good reasons, according to Pollock and Benjamin (2007) as to why Travel and Tourism provides such

fertile ground for the application of distributed, peer-to-peer, web services-based solutions:

1. The dominant feature of travel and tourism is supply-side fragmentation. Literally hundreds of thousands of enterprises are involved in providing the various elements associated with overnight travel. Travel/tourism providers are so geographically scattered and so numerous that no one technology vendor or distribution channel can dominate.
2. These providers are also characterized by extreme heterogeneity and diversity in terms of focus, size and sophistication.
3. The vast majority of providers are classed as small, medium or micro-sized (SME's or SMB's). In Europe, about 99% of enterprises employ less than 10 persons. As the vast majority of them do not provide services that can be purchased online, they are still in a digital sense—invisible and excluded from e-commerce.
4. Within each sub sector and destination, providers actively compete with one another. Cooperation and collaboration only occurs when attempting to reach distant markets and build business volumes to a destination. Autonomy, self-sufficiency and choice are the values and qualities prized by providers.
5. Providers are dependent on a multiplicity of intermediaries and the distribution chain is long and expensive. They are required to distribute their perishable, time-specific inventory via multiple channels and—brands, managed by intermediaries using a variety of technologies and platforms, each requiring separate interfaces.
6. Take-up of sophisticated electronic systems is slow. Most providers will only have dial-up connections. They will not want to join exchanges that rely on private networks nor have their data exposed to potential competitors.
7. Providers have neither the financial resources nor the time to manage multiple systems. Extremely independent, competitive entrepreneurs, they want control over their own inventory management, sales and content.
8. As a result of the volume and fragmentation of both the providers and intermediaries, the industry is awash with thousands of legacy applications that would be costly, if not possible to dismantle and replace.
9. The sector is particularly vulnerable to the ravages of commoditisation and operates on paper-thin margins. Reducing distribution costs, which can exceed 25% of turnover, provides the best opportunity to improve the bottom line and highlights the importance and advantage of selling directly to the end user.
10. Each provider is embedded in a larger network of suppliers from which it procures the goods and services necessary for operations and a community network of hosts (public and private agencies responsible for helping and benefiting from the economic activity of tourism at the destination).

16.4 FACTORS INFLUENCING ICT AND INTERNET ADOPTION

Several research studies have also revealed an increased rate of adoption and diffusion of ICT and multimedia within the tourism and hospitality industries and the adoption is affecting the operations and competitiveness of all players. In the e-commerce and Internet adoption, manager/owner, organizational and environmental characteristics play a significant role. Technology adoption depends on the way it is perceived rather than on a rational analysis of business or technological advantage. Moreover, if employees of SSEs have more knowledge of the technological innovation and e-commerce, the businesses may be more willing to adopt e-commerce. More specifically the barriers to internet adoption are “the main barriers to e-commerce and Internet adoption are simply the concern that the Internet or the website would not lead to more efficiency, lower costs or more revenues and the feeling that the Internet or a website is not suitable for a particular business”. Furthermore, it is reported that uncertainty is there about real business value and web existence with an emphasis to determine the return of the investment.

16.4.1 Use of Internet and Travel Trade

Tourism as an information intensive industry can gain important synergies from the use of the Internet. The tourism sector has been a pioneer in adopting and developing ICT applications and today is rated among the top product or service categories purchased via the Internet in Spain and other countries (Marcussen, 2009).

Travel products and services appear to be well suited to online selling because they possess the characteristics that can function in the electronic environment. According to Peterson, Balasubramanian and Bronnenberg, 1997, products and services that have a low cost, are frequently purchased, have an intangible value proposition and/or are relatively high on differentiation are more amenable to be purchased over the Internet. Specifically, travel products are high involvement products that are less tangible and more differentiated than many other consumer goods, which make them suitable for sale through the Internet (Lewis et al., 1998). The possibilities introduced by the Internet have changed the agents' behaviour.

Consumers, on one hand, are able to interact directly with a tourism provider, which allows them to identify and satisfy their constantly changing needs for tourism products. Also, on the demand side, it is possible to reduce the uncertainty related to the products via forums, or to exert an instantaneous control over the quality of products supplied. Tourism suppliers, on the other hand, are able to deal more effectively with the increasing complexity and diversity of consumer requirements. Tourism providers have been using the

Internet to communicate, distribute and market their products to potential customers worldwide in a cost- and time-efficient way.

But far beyond these effects linked to the working of the existing markets, the main effect is the revolution of industry organization. The efficiency of the Internet has been increased by the multiplication of infomediaries offering easier access to the information, the creation of shop bots comparing prices or the selection of sites according to different choice criteria (O'Connor and Murphy, 2004). A simple assessment of the effects of Internet use would suggest the reduction of information asymmetries on markets and the emergence of purely competitive markets. And that means that the Internet would contribute to lowering the prices of the tourist products. The relevance of information and communication technologies in the field of travel and tourism is highlighted by the existence of a journal, "Information Technology & Tourism", dealing exclusively with this topic. International associations and bodies are also starting to deal with the topic, and a special federation IFIIT (International Federation for Information Technology and Tourism) has been founded to structure the activities in the field of e Tourism.

16.4.2 ICT and Travel Agencies

With the appearance of the Internet as a new distribution channel in recent years, the intermediation function that travel agencies have assumed is constantly changing (Alvarez, Martin, & Casielles, 2007). In an increasingly competitive market place, tourism products require an effective distribution strategy in order for a firm to reach its target tourists and local markets (Smith, 2007). Developing an effective distribution system in such a market requires carefully assessing these different factors to evaluate the performance of individual channels and the distribution mix as a whole (Pearce & Taniguchi, 2008). For travel agency practitioners, marketing channels are much more diversified, have high risk, and show significantly different efficiencies. As such, the increasing number of distribution channels makes it difficult for travel agency practitioners to control their inventory as well as creates confusion for the different types of distribution channels' efficiencies, and hence successful organizations need to take advantage of all potential distribution channels in order to reach their target markets (Buhalis, 2000; Gensler, Dekimpe, & Skiera, 2007).

Many wholesaler travel agencies today use different distribution channels for marketing activities as well as employ them as a profit resource. Wholesaler travel agency practitioners should study and analyse the primary sources of their business in order to understand how to sell to them, through whom, and at what cost. If wholesaler travel agencies know the effectiveness of their marketing distribution mix, then they can implement strategies to enhance market share and profits for the most effective distribution channels.

Facing such conditions, wholesaler travel agency practitioners must find an optimal marketing distribution mix to reduce costs, target their marketing resources, and monitor the effectiveness of their distribution channels so as to develop incremental revenues.

16.4.3 Technology in Tourism Marketing

Technology becomes integral to a tourism product, its delivery and consumption by tourists. Tourism marketing applies information technology (IT) to manage information and carry out transactions. System of information technologies (SIT) in tourism comprises computers, centralized reservation system (CRS), digital telephone networks, videos, videotext, teleconferencing, electronic locking systems, e-commerce, and so on. The diffusion of SIT in tourism increases the efficiency, quality, and flexibility with which travel services are supplied. Multimedia, CRS/global distribution system (GDS), and the internet have changed tourism marketing completely.

16.4.4 What is Internet Marketing?

What is internet marketing? Quite simply, internet marketing is the marketing of products and services using the internet as its medium. Internet marketing as a whole is an extremely cost effective way to reach a worldwide population.

There are many strategies available for companies that wish to use internet marketing. Some of the more common ways are search engines, traditional media, E-publishing, networking and paid advertising. Going over these different types, both paid and free, will help gain understanding on exactly what is internet marketing.

Search engines perform best for a website when they are indexed extremely high in many different search engines. Getting a listing with some of the most prominent search engines is important, but getting such listings may take several months and could cost you a lot of money and time. Traditional media such as newspaper advertising might be cost effective but it is not comparable to the type of audience you get from the search engines. E-publishing could be seen in the same line as traditional media. Save that a business or service has its ad or display placed in the "store" that is the internet. And that ad is your website. Your periodic news letter will stand as your business card with company URL. In E Publishing, it is key to get potential customers to sign up for this newsletter and it can a very cost effective way to reach people.

In networking, a company simply builds a list of contacts and relationships. On the internet, a company can use sales discussions, news groups and email discussions. While this is a lengthy process, regular participation will build trust and reputation. This is also very cost effective. Paid advertising can be as simple as purchasing a banner ad on a high traffic

website. However, the costs for this could keep many start ups and small business from perusing this type of marketing. It is important to get traffic that converts into sales.

16.4.5 Benefits of Internet Marketing

- Internet marketing is faster and less expensive to conduct direct marketing campaigns (For example, an email campaign or online newsletter compared with traditional printing and direct-mail costs.
- More economic to communicate via email, online chat, and video conferencing than long distance phone calls or toll-free numbers offered by travel agencies to tourist and service providers at the destinations.
- Measurable, which means that successes are identifiable and repeatable. Set up for real-time results monitor, and it can handle real-time tweaks and on the fly changes in the tourism products and programmes.
- Open 24-hours a day, which means that even potential customers with insomnia can be reached at some point during the buying process. Internet marketing do not require the marketing executive to be present all the time as the responses and queries of tourists can be stored in on mail ids and websites and reverted back as per ease. Offering your products on the Internet is also convenient for customers. They can browse your online store at any time and place orders when it is convenient for them.
- Targeted, allowing you to pinpoint using geography, contextual relevance, and other useful parameters to reach a very specifically defined audience. Internet marketing campaign can be launched on the websites which are mostly visited by the potential tourists of your product.
- Continuously available, letting you give away whitepapers or free webinars to gather good sources of leads over time. Products with high price like tourism products and long sales cycles require many “touches” and follow-up with a potential customer.
- Going social, as more people share information among peers on websites like Facebook and LinkedIn, for business purposes. A recommendation from your friend or peer can go a long way towards closing a sale.

16.5 INTERNET MARKETING TECHNIQUES IN TRAVEL TRADE

1. Specialize: A small travel agent should pick a few destinations or activities and resolve to be a better expert at them than anyone else. Consumers now have access to so much travel information, particularly at their fingertips via the Internet that they have themselves become “generalist travel agents.” When they seek help, they’re seeking a true specialist.

2. Personalize: Through internet marketing differentiate yourself from service providers through offline solutions – and instead give consumers highly personalized service, recommendations, etc., right from your very first interaction with them — whether online, offline, by phone or in-person.

3. Develop a repertoire of unique experiences and special access: It's all about selling experiences. The more unique, the more value you're adding. The more you can get clients access to special events or people, the more differentiated you are.

4. Be complex: Consumers can book the simple trips themselves (e.g. point-to-point trips such as Delhi to Chandigarh). Travelers really need agents for complex trips (e.g. longer international trips or cruises). Your online assistance expertise and specialization should be on these complex trips.

5. Go upmarket: Segment the market into two traveler types: Those with more money than time, and those with more time than money. Agents can only compete for the former segment's business. Travelers with more money than time value purchasing a travel agent's expertise and ability to handle every aspect of the trip. This type of service can be provided through the use of internet.

6. Work with net rates through online marketing: Especially for custom tours, travel agents should consider getting net rates from suppliers instantly online and marking them online up rather than offline campaign. This gives pricing flexibility and better cash flow, and reduces the hassle of delay in purchase and operations.

7. Constantly do a self-check: Am I delivering the best value?: The market's constantly changing. For all your products and services that you offer, are you getting competitive rates with changing markets? Do you have a variety of strategies to get your clients the most value? All this information should be updated with immediate effect.

8. Master your pitch: Have you perfected your pitch if clients ask: "Tell me about yourself and your agency," or "What makes you different from other agents?" What are the top three messages in your pitch? Publish these answers through online medium so as to give more clarity to clients.

9. Brush up on "trusted advisor" sales skills: It's a consultative sales job: Most agents can sell a lot more if they can be perceived as a trusted advisor. This means relationship-building and trust-building skills rather than pushy sales skills. Internet marketing provides travel agents an option to act as an advisor to such clients through e mail, online chat, query submission forms or telephone.

10. Develop a trusted reputation / brand: Get yourself or your agency written up in national media or at least your local newspaper. Join the BBB. Get clients to write you endorsements on LinkedIn, facebook, your website, email or blogs. Build your reputation with real traveler reviews on a referral service.

11. Have a good website: Many agents have websites that do them a disservice. Agent websites need three key things: good design + compelling content + easy to maintain/update. To perform this task is not very challenging as more over it is cheaper than any other medium of marketing nowadays.

According to a Nielsen/Netratings study, nearly 75% of the U.S. population has access to the Internet from home. In addition, 94% of Internet users make travel arrangements using the Web. The Internet is by far the number one resource for planning travel and vacations. If you have a tourism related web site, can your potential customers find you easily on the Web? How does your web site compare with the competition? Make the online experience interactive for the customer and remember to promote attractions, not just the place or your organization. Several thousands of dollars spent on web site development and maintenance is not a waste of money. You can even make sure your web site is displayed at the top of a Web search by paying a fee.

12. Be incredibly responsive & reachable – use a smartphone: Even when you're not at the office, use a smartphone to be extremely responsive through voice, email, and social media. Use Google Voice to have one number that rings you at your landline, mobile, or any other number.

13. Improve process efficiency: Most agents have plenty of opportunities to be more efficient in their operational processes. For example, streamline the time to develop a custom itinerary, the time to price a quote, etc.

14. Engage with social media: It is highly recommend that a Facebook Page, a blog and a twitter account for your travel business. Get your clients to be fans and to post reviews of your services. Engage them with insights and tips. It is fine to post some specials or deals, but a Facebook page is best used when it's less about selling and more about engaging with fans and being helpful with your knowledge.

15. Partner to get new leads: Be a good marketer – or if you're not, hire a internet marketing agency to help you, or use a travel referral service. It will save your time and focus on designing new products and their selling.

16. Improve your writing/email skills: Many clients prefer email communications. Good writing is a sales skill that helps build trust and relationship with clients. Take a class to improve this skill and you'll also improve sales conversion.

17. Sharpen your first response to clients: Obsess over the quality of your first interaction with a new client, whether it's a phone call or an email. Making a good first impression plays a major role in sales conversion.

18. Don't sell deals: Sell expertise!: Many agents advertise deals on their website and send the message that they can find the best deals. It's tough to beat deals on the Internet, and will be even tougher going forward. Transform your business and your message to sell expert advice and personalized service.

19. Success Begins With a Good Plan: Creating a Tourism Development & Marketing Plan is the first rule for successful tourism. The plan should include several details like product development, upgrades and improvements, repositioning and/or branding, attractions and events, visitor amenities and services, marketing and public relations, public/private partnerships, recruitment, funding and budgets, and organizational responsibilities. The plan

should integrate existing comprehensive plans and economic development and Main Street efforts.

20. Turn Negatives into Positives: Almost every community and attraction has its challenges. Think creatively on how to convert these negatives into positives. You can then attract people to your area using clever promotional tactics.

21. Be Unique: In order to be successful, you must be worth the trip. A visitor must be able to differentiate you from the competition and you must strive to be creative and set yourself apart from others. Being unique will make a visitor travel the extra distance.

22. Marketing vs. Product Development: Before you market your community, make sure it is appealing to customers. If your product is not of great quality, then your marketing efforts are wasted. Product development should always be a top priority, and it never ends. Having a good mix of product development and marketing is also important.

23. Branding: Even at the community level, branding is critical for success in tourism. Branding is much more than just a logo; it is what sets you apart from your competition, it is your image and your value. Do not try to be “all things to all people.”

24. WOW Photography: Nothing sells tourism like great photography. Photographs used for tourism purposes should have a “wow” appeal in the viewer and should make the viewer want to go to the place depicted. As mentioned earlier, you are trying to sell an experience and your photos should evoke emotion in the viewer. Photography should be the key element in brochures, public relation efforts, and especially on the web.

25. Close the Sale: Most communities and attractions spend a significant amount of money on advertising. The primary “call to action” in advertising is to get the potential customer to call and get a brochure, or for them to visit your web site. If this is the case, the brochure and web site should be good enough to close the sale. Otherwise, your advertising effort is largely wasted. Pay attention to certain small details while advertising. For example, for brochures, the best colors to use are red and yellow as these colors get the viewers attention. In addition, most brochures end up in racks along with scores of other brochures and the top three inches is all that is visible to the potential customer. Keep this in mind when designing brochures.

16.6 WHAT IS CONSORTIUM MARKETING?

A group made up of two or more travel agencies or companies that work together toward achieving a common marketing objective. Each entity within the consortium is only responsible to the group in respect to the obligations that are set out in the consortium's contract. Therefore, every entity that is under the consortium remains independent in his or her normal business. Thus consortium is defined as a combination of individual entities

engaged in a joint venture. Marketing consortium focuses on highly targeted, result oriented marketing communication services.

A small unit in its individual capacity faces problem very often to procure and execute large orders, which inhibits and restricts the growth of small scale units. National Small Industries Corporation Limited (NSIC) accordingly adopted Consortia Approach and built groups/consortia of units manufacturing same products, thereby easing out marketing problem of SSI units. The Corporation explores market and secures orders for bulk quantities. These orders are then farmed out to small units in tune with their production capacity. Testing facilities are also provided to enable units to improve and maintain the quality of their products conforming to the standard specifications. The main benefits of the scheme are:

- ✓ Participation and Procurement of Orders for bulk quantities.
- ✓ SSIs capacity of participating in large tenders enhanced.
- ✓ Support testing facility provided by NSIC.
- ✓ Financial assistance for Raw Material, Bill discounting etc. provided by NSIC.
- ✓ Wherever required, equipment is also financed to the SSI on priority.
- ✓ Help in developing /designing of new products and quality enhancement of SSI products.

16.6.1 Benefits of Internet based Consortium Marketing

Internet marketing is important because it aligns with the way consumers make purchasing decisions. Studies by analysts such as Gartner indicate that increasing numbers of consumers use social media and research on mobile Internet to carry out preliminary product and price research before making final decisions. Internet marketing enables you to build relations with customers and prospects through regular, low-cost personalized communication, reflecting the move away from mass marketing.

We all have heard about the craze that tourists have for the use of internet. This craze has now turned as a passion and addiction among the tourists. As this craze is increasing the travel agencies have come to know that the internet can be best way through which they can create recognition of their company among the masses round the globe.

If travel agencies want to run a successful business it is really important that they market their company and their product in a proper way. Marketing can be done in many ways but to choose the best and the most feasible way out of all is very important. Out of all the ways of marketing, internet marketing is at the top. This is the most popular method used by many travel agencies today in order to promote their existence among the masses of tourists. There are many benefits that internet marketing avails to the business. Just as Internet research becomes an increasingly important

tool during the purchasing process, more marketers are seeing the advantages too. It's a win-win situation. Some of the benefits are mentioned below.

- **Relatively Cheaper:** The internet marketing is one thing through which promotion of the tourism products can be done very easily. Out of all the kinds of marketing ways this is the most feasible for the travel agencies. There is not much of a capital required in order to initiate with internet marketing. This is the reason not only big organizations can adapt this method but also small scale enterprises (SSEs) can easily afford to get in to it and enhance their business equally good. Even after less capital investment the ratio of profit that one can ear through internet marketing is very high. Therefore this is a very money spilling alternative for the travel agencies.
- **Availability:** The internet marketing option will offer travel agencies 24x7 services for the customers. So even if it is a holiday, you customers will still stick to you that day and you can offer them your services. In addition to this customers will also not leave due to the time factor. They can now avail your service anytime of the day or the night.
- **Market Expansion:**If you choose internet marketing as the marketing option for your travel agency, you will be able to invite people from all over the world for the business collaboration. There will be no boundaries for you to connect to the service provider and tourists of some other countries and states. On top of the, in this option, you will get to make international tourists at no extra cost. This is the biggest benefit for small scale enterprises.
- **Multiple customers:** Normally in other kinds of marketing options available to small scale travel agents are limited to one or two target markets of tourists and also it may be the case they limit to a particular area or so. But with internet marketing you can get in touch with thousands of tourists in varied target markets at a stretch and thus increases the scope of your business. Along with getting national customers you can get customers at international level too.
- **Works for good credibility:** Internet marketing provides you an opportunity to tell the potentials, you capability and history. It gives your customers a chance to build trust in your travel agency and your tourism product or service by having a website of yours.
- **Personalization:** Internet marketing enables marketers to give personalize offers to tourists by building a profile of their purchasing history and preferences. By tracking the web pages and product information that prospects visit, you can make targeted offers that reflect their interests. The information available from tracking website visits also provides data for planning cross-selling campaigns so that you can increase the value of sales by customer.

- **Relationships:** The Internet provides an important platform for building relationships with tourists and increasing customer retention levels. When a customer has enquired about a product from your online store, you can begin the relationship by sending a follow-up email to confirm the transaction and thank the customer. Emailing customers regularly with special, personalized offers helps to maintain the relationship. You can also invite customers to submit product reviews on your website, helping to build a sense of community.
- **Social:** Internet marketing enables you to take advantage of the growing importance of social media. An article on the Harvard Business School Executive Education website highlighted the link between social networking and online revenue growth. According to the article, a group of consumers that responded most strongly to the influence of social networks generated increased sales of around 5 percent. Travel agencies can take advantage of this type of influence by incorporating social networking tools in your Internet marketing campaigns.

16.7 HOW TECHNOLOGY IS CHANGING GLOBAL TOURISM

As technology is evolving faster than ever before, it has made most travellers around the world much more technology-savvy than in the past. The internet has revolutionized the tourism industry more than any other factor in the last few decades. Also, as more people are connected to each other, with access to the vast pool of information available online, an increasing number of travellers are seeking information via the internet prior to making any travel decisions. Hence, it has become important for the tourism industry to adapt and uplift its practices and skills of the workforce within in to meet changing customer behaviour. We predict two key areas for growth with regards to utilizing tourism technology in the tourism industry correctly. The first area is the marketing of the tourism destinations, products and services. Selling tourism products and services online has changed from being just “price-conscious” to being “an inspiration” to the viewer to travel. As the online user absorbs information from a variety of sources, it is usually the site or information source that can best stimulate the viewer to travel that will be remembered by the user. Digital Marketing, Search Engine Marketing, Mobile and Location Based Marketing, and a variety of other channels exist today for reaching the potential traveller. However, it is the appeal of the content, combined with the right pricing that will ultimately attract the user to your business. The second area is the infrastructure of the organization, which determines the readiness to respond to customer requirements. As more travellers are expect personalized products and services to meet their demands, it is important for tourism businesses to have tools that can store and monitor information in order to meet the individual needs of their Clients. The better

you know your customer, the more likely you will retain them for a longer period of time. Customer relationship management and other fundamental information management systems are essential for businesses to scale-up. Challenges to the expansion of technology take-up by tourism businesses The biggest challenge imposed upon the tourism industry in adopting technology is the lack of accurate education of the 'right' technology that is suitable for their business. There is a very big gap between the tourism industry and the technology industry. Some organizations have been able to tap into this gap and have turned into Online Travel Agents (OTA). However, it is not every tourism business needs to become an OTA to successfully utilize technology. It is more important to understand each business's competitive edge and adopt the related technology in order to strengthen their competencies. Even though the growth of travellers using technology to source information is increasing at a rapid pace, the business operators and workforce within the industry do not have sufficient knowledge, tools, and/or strategy to utilize technology correctly. Other factors such as infrastructure and investment are not considered as big challenges any more, as the cost to acquire hardware and connectivity have dropped significantly over the years.

16.8 SUMMARY

The importance of the Internet for the travel and tourism industry has increased rapidly over the last few years. Understanding how travellers behave is of critical importance to travel suppliers and tourism authorities for formulating efficient marketing strategies and policies, in order to fully exploit the potential of this new channel. The use of new management and production technologies is essential for most small businesses if they are to improve their competitiveness and thus face up to increasing national and international competition. This presupposes access to scientific, innovative, and technological information, making firms aware of developments in technology and the resources available for obtaining and using the technology correctly. Many authors have already shown that small businesses lag far behind large firms in their use of new technologies. Some reasons put forward to explain this include the more generally limited resources of small firms and a national structure for the production and transfer of new information that is poorly adapted to small business needs. However, assuming that some gap between small and large firms actually exists, how can we explain that most small firms nevertheless not only survive, often for a very long time, but also produce a return comparable to large firms? Even though the Internet provides useful tools and functions for the promotion and marketing of tourism products, it is simply an additional and important mode of communication, which supplements the existing modes. Indeed, the current emphasis is still on traditional marketing communication channels such as printed media, and telephone. Despite the fact that there is an increase in the use of the Internet,

travel agencies generally cannot use it effectively. It seems that the Internet is used more often for e-mail. In other words, small scale travel agencies are not seeking out customers through their web sites, but they want to provide information for current or potential customers about their company and the tours they offer. Word-of mouth is also perceived as an important source of information. Although contact between the participants in the Internet is not face-to-face, social interaction is still possible by creating virtual communities.

16.9 GLOSSARY

4Ps	Refers to the marketing mix, namely product, price, promotion (communication) and place (distribution).
Consumer behaviour	Consumer behaviour is the behaviour that consumers display in searching for purchasing
Customer satisfaction	The extent to which a product's perceived performance matches a buyer's expectations.
Data	Facts or recorded measures of certain phenomena.
Data analysis	An application of reasoning to understand the data that have been gathered.
Market Segmentation	The process of dividing a market into groups of similar consumers and selecting the most appropriate group(s) for the firm to serve.
Market demand	The total volume of a product that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing programme.
Market positioning	Formulating competitive positioning for a product and a detailed marketing mix.
Market segments	: Portions of the tourist markets that is more or less distinct in their characteristics and behaviour.
Market Share	The proportion of the available market that is being serviced by an organization.
Market targeting	Evaluating each market segment's attractiveness and selecting one or more segments to enter.
Market value	Market value is the potential of a product or service to satisfy a customer's wants and Needs.
Marketing	The process of planning and executing the conception, promotion, pricing, and distribution ideas, goods and services to create exchanges that satisfy individual and organizational objectives. From a supply perspective, this is a process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives (McDaniel and Gates, 2006: 4). Form a demand perspective, this is the social and managerial process by which people and groups obtain what they need and want through increasing and exchanging products and values with others.

Marketing Mix	The marketing activities used to create, communicate and deliver value to the customer. The marketing variables include product, price, promotion, place, people, process and physical evidence. The controllable variables that the marketing organisation combines to satisfy a target Group.
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16.10 ANSWER TO CHECK YOUR PROGRESS

1. Visit some small enterprises in your area and get the details of technology adopted by them.
2. Get a small questionnaire filled from the tourism entrepreneurs in your city about few simple questions such as;
 - Will it possible for them to do effective business without internet.
 - Will it possible for them to do effective business without telecommunications etc.
 Then try to analyze the responses to know how important the technology is for the modern day business practices.

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16.13 TERMINAL QUESTIONS

1. Innovations and use of latest technology is very essential to compete in the global market. Justify the statement by taking the example of tourism industry that how one need to be updated with latest technology and trends.
2. Internet is very useful for marketing. How internet is changing the global tourism trends? Comment.
3. What is consortium marketing? What are the benefits of internet based consortium marketing?