3.1 **Introduction**: Successful new business venture and economic development do not just happen; they are the result of the combination of right environment, planning, effort and innovation. Right combination of this can only be achieved by the entrepreneurs. They provide a clear blue print for stimulating research, technology, finance to help promote matured enterprises. At the same time they grow the eco-system and give boost to economic growth. The factors contributing to economic development are labor, technology, natural resources, capital and entrepreneurship. The key factor in this development process is the entrepreneur. This is the domain of the entrepreneur whose policies and strategies cover such broad areas as production marketing, financing, pricing and personal relations. The growth of entrepreneurship largely depends upon effective policies and their efficient implementation. Thus entrepreneurship is the coordination of the production elements.

There are certain characteristics which could be observed with regards to entrepreneurship. These characteristics are stated below.

- Development in any walk of life has always depended on individual qualities of entrepreneurship. A study of human history shows ample evidence of the role of individuals in the process of development.
- Industrial development in almost all countries has always started with individual enterprises.
- Even huge multinational and national corporations have mostly received their inspiration from one or few individuals.
- In the case of small industries, the project is usually centered around a single individual.
- Small enterprises are mostly initiated, managed and developed by one or a few individuals.
- Qualities of entrepreneurship constitute one of the major resources in the promotion of an enterprise.
• An entrepreneur is someone who ventures out; prefers change as a means of growth, and is prepared to take calculated risks.
• While taking the risk, the entrepreneur is aware of the possibilities of success as well as the consequences of failure.
• Analyses the pros and cons carefully before making a decision to start the enterprise.
• An entrepreneur is involved in the planning activities before and after the decision to start the enterprise.
• An entrepreneur is motivated by an urge to make the success of the project.
• An entrepreneur proceeds to accept the situation as a challenge.
• An entrepreneur is persistent and full of perseverance for making a success of himself.
• An entrepreneurship is a product of interaction among a number of factors. Some of these factors are in the individual (psychological) and the rest are in the social, cultural and economic milieu.

3.2 Entrepreneurship (Meaning and definition) and Indian entrepreneurs:
Entrepreneurs are generally understood to be the people who work for themselves, or who own an enterprise. The term entrepreneur is derived from the French word ‘entreprendre’ which means to undertake. The entrepreneur undertakes to organize, manage, and risk that is he undertakes the running of the enterprise. According to the oxford dictionary enterprise means a bold undertaking, Webster’s dictionary defines enterprise as readiness to undertake bold projects.

• Myths of entrepreneurship:-
Throughout the years many myths have arisen about the entrepreneurship. These myths are the result of lack of research on entrepreneurship. Many researchers in the field have noted that the study of entrepreneurship is still emerging. According to Donald F. Kuratko and Hodgette from Entrepreneurship in the new millennium (2007) state eight of the most notable myths and argument which dispel each myth appear next.
1. Entrepreneurs are doers, not thinkers.- Although it is true that entrepreneurs tend towards action, they are also thinkers. Indeed, they are often very
methodical people who plan their moves carefully. The emphasis today on creation clear and complete business plans is an indication that “thinking” entrepreneurs are as important as “doing”.

2. Entrepreneurs are born, not made.- The idea that the characteristics of entrepreneurs cannot be taught or learned, that they are innate traits one must be born with, has long been prevalent. These traits include aggressiveness, initiative, drive, willingness to take risk, analytical ability, and skill in human relation. Today, however, the recognition of entrepreneurship as a discipline is helping to dispel this myth.

3. Entrepreneurs are always inventors.- The idea that entrepreneurs are inventors is a result of misunderstanding and tunnel vision. Although many inventors are also entrepreneurs, numerous entrepreneurs encompass various types of innovative activity. For example, Ray Kroc did not invent fast-food franchise, but his innovative ideas made McDonalds the largest fast food enterprise in the world. A contemporary understanding of entrepreneurship cover more than just invention. It requires a complete understanding of innovative behavior in all forms.

4. Entrepreneurs are academic and social misfit. The belief that entrepreneurs are academically and socially ineffective is a result of some business owners having started successful enterprises after dropping out of school or quitting a job. In many cases such an event has been blown out of proportion in an attempt to “profile” the typical entrepreneur. Historically, in fact, educational and social organizations did not recognize entrepreneur. They abandoned him or her as a misfit in a world of corporate giants. Business education, for example, was aimed primarily at the study of corporate activity. Today the entrepreneur is considered a hero-socially, economically, and academically. No longer a misfit, the entrepreneur is now viewed as a professional.

5. All entrepreneurs need is money.- It is true that a venture needs capital to survive; it is also true that a large number of business failures occur because of a lack of adequate financing. Yet having money is not the only safeguard against the failure. Failure due to lack of proper financing often is an indicator of other problems. Managerial incompetence, lack of financial understanding, poor planning and the like. Many successful entrepreneurs have overcome the
lack of money while establishing their ventures. To those entrepreneurs, money is a resource but never an end in itself.

6. All entrepreneurs need is luck:- Being at ‘the right place at the right time’ is always an advantage. But ‘luck happens when preparation meets opportunity’ is an equally appropriate saying. Prepared entrepreneurs who seize the opportunity when it arises often seem ‘lucky’. They are, in fact, simply better prepared to deal with situations and turned them into successes. What appears to be lucky really is preparation, determination, desire, knowledge and innovativeness.

7. Entrepreneurs seek success but experience high failure rates:- It is true that many entrepreneurs suffer a number of failures before they are successful. They follow the saying ‘If at first you do not succeed, try, try, again’. In fact, failure can teach many lessons to those willing to learn and often leads to future successes.

8. Entrepreneurs are extreme risk taker:- Risk is a major element in the entrepreneurial process. However, the public’s perception of the risk most entrepreneurs assume is distorted. Although it may appear that an entrepreneur is ‘gambling’ on a wild chance, the fact is the entrepreneur is usually working on a moderate or calculated risk. Most successful entrepreneurs work hard through planning and preparation to minimize risk involved in order to better control the destiny of their vision.

• **Approaches to entrepreneurship:-**

To understand the nature of entrepreneurship, it is important to consider some of the theory development so as to better recognize the emerging importance of entrepreneurship. The research on entrepreneurship has grown dramatically over the years. As we are now in the new millennium, it has become increasingly apparent that we need to have some cohesive theories or classifications to better understand this emerging field. One way to examine these theories is with a “schools of thought” approach that divides entrepreneurship in to specific activities. Zacharakis Andrew and Spinelli Stephen in ‘Entrepreneurship’ (2008), address the conceptual nature of entrepreneurship.
• The Macro View

Three schools of entrepreneurial thought represent a breakdown of the macro view.

a) The environmental School of Thought.
This school of thought deals with external factors that affect a potential entrepreneur's lifestyle. These can be positive or negative forces in the molding of entrepreneurial desire. E.g., the work environment will serve to promote a person's desire to pursue an entrepreneurial career. Social group- atmosphere of friends and relatives can influence the desire to become entrepreneur.

b) The Financial / capital school of thought.
The search for seed and growth capital is the entire focus of this school of thought. This school of thought views the entire entrepreneurial venture from a financial management standpoint. Decisions involving finances occur at every major point in the venture process.

c) The Displacement School of thought.
This school of thought focuses on the negative side of group phenomena where someone feels “out of place” or is literally “displaced” from the group. The frustrated individual will be projected into an entrepreneurial pursuit out of his or her own motivations to succeed. Three major displacement illustrate this school of thought.
1. Political displacement: This is caused by factors ranging from an entire political regime that reject free enterprise to governmental regulations and policies that limit or redirect certain industries.
2. Cultural displacement: This deals with social groups precluded from professional fields. Ethnic background, religion, race, and sex are all examples of factors that figure in the minority experience.
3. Economic displacement: This is concerned with the economic variations of recession and depression. Job loss, capital shrinkage, or simply “bad time” can create the foundation for entrepreneurial pursuit.

• The Micro View
This view of entrepreneurship examines the factors that are specific to entrepreneurship and are part of the internal locus of control.
a) **The Entrepreneurial Trait School of thought.**
   Many researchers and writers have been interested in identifying traits common to successful entrepreneurs. This approach is grounded in the study of successful people who tend to exhibit similar characteristics that, if copied would increase success opportunities for the emulators. For example, achievement, creativity, determination, technical knowledge are the factors that usually are exhibited by successful entrepreneur.

b) **The Venture opportunity School of thought.**
   This school of thought focuses on the opportunity aspect of venture development. The search for idea sources, the development of concepts, and the implementation of venture opportunities are the important interest areas for this school. Creativity and market awareness are viewed as essential. Developing a right idea at the right time for the right market niche is the key to entrepreneurial success.

c) **The strategic Formulation School of thought.**
   The strategic formulation school encompasses a breadth of managerial capability that requires an interdisciplinary approach. George Steiner has stated that “strategic planning is inextricably interwoven into the entire fabric of management; it is not something separate and distinct from the process of management.” The strategic formulation approach to entrepreneurial theory emphasizes the planning process in successful venture development. Although the knowledge and research available in entrepreneurship are in an emerging stage. From this point of view we can begin to develop an appreciation for the schools and view them as a foundation for entrepreneurial theory.

- **Entrepreneurship in India.**
   The concept of entrepreneurship is not new in India. The traditional handicrafts and cottage industries have shown fine entrepreneurial talents.

   Max Waber, in his study of entrepreneurship suggested that the psychological quality termed as spirit of capitalism is found to be absent in the religions like Hinduism, Buddhism and Islam. Some other scholars also followed Max Waber’s theory and attributed the slow growth of entrepreneurship in Asian countries towards this reason. The new researches in the field have very ably proved that irrespective of religious beliefs, there were several other factors that contribute to the growth of entrepreneurship. A special mention may be made of the studies of Papanek in
Pakistan Nandys study of modernity, and research of entrepreneurship in Madras State by Berna.

The general belief denotes a deficiency of entrepreneurs in Indian conditions. But one finds that the potential entrepreneurial talents have been underestimated in India due to misunderstandings about the impact of religion and culture. In fact, the entrepreneurial traditions in India are deep and well-based. It is wrong to base the conclusions on the success of industrial field alone. A factory type system is comparatively new in India. If we look at the historical development of entrepreneurship, we find that certain communities in India dominated the field of business, the Parsis and Marwarieoccupy leading positions. Different types of business activities developed in different areas according to the regional peculiarities of labor supply and type of material available. The industries developed on small scale, mostly in the cottages of workmen, giving enormous scope to their entrepreneurial talents. Shawl trade of Kashmir, Coconut based industries in Keral, a handloom textile in Gujarat are some such examples. While formulating any schemes for development of entrepreneurial talents, this peculiar specialization of trade and later growth of industrial units has to be borne in mind. Recent studies have shown that now, the growth entrepreneurship is mainly in the form of new industrial units. Entrepreneurs equipped with knowledge of engineering and complicated mechanical systems are coming forward and more of the factory products are being made available through their efforts. The factors inherent in Indian culture and social system, which have proved useful in such development, are listed by Mrs. Pratibha Joshi and Mr. A.G.Gosavi in “Business Environment and Entrepreneurship” (1986) as below.

- Indian religious traditions have always accommodated changes in environment. They do not bind people in static rituals, but rather teach them to adjust with the situations. This had led people having altogether different beliefs stay together and lead a peaceful social life. The quality provides tolerance necessary in the entrepreneur.

- The Indian civilization has always been receptive to other cultures. Travelers and conquerors came to this country and the people here absorbed all that was worthy in them. This is not just blind imitation. Entrepreneurs in a developing country
must have this spirit of receiving with openness all the new things that proven useful to them.

- The Indian beliefs are based on the concept of rebirth. The religions and preaching’s of saints have emphasized hard work in this world. The concept of karma, without expectation of reward was miss interpreted by some people. The holy books and preaching’s teach people to be fearless and remain ready to face challenging situations. An entrepreneur in India, having this tradition, is eager to put in hard work and face challenging situation. He takes interest in experimenting. He puts his heart and soul in his job and enjoys it thoroughly.

- Indian culture is based on beliefs which are built up on the basis of research and observation. The “thinking” is regarded to be an important and pious job. It teaches people to test things against reason and experience. The attitude of research and creative thinking is valuable for the blooming entrepreneurs.

- The joint family system in India helped the development of entrepreneurs by providing the financial resources for new ventures. The experience and knowledge of the elder people in the family were always available to rely on. With the support of family the entrepreneur could think of developing the business further, though changing the course of business totally, was not possible for them.

In spite of some favorable factors mentioned above the growth of entrepreneurship in India has remained slow. India was once rich with resources. It had developed trade relations with number of countries. Indian products wear famous for workmanship. However, during British regime, Indian cottage industries had a setback.

We are trying hard for developing ourselves economically. The need and importance of entrepreneurship in economic development is realized by all. Efforts are made in all direction to speed up the entrepreneurial growth.

The most important function of entrepreneurs in India is to ensure the best possible use of available resources. Land and labor is generally available in plenty. However, because of lack of facilities limitations are observed. The government is taking firm steps to provide plots with all facilities by developing industrial estates.
The business unit of an entrepreneur is generally small in size. The entrepreneurs in India use local talents and raw materials. They cater to the needs of people in the surrounding areas. The small scale units serve as a balancing factor against the concentration of financial power with a few large industrial houses. Balanced regional development can be achieved and difficulty on means of transport can be relieved as many entrepreneurs concentrate on local market.

Entrepreneurship entails self-employment. The problem of educated unemployment in India can be solved to some extent by encouraging young people to go to independent ventures by providing finance, training and counseling. The successful entrepreneurs can prove to be a source of inspiration to new entrants in business.

3.3 Definition of entrepreneur:-

The entrepreneur is defined in literature in different ways. The definition of entrepreneur has developed by different experts working in different field in different context. Some of the indicative definitions of an entrepreneur are stated in table below.

1) J.B.Say – “An entrepreneur is an organizer of business firm, central to its distribution and productions. He possesses qualities of judgment, perseverance and knowledge of the world as well as business.”

2) Quesnay – “A farmer who manage and makes his business profitable by his intelligence and wealth.”

3) Adam Smith – “An entrepreneur is a person who only provides without taking part in the leading role in the enterprise.”

4) A.F. Stoner – “Entrepreneur is either an originator of a new business venture or a manager who tries to improve an organizational unit by initiating a productive change.”

5) J.A. Schumper – “A person who introduces change is an entrepreneur.”

6) Peter F. Drucker – “An entrepreneur always searches for change, responds to it and exploits it as an opportunity.”

7) Clarence H Dantrof – “A person who makes decision under alternative courses of action.”

8) E.E. Haggen – “An entrepreneur is an economic man who tries to maximize his profit by innovations.”
9) **Webster Dictionary** – “An individual who forecast future demand for a product of services and arranges a business enterprise to respond to their demand.”

(Entrepreneurship Development and project management, by Neeta Baporikar (2007)

**Figure No. 3.1**

**Main attributes of entrepreneur**

Entrepreneurship thus involves boldness, courage, dynamism and preparedness for accepting risks.

J.S. Mill regarded an entrepreneur to be an organizer who is paid for his non-manual type of work. Marshall treated him as an undertaker of risks, bringing together different factors of production, planning and supervising over the activities of the enterprise.

Schumpeter defined entrepreneur as ‘an individual who carries out new combines of means of production by which there occurs disequilibrium.’ The entrepreneurs according to him were specially talented and motivated class who would grasp opportunity and exploit it.

McClelland who stressed achievement motive among the entrepreneurs, defines entrepreneur as – ‘someone who has some control over the means of production and produces more than he can consume, in order to sell it from income.’

Higgins explains functions of entrepreneurs as – ‘entrepreneurship is the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labor, arranging the supply
of raw material, finding site, introducing new technique and commodities, discovering new sources of raw materials and selecting top managers for day to day operations of enterprise.

Entrepreneur is a key person and business encircles him. As Vasant Desai in ‘Dynamics of Entrepreneurial development and management (2007) states, “an entrepreneur in a developing economy is one who starts an industry, undertakes risk, bears uncertainties, and also performs managerial functions of decision making and co-ordination. Technological soundness and leadership qualities are the basic needs to augment the business interests of any entrepreneur.

Entrepreneurship is a process of exploring the opportunity for starting an enterprise, its planning, establishing, making it operational, expanding and developing the business and accomplishing the objectives and goals and evaluating the performance to take decisions for further growth and development.

3.3 Contributions of entrepreneurship:-

Entrepreneurship is used in each and every dimension of life whether it is family, business, government, social group or enterprise. It plays a multi dimensional and multi faceted role in the development of the state and nation. It helps the country to face the problem of unemployment. It reduces the dependence of the people on the government. Following are the few contributions of entrepreneurship in development.

Figure No. 3.2

Contributions of entrepreneurship in Development
Entrepreneurship according to Schumpeter is essentially a creative or innovative function that might include introduction of a new product, new production method, new market etc. However, in Indian market the entrepreneurship does not necessarily include innovation it can be “imitation”. According to Desai, small scale industries are perfect incubators for fast growth and development of entrepreneurship. Entrepreneurship can thus be defined as an activity concerned with

- Reception of an opportunity.
- Organizing a business unit.
- Running the business unit as a profitable, going and growing concern.
- Doing new things or doing things that are already being done in a new way.

It is very exciting and motivating to study the opinions of the finest entrepreneurial brains in our country. [Journal-Entrepreneur, Sep.-2010]

A) “Entrepreneurship is one of the most challenging, yet most rewarding, personal journeys that one takes following one’s instincts.” Rana Kapoor (Founder/M.D. and CEO YES Bank)

According to him, if one traces Indian entrepreneurs, the pre-1980s characterized an era of state dominance, thereby restricting free enterprises. During 1980-91 we took baby steps towards the era of liberalization. Post 1991 there was a new-found confidence in the global Indian mindset. In the new age, Professional entrepreneurs possess a contagious energy to progress and can visualize and actualize. There’s a strong focus on execution, belief in consensus building, confidence to challenge the status quo and inclination towards building an institution. They balance organization DNA to touch the best of both entrepreneurship [innovation, risk-taking, flexibility, etc.] with institution building [process, systems and controls, etc.]. India today is well-positioned to leap in to this new wave of Professional Entrepreneurship.

The success that the every individual achieves will result from the discipline, dedication and determination that she/he develops as a young professional.

B) Saurabh Srivastava, Founder, Indian Angel Network and Chairman of the Indian Venture Capital Association.-
The biggest step forward that entrepreneurship has taken in our system is that we now see a steady stream of entrepreneurs. In only last 20 yrs. We can see a stream of entrepreneurs with big burst around tech bubble. Entrepreneurship was not a career option for most, but today the scenario is different.

C) “Entrepreneurship has driven India to newer heights since independence, although there is still scope for more” – Adi B. Godrej. Chairman, The Godrej Group.

From the Socialist days of the ‘60s, ‘70s and ‘80s and then subsequently through the days of liberalization till today, India’s entrepreneurs thrived and provided employment to millions. We found opportunities even in an economy that was pretty much inward looking, with strong focus on domestic demands. Considering these, I feel that entrepreneurship has a strong future in the country and many more should be willing to take the entrepreneurial path. This apart, when you look at entrepreneurship in India, you can see our entrepreneurs globally competing in almost all the fields- be it telecom, power, technology, biotech, or manufacturing.

Today one is also witnessing an improvement in the entrepreneurial ecosystem in India. A conducive ecosystem is essential for the success of entrepreneurship in India. There are angel investors who are willing to bet their money on young entrepreneurs, a concept new to India.

An entrepreneurial journey is not an easy one. There will be lot of ups and downs and you should be willing to whether the storm and go forward at all times.

D) “Many people think they are entrepreneurs just because they have good idea. But this idea must meet the unsatisfied need of the customer”. – Jagdish Khattar Chairman & M.D., Carnation Auto.

“It is my firm belief that one does not need to run his own business to be an entrepreneur. The entrepreneurial spirit means that one is pro-active and gives his best to every task he is assigned. There are certain qualities which a budding entrepreneur needs to have. Besides a good idea, he needs experience, passion, and the drive to translate the idea into reality.”

E) Education is the tool that will help today’s youth become successful entrepreneurs tomorrow. – By Shiv Nadar Founder, HCL.
Entrepreneurship has never been as important as it is today when the world is confronted with big challenges that extend well beyond global economy. The role that education plays in nurturing entrepreneurship and developing the next wave of leaders is undisputable.

Above are the few renowned entrepreneurs and there are still more who expressed their opinions on similar lines. Few of them have also given the tips for aspiring entrepreneurs from their own experience during building their own business and making them successful entrepreneurs.

3.4 **Guide lines for aspiring entrepreneurs** (Qualities required for successful entrepreneurs):-

1) **B.V. Jagdeesh, President and CEO, 3 Leaf systems.**
   a. To build a great company you need a great product, great team and great markets.
   b. The toughest decision an entrepreneur and a start-up company have to make is to say “NO”. Saying yes is very easy and the more you say yes the more focus your company loses and resources are spread thin.
   c. You as an entrepreneur need to be open and broad minded and at the same time take tough decisions and stand by them.
   d. You should allow debate within the organization rather than adopt a dictatorial approach.

2) **Pradeep Kar, Founder, Chairman & M.D. Microland LTD.**
   a. It’s an entrepreneur’s job to raise money. He must give adequate time and energy to raise capital.
   b. Always raise capital more than you need.
   c. Spend a lot of your time and energy hiring people & also finding good talent for the organization.
   d. Listen to your own gut feeling.
   e. Do not be afraid of failure or to take decision.

3) **Captain G.R.Gopinath, Chairman &M.D., Deccan 360**
   a. Do not be afraid to think big when we build, let us think that we build forever.
   b. Do not ever stop learning the day you stop your organization dies.
   c. Energize yourself by drawing energy from people and ideas around you.
   d. Have faith in your idea and be determined to make it work.
e. Being an entrepreneur is like being immortal, because you leave a footprint behind, so go for it.

4) Phaneesh Murthy, CEO, iGATE.
   a. Start the venturing in your area of expertise
   b. Do not be greedy.
   c. The first few deals should be done in a missionary manner.
   d. Invest in talent, intellectual capital & Physical infrastructure before chasing the first deal.
   e. Have fun-It’s your company after all.

5) Onkar Kanwar Chairperson & M.D., Apollo.
   a. It is important to have a clear idea about what you want to do and how you want to go about it.
   b. Sketch out a transparent roadmap to achieve the target.
   c. Passion is the way to be successful, never look back and see yourself as a winner.
   d. Do not question your intuition.
   e. Never underestimate an idea. A small idea can be the spark to a massive business.

   The concept of business has changed from traditionalism to professionalism. Today the business adopts professional approach in their management. They try to bring a balance between profit, customer satisfaction and social welfare. It concentrates in adopting professional approach in conducting the activities of the business.

3.5 Characteristics of Entrepreneurship:–

From the above discussion it is possible to identify the role of entrepreneurship in the economic system. McClelland has divided the characteristics of entrepreneurship into six key elements further referred by Vieira and Walter in ‘Entrepreneur’ (2007).

1. Accepting risk: An entrepreneur seeks opportunity and tries to exploit it. In this process he is making certain decisions for an uncertain future. He accepts this risk. No doubt, he makes the best possible use of forecasting techniques, but certain elements of uncertainty of risk remains.
2. **Energetic Innovative activity:** An entrepreneur has his unique way of handling the situation while performing routine jobs also he moves forward with creative ideas. He tries to make the best of available material and human resources. He motivates others by his own enthusiastic approach. As an innovator an entrepreneur tries to introduce new variety of product, modifies the method of manufacture and accommodate new technological developments, discovers new marketing opportunities, new sources for raw materials and develops sound organization to meet the objectives.

3. **Individual responsibilities:** He is solely responsible for the outcome of his bold enterprise. The gain or loss of his endeavor is enjoyed by him.

4. **Knowledge of the results:** An entrepreneur knows how to measure his performance. Profitability or money income may one of the measures of assessment of his work. He must have clear notions about what he expects from the enterprise- social status, more income or scope for creativity.

5. **Anticipation of future possibilities:** An entrepreneur strives for expanding his business activity. His innovativeness is reflected in the plans that he formulates for future. While doing so he forecasts the future possibilities. His skills lies in looking ahead and preparing himself and his organization for making the best of the opportunities.

6. **Organizational skills:** He has to organize resources and man power in order to put them to a productive use. The entrepreneurship involves proper coordination of all activities concerned with business. For fruitful utilization of resources, the entrepreneur has to build a suitable organization structure and man it with appropriate manpower.

3.5.1 **Entrepreneur-Manager:**

The role of manager is different from that of an entrepreneur. Yet an entrepreneur is required to perform several functions, as a manager and at times is found to be an entrepreneur.

Essence of entrepreneurship lies in risk taking and innovative approach. These are basic traits in an entrepreneur. But they are not necessary prerequisites of a successful manager. A manager has a defined authority and the responsibility he shoulders is limited. He has to act in conformance with the basic policies laid down by the organization. He has some freedom as far as his field of activity is concerned.
but he cannot go against the policies and procedures adopted by the firm. He cannot choose to be his own master in decision making. He has to take into account the effect of his actions on other department and people.

An entrepreneur, on the other hand, has a wide field of business open for choice. He is his own master and shoulders enormous liability. He fixes up policies and procedures for the working of his organization. He can handle the resources and people in a better manner if he has acquired the managerial skill.

An entrepreneur stands in the capacity of an owner when he deals with the people working under him. A manager doesn’t have this capacity. He cannot make independent decisions in the interest of employees unless he gets them sanctioned from the board. His position may become awkward when employees show disbelief in him.

Schumpeter accepted a manager as an entrepreneur only while he was making a creative or innovative response to the situation. The managers have wide scope to show entrepreneurial talents in research and development of products, expanding markets, introducing new products/services, facing a challenging competitive market, experimenting with new types of raw material etc. An entrepreneur has also to be successful in the managerial functions like planning, organizing, coordinating and controlling.

The distinction between a manager and an entrepreneur cannot however, be established in respect of small industrial unit. The promoters play the role of entrepreneurs till the time the unit gets started. They accept risks and experiment with creativity. But once the small industry starts with its normal activities, the promoters cease to be the entrepreneurs and assume the capacity of managers. Especially when the business doesn’t involve much of uncertainty, the entrepreneurial activities are gradually transformed into managerial activities.

### 3.6 Functions of an entrepreneur:

Economists and scientists have stressed different aspects of entrepreneurial functions. According to Cantillon and J.B. Say, an entrepreneur was mainly concerned with risk-taking. He was responsible for uncertain situations and making decisions the result of which were not certain and calculated. Economists like Marshall gave more emphasis on organization and management of resources. For them an entrepreneur was a person who can bring all the factors for production
together and organize them in such a way that there most efficient use should be possible. Schumpeter, on the other hand, regarded innovation to be the primary function of an entrepreneur. According to him the entrepreneur is creative in every activity that he undertakes. Mrs P. Joshi and Mr. A. G. Joshi in ‘Business Environment and Entrepreneurship’ have reviewed all these functions of an entrepreneur.

a) **Innovation:** -Clemence defines innovation as “doing the new things or doing up the things that are already done in a new way.” The success of an entrepreneur lies in his ability of tracing the opportunity and using it in the best possible way. His business practice would involve planning, financing, and marketing, but in all these aspects he will have something unique of his own

1) He locates marketing gaps and introduces new kinds of services.
2) Products or services that he offers are not new but his combination of factors, his method of distribution, and after sales benefits are new and novel.
3) He is always on his toes to acquire new types of material, modify design of the product and the like..
4) He accommodates technological improvements. He has to keep himself abreast with advanced technology.
5) Creates new customers for his products.

b) **Risk bearing:** -As an entrepreneur is assuming risks of various kinds when he takes the responsibility of running an enterprise.

1) He has risked the initial capital that he has invested because the rate of return and the time for reaching the set-off stage cannot be defined.
2) He bears financial risks as he might have left a comfortable job providing security and post retirement benefits in order to jump into the novel venture.
3) He may be required to forego several comforts on account of uncertainty of income. In a way he has risked his personal career, his chances of advancements, and an easy-going life.

An entrepreneur accepts such a multiplicity of risks with confidence. Entrepreneurs like challenging jobs because they get satisfaction by doing them. But they do not prefer such tasks which succeed only on chance and not on their efforts. They are ready to accept such ventures which involve moderate risks. They do a lot of
planning by studying market situation, choosing products, machinery and processes. This helps them to anticipate probable difficulties and reduce the amount of risks.

The risk bearing function is also involved in the innovation activity of an entrepreneur, when he thinks of introducing a new product or starting a new venture. When an entrepreneur launches a project with which he is not well conversant, he has to accept different kinds of risks:

- **Technological risks**: These are involved because he has to get accustomed to a new but well developed technology and is not sure about its effects and implications.

- **Social risk**: His relations with people around him may change. He may enter into such a field of activity, which according to tradition is resented by others. He may be required to drop certain old relationships and go in as an employer or as a competitor. The reaction of people around him towards his changing role as an entrepreneur is quite uncertain.

- **Economic risks**: By investing his savings in building up resources like material and machinery.

- **Career risks**: These are also involved as he might be leaving his previous well-paid job in order to develop his own business. He doesn’t have any guarantee that all his capacities and skills will be used properly in his new venture.

- **Environmental risks**: these are inherent in developing entrepreneurial business. The people around him, the cultural atmosphere, the government’s policy toward supporting entrepreneurs, all these are subject to change. He may be required to enter such areas of environment with which he is unfamiliar till now.

c) **Organization and management of resources**:

The entrepreneur develops an organization suitable for his work, directs the activities and solves the problems and maintains the flow of work. The entrepreneur may have efficient subordinates working under his guidance. He has to co-ordinate efforts and controls their activities. On the job supervision is also necessary to maintain discipline and assure quality of work.

He must perform the function of accounting and financial control. He has to maintain his market position. In performing all these managerial functions, his main object is to use all available resources in the best possible way.
As a good organizer he has to keep in touch with environmental changes, such as legal, social, economic and political.

He has to keep a close watch on the progress done by his firm from time to time. To be successful, an entrepreneur has to render managerial functions effectively.

3.7 Types of entrepreneurs:

Entrepreneurs have their own typical qualities and their unique way of handling the problems. There are four broad categories referred by Gupta B.L. and Kumar Anil in “Entrepreneurship development”(2009)

1) Innovating entrepreneurs:- The innovative attitude is an essential qualification for entrepreneurship in schumpters opinion. An innovative entrepreneur is creative in his approach. He may innovate in any field of his activity. He may find out a new product or service, to suit the demands of his clients. He modifies his method of manufacture in order to accommodate technological improvements. He may find out new areas and new customers to market his product. Thus an innovating entrepreneur is never at rest.

2) Imitating entrepreneur: - As the name suggest these entrepreneurs imitate the ideas already put in practice by innovating entrepreneurs. The imitating entrepreneurs pickup useful ideas from innovating entrepreneurs. They borrow knowledge, technology and skills. They create a workable structure of industry and trade. The imitating entrepreneurs are less creative but they are more active and hard working.

3) Fabian entrepreneurs: - These are shy inactive entrepreneurs. They are not willing to accept risk and generally perform only such activities where success is guaranteed. They show great caution and skepticism in accepting any change. The Fabian entrepreneurs are lazy and do not show any enthusiasm which would increase the quantum of their work. They are under the dominance of customs, religion and tradition.

4) Drone entrepreneurs: -These entrepreneurs perform their functions in a stereotypical manner. They are not interested in revising their methods of production. They take least interest in finding out new resources new uses of products or more time saving methods of manufacture. They keep themselves shut from the opportunities.
3.8 Professionalism of entrepreneurs:-

Enter the real world, and being an entrepreneur means business. One has to be serious when we ask people for money.

We come to understand that developing a successful business is more than an idea; it’s the implementation of that idea. That means, his own team, his understanding of the market, his company policies all contribute to a successful business.

What’s more, to access investor funds one needs to convince investors that he is confident in what he is doing, and to do so he must show an in depth knowledge of the market, show professionalism throughout his organization and be backed by a team which is aware of a target and goal of the enterprise.

A professional is someone who is willing to learn new skills and sharpening existing ones at any moment in life. A committed professional command more respect than a casual

3.9 Qualities of successful entrepreneur –

Schumpter(1934) describes the psychology of an entrepreneur motivated by “the dream and the will to found a private kingdom…the will to conquer, the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself…..”Veciana (1989) gives a psychological profile of the entrepreneur, whose personal characteristics most often scrutinized are:

a. Power need to overcome in both power restriction to other, desire for independence and quest for more power.

b. Necessity of self awareness,

c. Drive to achieve benefits and ambition;

d. Wish for enhancing the results of his action and feeling of responsibility therefore, disposition to take high risk; and charisma and leadership.

What are the qualities that one needs to be an entrepreneur who SUCCEEDS and ENDURES? Initially, it is a higher than average degree of self-confidence, drive, result orientatedness and focused vision that leads to entrepreneurial success. Ultimately, it is the softer side, the people side, and the influential side that allows the entrepreneur to maintain their success.

1. Patience: One of the greatest challenges that entrepreneurs face is the lack of understanding and appreciation as to why others don’t think and act the way they
do. They simply don’t have patience when others think and act differently but the work of others is critical to their enduring success. Chill. Display patience. Adjust expectations. Reward efforts as well as results.

2. **Trust**: Entrepreneurs have tremendous belief, faith and trust in their own abilities. It is essential, however, that they trust, sincerely and whole-heartedly in their people. Entrepreneurs must be willing to let others perform at their level, with their own style. If the right people are selected and are provided the right training and direction, it is necessary to trust that they will get the job done.

3. **Influence**: When it comes to management style, people either manage by power, authority or influence. Power and authority result in short-term wins but it is the ability to influence (motivate, inspire, lead by example) that provides long-term results.

4. **Self-awareness**: The most successful entrepreneurs have a heightened self-awareness which manifests on two levels. The first is of themselves (who they are). The second and perhaps more important, is the understanding of the behavioral requirements of their position (who they need to be to get the job done). It is this understanding that allows entrepreneurs to truly manage the GAP that exists between who they are and who they need to be.

5. **Strategic Vision**: Having a strategic vision is largely a gift of personality. People typically come in two flavors. Some have more of a Generalist personality (big picture, visionary, strategic). Others are more of a Specialist (expert, detail oriented and tactical). The Specialist typically flourishes when able to deal within their areas of expertise. The Generalist must provide the framework of tactical structure for the Specialist. The Generalist has to turn off the vision long enough to focus on the tactical.

6. **Accountability**: The most successful entrepreneurs have a strong system of accountability where they define the metrics necessary to hold both their employees, as well as themselves, more accountable. It is said that, ”If you can’t measure it… you can’t manage it!”

7. **Education**: This includes peer-to-peer learning, seminars, professional coaching and higher education.

8. **Innovative vs. Creative**: These elements also take on a personality slant. Creativity seems too largely from analytical capacity which is also our source of imagination. Those that are highly “dominant” seem to have a greater level of
innovation, or ability to take the ideas of others and find additional application and opportunity. As an example, Xerox created mouse and Apple was the innovator who turned it into a more marketable product.

9. **Personality**: We have discussed self-awareness and the GAP that exists between who we are and who we need to be. Ideal entrepreneurs are assertive, aggressive, highly results oriented, good collaborators, consensus builders, team builders, driven, multi-task and handle pressure well, independent and strong willed.

In the simplest theoretical forms for studying entrepreneurship, entrepreneurs cause entrepreneurship. That is, \( E = f(e) \) states that entrepreneurship is a function of the entrepreneur thus the examination of the entrepreneurial characteristics does help in the evolving understanding of entrepreneurship.

Table No. 3.1

**Characteristics often attributed to entrepreneurs**

<table>
<thead>
<tr>
<th>Confidence</th>
<th>Perseverance</th>
<th>Energy</th>
<th>Resourcefulness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to take calculated risk</td>
<td>Dynamism, leadership</td>
<td>Optimism</td>
<td>Versatility, knowledge of product, machinery, market, technology</td>
</tr>
<tr>
<td>Creativity</td>
<td>Ability to influence</td>
<td>Ability to get along well with people</td>
<td>Initiative</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Intelligence</td>
<td>Orientation to clear goals</td>
<td>Positive response to challenges</td>
</tr>
<tr>
<td>Independence</td>
<td>Time competence</td>
<td>Quick decision maker</td>
<td>Responsibility</td>
</tr>
<tr>
<td>Foresight</td>
<td>Accuracy</td>
<td>Cooperativeness</td>
<td>Profit orientation</td>
</tr>
<tr>
<td>Ability to learn from mistakes</td>
<td>Responsiveness to suggestions and criticism</td>
<td>Sense of power</td>
<td>Pleasant personality</td>
</tr>
<tr>
<td>Egotism</td>
<td>Courage</td>
<td>Imagination</td>
<td>Perceptiveness</td>
</tr>
<tr>
<td>Tolerance for ambiguity</td>
<td>Aggressiveness</td>
<td>Capacity for enjoyment</td>
<td>Efficacy</td>
</tr>
<tr>
<td>Commitment</td>
<td>Ability to trust workers</td>
<td>Sensitivity to others</td>
<td>Integrity</td>
</tr>
<tr>
<td>Maturity, balance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Entrepreneurial management, by Mr. Bhargav and Shivganesh (2008).]
3.10 **Reasons for failure of entrepreneur** –

Entrepreneur tries to develop his industry by taking all risks and putting all his efforts and passion to make it successful. Though his confidence level is high, he always has a fear of failure which he has to overcome. Most of the times this fear comes because of internal and external environmental factors of the business. In small scale industries there are many short comings which may lead to the business failure. Following are the few reasons of failure Referred in Dynamics of Entrepreneurial development and management by Mr. Vasant Desai.

- a) Management deficiency.
- b) Inadequate availability of finance and no availability at the right time.
- c) Outdated technology; and
- d) Marketing problems.

These problems can be analyzed as internal causes and external causes

**A. Internal causes**

1. **Planning :-**
   a. **Technical feasibility.**
      - Inadequate technical know-how
      - Location disadvantage
      - Outdated production process
   b. **Economic viability**
      - High cost of inputs
      - Break-even point too high
      - Uneconomic size of project
      - Under estimation of financial requirements.
      - Unduly large investment in fixed assets
      - Over estimation of demand.

2. **Implementation**
   - Cost over runs resulting from delays in getting licenses and sanctions etc.
   - Inadequate mobilization of finance.

3. **Production**
   a. **Production management.**
      - Inappropriate product mix.
- Poor quality control.
- Poor capacity utilization.
- High cost of production
- Poor inventory management
- Inadequate maintenance and replacement
- Lack of timely and adequate modernization etc
- High wastage

b. **Labor management.**
- Excessively high wastage structure
- Inefficient handling of labor problems
- Excessive manpower
- Poor labor productivity
- Poor labor relations
- Lack of trained skilled labor or technically competent personnel

c. **Marketing management**
- Dependence on a single customer or a limited number of customers/ single or limited number of products
- Poor sales realization
- Defective pricing policy
- Booking of large orders at fixed prices in an inflationary market
- Weak market organization
- Lack of market feedback and market research
- Lack of knowledge of marketing techniques
- Unscrupulous sales/ purchase practices

d. **Financial management**
- Poor resources management and financial planning
- Faculty costing
- Liberal dividend policy
- General financial indiscipline and application of funds for unauthorized purposes
- Deficiency of funds
- Over trading
- Unfavorable gearing or keeping adverse debt-equity ratio
- Inadequate working capital absence of cost consciousness
- Lack of effective collection machinery

e. **Administrative management**
  - Over centralization
  - Lack of professionalism
  - Lack of feedback to management
  - Lack of controls
  - Lack of timely diversification
  - Excessive expenditure on R & D

B. **External causes**

a. **Infrastructural bottlenecks**
  - Non-availability of irregular supply of critical raw material or other inputs
  - Chronic power shortage
  - Transport bottlenecks

b. **Financial bottlenecks**
  - Non-availability of adequate finance

c. **Government controls and policies etc**
  - Governmental price controls.
  - Fiscal duties
  - Abrupt change in government policies
  - Procedural delays on the part of the financial / licensing / other controlling or regulating authorities.

d. **Market constraints**
  - Market saturation
  - Revolutionary technological advances rendering one’s products obsolete

e. **Extraneous factors**
  - Natural calamities
  - Political situation (domestic as well as international)
  - War
  - Sympathetic strikes
  - Multiplicity of labor unions
3.11 Study of management functions: -

In an enterprise any managerial analysis should take into account both the external and internal systems, especially the internal system. A knowledge of internal system requires an understanding of the physical, human, financial and technological make-up of the organization. It includes all the functional areas that operates as the functional sub-systems of the organizational system. An analysis of the external system enables us to evaluate consumer behavior. While a study of the internal system makes it possible for the firm to have greater discretion for required changes.

Peter Drucker says “Planning is a continuous process of making present entrepreneurial decision (risk taking) systematically and with best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectations through an organized systematic feedback.”

3.11.1

According to Mark. A. vonderembse and Gregory. P. White , Operation Management (2006) there are five functions of management namely planning, organizing, motivating, directing and controlling.

- Planning:

Planning is basic to all managerial operations. It involves selecting the objectives and policies, programs and procedures for the achievement of business objective. It is considered as a strategic area of management, especially in the context of the rapidly changing environment and globalization of business operations. Plans are made to operate in future. It is deciding in advance what to do, when to do, how to do and who is to do. It decides particular course of action to be followed. It requires thinking before acting. It aims at doing the things in an orderly manner.

- Characteristics of planning:
  1. Planning contributes to the objectives.
  2. Planning is basic to managerial operation.
  3. Planning is an intellectual activity.
  4. Planning is directed towards efficiency.
5. Planning is a continuous process.
6. Planning helps decision making.
7. Planning is an important primary or basic function.
   a. Planning is an expensive process as it takes up a great deal of efforts and time.
   b. Planning is a time consuming process: It involves a good deal of investment in time.
   c. It depends on accurate and reliable data.
   d. It has limitation of several external factors beyond the control of enterprise.
   e. People’s resistance to change is also a limitation of the planning.

- **Types of planning:**
  1. Strategic planning: Strategic planning is the overall planning of an enterprises objective.
  2. Tactical planning: Tactical plans define the actions of major activities and other sub-units that are required in the strategic plan. Thus helping to allocate activities and resources.
  3. Operational planning: The operational planner deals with relative certainty and little risk taking. The information for operational planning is almost exclusively internal.
  4. Short-term planning: Short term plan refers to a plan for a period covering six months. It is a tool for day to day management. It can be divide in two categories viz. Action plan and Reaction plans.

**3.11.2 Organizing:**

Organizing is the second fundamental function of management. The organizing process results in the creation of a formal organization structure. It is a process which consists of determining the activities to be performed in an organization, grouping these activities and assigning authority and responsibility to the people employed in the organization. According to Amitai Etzioni, an organization is a social unit or human grouping deliberately structured for the purpose of attaining specific goals. It is necessary to determine who reports to whom in the organization. It is also important some individuals to be incharge of coordinating the efforts of the members of the organization.
• **Process of organizing:**

  It is a dynamic process which consists the following four major sub-processes.

  1. Identification of activities: one has to identify the series of activities to be carried out in order to achieve desire objective.

  2. Grouping of activities: once all the activities are identified then the related activities are grouped together. This may also be referred to as departmentation.

  3. Assigning activities: The competent personnel/manpower that could carry out these activities are to be identified. This is referred to as staffing.

  4. Delegation of authority: To carry out any activity one must have enough authority. If the authority is not their one cannot be held responsible for the attainment for the results.

• **Designing of organizational structure:**

  The manner in which the components of an organization interrelate and interact influences the design of an organization. An organizational structure defines how job/tasks are formally divided, grouped and coordinated. There is no one best way to design an organization and its sub-units. Every organizational structure is custom made.

  3.11.3 **Direction:**

  Communication of orders, instructions and decisions is not sufficient. What is required is that the workers are timely and adequately guided on the line which they have to follow. In the absence of such guidelines irregularities may creep in. these guidelines go by the name of the direction. These needs to be provided in an easy, simple, understandable and acceptable manner. As Urwick and Brech remarks, “Direction is the guidance, the inspiration, the leadership of those men and women that constitute the real core of the responsibilities of management.”

• **Importance of direction:**

  It is the heart of administration. Effective direction provides following benefits:

  1. Initiates action: Direction constitutes the life spark and like an electric current it sets into motion the enterprise. Without direction, planning, organizing and staffing become ineffective.
2. Ensures coordination: Coordination is a necessary byproduct of effective direction.

3. Improves efficiency.

4. Facilitates changes.

5. Assists stability and growth.

6. Effective leadership and communication provides stability in the organization and helps to ensure that it’s parts work in a harmonious way.

Important components of direction are Motivation, Leadership, Communication, Supervision, and Coordination.

3.11.4 Controlling:

Controlling is the final link in the chain of management activities and brings the function of management cycle full circle.

**Figure No. 3.3**

Management functions

Effective control systems use mechanisms to monitor activities and take corrective action, if necessary. The controller observes what happens and compares that with what was supposed to happen. He or she must correct below standard conditions and bring results upto expectations. Control facilitates delegating activities to employees. Controllers/ supervisors are held accountable for their employee’s performance. The controlling system is needed to set standard guidelines, avoid confusions, development of a model system, to measure progress, preparation for uncalled problems, suitable control system for organization culture and economy of control.
Types of control:
1. Direct control: The individual responsible for the wrong he himself do the corrections on his own. The controlling in this manner is called direct control.
2. Preventive control: As the name suggests preventive action is taken i.e. during the process or before the process is complete, certain measures should be taken to avoid confusion.
3. Feed forward control: Feed forward controls focus on operations before they begin. Their goal is to prevent anticipated problems.
4. Concurrent control: Concurrent controls apply to processes as they are happening, while work is being performed.
5. Feedback control: Feedback controls focus on the results of operation. They guide future planning, inputs and process design.

In order to study how Management Functions can translate into Production functions, we need to look at the connecting factor between the two that is Effective performance management.

3.12 Effective Performance Management –
For an effective performance of any venture entrepreneur`s most important responsibility towards his organization is to manage performance well. One needs to manage his own performance but also the performance of many individuals. His ability to manage performance effectively will contribute to his organization success and will positively influence the people who work within the organization.

All employees play important roles in the success of their company. When employees are clear about what is expected of them and have the necessary support to contribute to an organization efficiently and productively, their sense of purpose, self – worth and motivation will increase. Just as a solid foundation is critical to building and supporting a home, a solid performance management plan is essential for developing an organization and people within it. An effective performance management system should serve as a corner stone and driving force behind all decisions, work efforts, and resources allocations. (Sheila J. Costello. - Effective performance management)
• **Goal Setting**: An important factor for Performance Management.

Goals are statements of general direction or intent. They are broad, timeless, and unconcerned with particular achievement within a specific time period. Goals are aspirations.

Objectives are specific statements that describe results to be achieved, when and by whom, in order for a goal to be accomplished. They are quantifiable and/or observable achievements that can be measured.

One way to check that your objectives are well written is to use the acronym SMART.

- **Specific**: Work objectives must be clear, concise, and simple to understand.
- **Measurable**: Objectives must be measurable and quantifiable wherever possible. Examination of completed work should lead to determine whether objectives were accomplished. All need to agree on away to measure this.
- **Attainable**: Although objectives should stretch and challenge an employee’s capabilities, they must be within reach.
- **Result-oriented**: Focus should be on results to be achieved.
- **Time-Bound**: Objectives should be time bound and trackable.

After reviewing the management functions and effective performance management let us now see how they relate to Production Function.

### 3.13 Production function: -

Production process is a very vast subject as it covers all management functions and also engineering functions. It is applicable to all types of industries, small scale and large scale. However, we restrict our scope to small and tiny entities. It is necessary to understand the term “Production”.

In economics, production means creation of utility by the application of man’s mental and physical powers to the materials already supplied by nature. Prof. Nicholson defines production as “The production of economic utilities which are in general the results of labor, possess exchange value and are appropriated.”

According to Jaya Banerjee, “Production Management”- ‘It is important to note that nature gives the natural resources which man changes by dint of his labor to make them more useful to him and for this purpose he changes the form of matter already existing. Production may, therefore, be defined as addition of value by
moving the articles from one place to another or by changing its form, or by adjusting the time of its use so that it will command a higher value than before.

The core of a production system is its conversion sub-system where in workers, materials and machines are used to convert inputs into products and services. This process of conversion is at the heart of production function and is present in some form in all organizations. It may be stated that every organization irrespective of its purpose, has a production function, where departments and personnel play a central role achieving the objectives of the organization.

View the production function in three angles
i) Production as a system
ii) As an organizational function
iii) Decision making in production.

i) **Production system** – receives inputs in the form of materials, personnel, capital, utilities and information. These inputs are changed in a conversion sub-system into desired products and services which are called the outputs.

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Activities</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>People service</td>
<td>Planning</td>
<td>Quality customer</td>
</tr>
<tr>
<td>Time</td>
<td>Organizing</td>
<td>Revenue earned</td>
</tr>
<tr>
<td>Money</td>
<td>Coordinating</td>
<td>Revenue saved</td>
</tr>
<tr>
<td>Equipment</td>
<td>Directing</td>
<td>Sales made</td>
</tr>
<tr>
<td>Supplies</td>
<td>Developing</td>
<td>Products made</td>
</tr>
</tbody>
</table>

If the output is acceptable, no changes are required in the system. If the appropriate standards are not met, corrective action is required in the system. The control sub-system ensures a uniform level of system performance by providing feedback information so that corrective action may be taken.

ii) **Organizational function** - The core of a production system is its conversion sub-system where in workers, materials and machines are used to convert inputs into
products and services. This process of conversion is at the heart of production function and is present in some form in all organizations. It may be stated that every organization irrespective of its purpose, has a production function, where departments and personnel play a central role achieving the objectives of the organization.

**iii) Decision making** – For managing production function, it is required to take a series of decisions. They plan, organize, staff, direct and control all the activities in the process of converting all inputs into finished products. At each level it is expected to make decision. There are three general categories.

a. Strategic decision.- major, long term, related to product, process, mfg. facilities.

b. Operational. - planning production to meet demands.

c. Control decision. - relating to day-to-day activities of workers, quality of product, production and over heads.

Production management refers to the application of management principles to the production function in a factory that is planning, organizing, directing, and controlling. First is the development of factory system of production.

Operation Management.-It indicates that operation management consists of tactics such as scheduling work, assigning resources including people, equipment, managing inventories, assessing quality standards, process sequence etc. Operation management is understood as the process whereby inputs are converted into useful product. (Production and operation management- S.A.Chunawall and Dr.D.R.Patel.2009)

**3.13.1 Areas of productivity :**

- Improving volume of production
- Reducing rejection rate
- Minimizing rework rate
- Maintaining delivery schedules
- Controlling idle machine and manpower hours
- Updating processes and procedures
- Decreasing machine set-up time
- Controlling overtime
- Good house keeping
- Eliminating accidents
- Effective grievance-handling
- Minimizing inventory
- Total quality management
- Business process Re-engineering
- Establishing Industrial engineering norms

Scope of production and operation management is indeed vast.

Operations play critical role in organizations. Operations are the means by which organizations produce goods and services. Services are intangible products, and goods are tangible (physical product).

According to Mark A. Vonderembse and Gregory White operations should be viewed as a part of the total organization which may also include such specialties as accounting, finance, and marketing, information systems, engineering and personal. When relationships among operations marketing and engineering are strong it is possible to design high quality products that are well liked by customers and cheaper and easier to produce. Understanding these links among functions in an organization is critical.

3.13.2 Scale of production –

Production may be carried as either on large scale or on small scale. Here, our study is focused on small scale production.

A small business unit is one where the production is carried in small size and very small number of laborers is employed and use of machinery is used but little and the capital investment is also not very high. A small company has its own economies and their inbuilt advantages and limitations of production.

3.13.3 Advantages of small scale: -

1. The advantage of master’s attention to detail helps to avoid certain wastes inherent in large business such as carelessness and slackness of the employees in handling machines and materials.

2. The work of the employee can be more easily co-ordinate and quick decisions can be taken to meet the changes in the conditions of demand. Thus losses due to over production or sudden stoppage or work can be avoided.
3. The closer contact between the master and workers makes it possible to evoke interest of the workers in their work and to increase their efficiency; there is no shirking by his foreman/ workman no divided responsibility, no sending half understood messages backwards from one department to another. Better attention can be given to promotions and rewards according to efficiency and to avoid strikes and lock-outs.

4. Attention can be given to the tests of the individual customers as in the case of tailoring and painting and thus even though the cost of production is higher the customer is willing to pay it.

5. Greater suitability to businesses whose markets are by their nature limited to small areas.

6. Appreciable savings in the cost of transport and distribution of goods among consumers of the limited areas served by a small unit.

7. The system provides independence of the workers allows their living in small groups in healthy open air surroundings amidst their kiths and keens.

3.13.4 Limitations-

1. A small unit has very little capital and has to borrow extensively on short term basis at a high rate of interest and thus assumes greater risks.

2. The production cost is high and the article produced on small scale does not conform usually to standards and their market is rather narrow.

3. The advantages of internal economies cannot be fully achieved such as bulk purchasing, distribution on large scale, research and experimentation facilities etc.

4. Specialized machines cannot be used because of their costly nature and further costly schemes of publicity cannot also be undertaken.

After confirming the scale of the business we have to understand the link of the functions (industrial engineering function) for professional control and management of the business. Small businesses have number of resource constraints, which are not just financial, but also related to understanding work and using latest tools and technology. Business needs to have the right processes and tools so that system gets established in the organization.

At this juncture, one can not overlook the industrial and systems engineering.
3.14 Industrial Engineering:-

According to Adedeji B. Badiru, [Hand book of Industrial and systems Engineering]:-Industrial Engineering is the engineering of work process and application of engineering methods, practices, and knowledge to production and service enterprises. Industrial engineering activities and techniques include the following.

- Designing jobs[determining the most economic way to perform work]
- Setting performance standards and benchmarks for quality, quantity, and cost.
- Designing and installing facilities.

An important aspect of industrial engineering is its concern with human element in process. The classical engineering of the late 19\textsuperscript{th} and early 20\textsuperscript{th} centuries emphasized time studies, methods engineering, costing methods, and employee incentives to make human interaction. It is widely recognized that the occupational discipline that has contributed the most of the development of modern society is engineering, through its various areas of focus. Engineers design and build the infrastructures that sustain the society. This includes factories, roads, buildings, bridges, canals, communication systems, transportations, etc. Alliance between “industry” and IE is the core basis for the profession.

I.E. functions are essentially management functions for controlling and managing any activity. Functions needs to be applied are,

3.14.1 Functions of Industrial Engineering:-

Functions of industrial engineering may be classified in to three groups as under.

1. Those which are usually assigned.
2. Those which are most frequently assigned.
3. Those which are less frequently assigned.

1. The first usually assigned group of functions include:
- Facilities Planning.
- Method Study.
- Work Measurement.
- Work System Design.
- Remuneration Systems.
- Organization and Methods.
2. Most frequently assigned group of functions.
   • Project management and support.
   • Cost estimation and cost control.
   • Inventory control.
   • Production control.
   • Tools and equipments selection.
   • Preventive maintenance program.
   • Energy conservation.
   • Product improvement studies.
   • Process control studies.

3. The third frequently less assigned group of functions assigned to industrial engineering to satisfy specific management needs are as follows:
   • Project feasibility studies.
   • Evaluation of prospective suppliers.
   • Internal audit.
   • Organization and business consultancy.
   • Performance reviews.
   • Training programs.

3.14.2 Tools and Techniques of Industrial Engineering

   Industrial engineering involves the application of a set of techniques to analyze, design and control a productive system (i.e. productive system is the system employed to produce goods and services). According to Mr. S. Chand, “Industrial Engineering and Production Management” (2008); major tools of industrial engineering are:

1) **Method Study** to determine the most effective method of performing a job, the most logical layout of manufacturing facilities and the smooth flow of men and materials throughout the organization.

2) **Work Measurement** to determine the time required by the workman to complete a specified task under specified conditions and at the defined pace of performance.

3) **Motion Economy** to analyze motions employed by the workmen to perform a task. The concept is especially useful in mass production to improve work-bench layout and evolve logical sequence of assembly parts.
4) **Financial Incentives** to evolve rational and equitable plan to reward workmen for better performance.

5) **Organization and Methods** to scientifically review, simplify and improve administrative and office procedures, forms and register, office machines and equipment, office layouts and work place arrangements.

6) **Job Evaluation** to determine the relative worth of jobs and of an organization as a basis of sound wage structure.

7) **Factory and Office Layout Studies** to place right equipment coupled with right method, in the right place, to permit the processing of a product in the most effective manner through the shortest possible distance and through the shortest possible time.

8) **Material Handling Studies** to scientifically examine the movements of materials through various departments of the company so as to eliminate those which are wasteful and mechanize others to increase speed and efficiency.

9) **Cost Benefit Analysis** is the determination of the ratio benefits of a project to the cost of the projects taking in to account the benefits and costs that cannot be expressed in monetary terms.

10) **Value Analysis/ Value engineering** to ensure that the necessary functions are performed at minimum cost without detriment to quality, reliability, performance and appearance.

11) **Capacity planning** to determine requirement of machines and men to meet targets of production.

12) **Production Planning and Control** is to plan the production in advance, set rate of each item, fix stating and finishing dates for each item, authorize shop activity by release of production orders, and follow up the progress of products and expedite wherever required.

13) **Inventory / Stock control** to determine economic lot sizes and operating levels of stock items to ensure their availability with minimum capital lock up.

14) **Ergonomics or Human Engineering** is to study the relationship between men and his working conditions so as to minimize physical and mental strains on workers, to create a work place befitting the needs and requirement of human body structure.

15) **Group technology** is to examine and list components of the product in families according to pre-determined coding and classification system, determine sequence.
of operations and manufacturing processes for each family of components and to specify group of machines for the manufacture of the families of the components for the required level of output.

16) Operation Research is the application of scientific techniques to complex business problems so as to provide those in control of the system with optimal or near optimal solutions to the problems.

3.15 The importance of financial information for entrepreneurs.

In today’s competitive environment it is necessary for any entrepreneur to be proactive in his approach towards the growth of his business. In earlier chapters we have seen the effects of various management aspects on business, but this chapter aims at throwing some light on facets of financial information which is necessary for entrepreneur to be proactive in his actions and finally succeed in his aim providing best products or services. This chapter aims to introduce the financial ratios to entrepreneur for taking well informed decisions.

Financial statements are great tools entrepreneurs can use to control their business. These statements provide overall synopsis of business on the basis of which we can further drill down, analyse and infer the conclusions by using financial analysis. Financial analysis is defined as the process of discovering economic facts about an enterprise and/or a project on the basis of an interpretation of financial data.

Financial analysis also seeks to look at the capital cost, operations cost and operating revenue. The analysis decisively establishes a relationship between the various factors of a project and helps in maneuvering the projects activities. It also serves as a common measure of value for obtaining a clear cut understanding about the project from the financial point of view.

- Steps in ratio analysis:
  1. Collection of information:
     In the first step of ratio analysis raw data is collected from the financial statements for computing different ratios.
  2. Computation of ratios:
     In the second step necessary ratios are computed between the figures having cause and effect inter relationship. Such ratios may be expressed in terms of times, multiples, proportion or percentage depending on the specific requirement.
3. **Making comparison:**
   The ratios computed are compared with the ratios of the past year or years of the same concern or with the standard ratios of the industry to which the concern belongs.

4. **Arriving at decisions on comments:**
   In the next step the significance of these ratios must be conceived on the basis of comparative interrelationship among them in such a manner so that adequate comments can be made for helping the users of accounting information to arrive at their decisions.

5. **Preparing report:**
   In the final step necessary reports are to be prepared for communicating analysed information and the relevant comments to the management.

   For this reason important accounting ratios are discussed below grouping them on the basis of sources of components or financial statements. The purpose and interpretations of the selected ratios have also been discussed. According to ICWAI following ratio stand important in analyzing and interpreting a financial situation of an organization.

### 3.15.1 BALANCE SHEET RATIOS :

1. **Current Ratio -**
   
   **Formula:** Current Assets /Current Liabilities
   
   Current Assets = Closing stock + Debtors + Bills Receivable + Prepaid Expenses + Advances Given + Cash at Bank
   
   Current Liabilities = Creditors + Bills Payable + Outstanding Expenses + Tax Liability + Bank Overdraft (short-term) Proposed Dividend
   
   **Purpose or Use:** It is used for measuring short-term liquidity or solvency. It assesses whether the current assets of the firm are sufficient to meet its current liabilities.

   **Significance and Interpretation:**
   
   a) A comparatively higher current ratio indicates a good liquidity and satisfactory debt repayment capacity of the firm. It is also an indicator of safety of investment made by creditors.
   
   b) A low current ratio than the standard indicates a bad liquidity, over-trading, less working capital and unsatisfactory debt repayment capacity of the firm.
The investment of creditors in a firm having a low current ratio may not be too safe.

c) Current ratio expressed in terms of percentage is known as working capital ratio. This ratio also indicates the margin of safety or margin of caution of the creditors.

d) A high current ratio always indicates a sound debt repayment capacity and a low current ratio interprets this position in an adverse manner—this proposition may not be universally true in all cases. If the current assets do not have a good quality, like they consist of more obsolete stock, slow paying debtors, etc. the good liquidity position as indicated by a high current ratio may not be so good in reality. On the other hand if the current assets consist of high quality stock and well-paying debtors even a current ratio lower than the standard may speak of the sound solvency of the firm.

e) In measuring the short-term liquidity or solvency current ratio should not be taken as the sole parameter. Other liquidity ratios are also to be calculated for this purpose.

f) If there is a recession in a particular industry, all the firms belonging to the industry may have large unsold inventory and long outstanding debtors. These would increase current assets and result in a high current ratio. But in this case the trend indicated by the high current ratio may not stand favourable for the firms.

2. Liquid or Quick or Acid Test Ratio -

Formula: \( \text{Quick or Liquid Assets / Quick or Liquid Liabilities} \)

Quick or Liquid Assets = Current Assets - (Stock and Stores + Prepaid Expenses)

Quick or Liquid Liabilities = Current Liabilities - Bank Overdraft (short-term and not payable on demand)

Purpose or Use: It is used for measuring short-term liquidity or solvency. Quick ratio is useful to verify the trend indicated by the current ratio. Just as gold is tested through acid solution the trend indicated by the current ratio is verified through the quick or liquid ratio. For this reason liquid ratio is also called acid test ratio.

- **Significance and Interpretation:**

  a) A high quick ratio along with a high current ratio indicates a good short-term solvency or debt repayment capacity of the firm.
b) Even if the current ratio is high, a low quick ratio does not indicate a good debt repayment capacity of the firm.

c) The authenticity of decision taken on the basis of current ratio can be verified through quick ratio.

d) A high quick ratio ensures the safety of the investment of creditors.

e) The quick ratio is considered to be a better test of liquidity than the current ratio. But ratio itself may not be taken as a conclusive test of liquidity. If the quick or liquid assets consist of slow paying or defaulting debtors the good liquidity position as indicated by a high quick ratio may not be so good in practice. Again if the inventories which are not included in quick assets are not so illiquid and have very good turnover the firm may enjoy a better liquidity position than what is indicated by a low quick ratio.

f) For verifying the trend indicated by the current ratio and supported by the quick ratio it is required to adopt a more rigorous test of liquidity through the Absolute Liquid Ratio.

3. **Defensive Interval Ratio**
   - **Formula:** Total Defensive or Liquid Assets / Projected Daily Cash Requirement
   - or
     - Cash + Bank + Marketable Short-term Securities + Debtors / Projected Daily Cash Requirement
   - or
     - Current Assets — (Stock + Pr. paid Expenses) / Projected Daily Cash requirement
   - **Purpose or Use:** It is used to measure the capacity of the firm to meet its day to day Requirement of liquidity to meet the cash expenses.

   **Significance and Interpretation:**
   - a) Defensive interval ratio is not a measurement of short-term debt repayment capacity of the firm, rather it is an yardstick of measuring the firm’s ability to pay off its immediate cash needs without resorting to sales realised or other sources.
   - b) The higher the defensive interval ratio the higher is the firm’s ability to meet its cash expenses.
   - c) The lower the defensive interval ratio the unsatisfactory is the firm’s ability to meet daily cash needs.
d) This ratio does not take into consideration the current liabilities of the firm. It implies whether the firm’s cash position is sound enough to pay off its current liabilities that is not tested through this ratio.

4. **Assets-Proprietorship Ratio**

   **Formula:** This ratio can be computed in any of the following three ways:

   i. **Total Assets-Proprietorship Ratio** = Total Assets less Fictitious Assets /Proprietors’ or Shareholders’ Fund

   ii. **Fixed Assets-Proprietorship Ratio** = Fixed Assets/ Proprietors or Shareholders Fund

   iii. **Current Assets-Proprietorship Ratio** = Current Assets/ Proprietors or Shareholders Fund

   **Purpose or Use:** These ratios are used to evaluate the long-term solvency and financial stability of the firm. The role of proprietary capital in acquisition of total assets, fixed assets and current assets can be analysed through this ratio.

   - **Significance and Interpretation:**
     
     a) A high assets-proprietorship ratio is an indicator of using more equity capital than debt capital in financing the assets. It focuses on the satisfactory financial base capable of repaying the debts and a stable financial position.

     b) A low assets-proprietorship ratio reveals that the firm is dependent mostly on debt capital so far financing of assets is concerned. Such higher dependence on debt, does not ensure a good safety of inventors’ fund.

     c) If fixed assets-proprietorship ratio is higher than the current assets – proprietorship ratio it is apparent that the higher proportion of fixed assets has been financed by proprietors’ fund. More investment of proprietors’ fund in fixed assets ensures safety of outsiders’ fund and indicates stable financial policy of the firm.

     d) If the current assets-proprietorship ratio is more than the fixed assets-proprietorship ratio it is implied that the greater proportion of proprietary capital has been invested in working capital than fixed assets. Such a situation indicates poor solvency and unstable financial position of the firm.
5. **Fixed Assets-Current Assets Ratio** -

   **Formula:** Fixed Assets/ Current Assets

   Purpose or Use: It is used to measure the long-term solvency and financial stability of the firm. It explains the relationship between fixed assets and current assets.

   **Significance and Interpretation:**
   
   a) If this ratio is high that indicates more investment in fixed assets than current assets. It reveals a stable financial position of the firm. But current assets are more productive than fixed assets and therefore, yield more profit. So a high fixed assets—current assets ratio is against the profitability of the firm.
   
   b) If this ratio is low that indicates higher investment in current assets than fixed assets. It reveals more profitability and at the same time unstable financial position of the firm. From the viewpoint of long-term solvency a low fixed assets-current assets ratio is also not a welcoming feature.

3.15.2 **REVENUE STATEMENT RATIOS**

1. **Gross Profit or Gross Margin Ratio** -

   **Formula:** \( \frac{(\text{Gross Profit} \times 100)}{\text{Net Profit}} \)

   Purpose and Use: It is used to measure profitability and managerial efficiency. The relation between sales and gross earning is explained through this ratio. It shows the profit earned (as a percentage of sales) after matching direct expenses.

   **Significance and Interpretation:**
   
   a) A higher gross profit ratio indicates more profitability and managerial efficiency. If the gross profit is higher the gross profit ratio also becomes higher. A higher gross profit ratio is favourable for earning sufficient net profit after meeting indirect costs or incidental expenses. A lower gross profit ratio reveals the weak profitability and managerial inefficiency. A firm with a very low gross profit ratio finds itself in an awkward financial condition.
   
   b) A negative gross profit ratio indicates that direct costs are more than the turnover and the firm is not in a position to meet any indirect cost.
   
   c) The gross profit ratio reveals the efficiency in the operating activities of the firm but in order to verify the profitability and efficiency in a comprehensive way instead of ‘only direct costs all costs should be taken into considerable:
For this reason for assessing the profitability and managerial efficiency of a firm along with the gross profit ratio the net profit ratio is also to be computed.

d) It is always better to analyse and study the gross profit ratio as a time series. The gross profit ratio of a single year may not truly reveal the operating efficiency of the firm. But if it is studied as a time series, the analyst can come to know the increasing or decreasing trend of the sales profit relationship and develop an idea of the efficiency level of the firm.

2. **Net Profit or Net Margin Ratio -**

   Formula: \( \frac{\text{Net Profit} \times 100}{\text{Net Sales}} \)

   **Purpose and Use:** It is used to measure the overall profitability and the efficiency of the management in generating additional revenue over and above the total operating costs. It does not make any difference between operating and non-operating expenses and shows the relation between net profit and net sales.

   **Significance and Interpretation:**
   a) The net profit ratio shows the net contributions made by sales of rupee 1 to the owners’ fund.
   b) A higher net profit ratio indicates better overall profitability and managerial efficiency. It expresses how much the total revenue earned is more than the total expenses incurred. A low net profit ratio reveals that the net earning is insufficient and the profitability and managerial efficiency are not up to the mark.
   c) If a firm has a low net profit ratio in spite of having a high gross profit ratio, it seems that it has excessive indirect expenses on which it has not been able to enforce control.

3. **Operating Ratio**

   Formula: \( \frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Net Sales}} \times 100 \)

   **Purpose and Use:** It is used to analyse profitability and managerial efficiency. It explains the proportion of operating expenses in sales of rupee 1.
Significance and Interpretation:

a) A low operating ratio indicates that the firm has more surplus in its hands after meeting operating costs. This surplus can be used for payment of tax, payment of dividend, transfer to reserve, etc.

b) A low operating ratio is, therefore, an indicator of high profitability and good efficiency.

c) A very high operating ratio reveals poor surplus available to the firm after meeting operating costs. It is not favourable to the concern because of a lower profitability and poor efficiency of controlling costs.

d) Operating ratio must be used with caution because it may be affected by many uncontrollable factors beyond the firm’s control.

4. Expense Ratio or Specific Expense Ratio -

Formula: \( \frac{\text{(Particular Expenses} \times 100)}{\text{Net Sales}} \)

Example:

Factory Expenses Ratio = \( \frac{\text{Factory Expenses} \times 100}{\text{Net Sales}} \)
Administrative Expenses Ratio = \( \frac{\text{Administrative Expenses} \times 100}{\text{Net Sales}} \)
Selling Expenses Ratio = \( \frac{\text{Selling Expenses} \times 100}{\text{Net Sales}} \)
Financial Expenses Ratio = \( \frac{\text{Financial Expenses} \times 100}{\text{Net Sales}} \)

Purpose and Use: These ratios are used to evaluate profitability and managerial efficiency. The relationship between any particular expense and net sales is expressed by expense ratio.

Significance and Interpretation:

a) From the expense or specific expense ratios it is possible for an analyst to understand in a better way the behaviour and variability of different expense items for a given change in the sales.

b) The lower be these ratios, the higher is the profitability and the better is the managerial efficiency.

c) The higher expense ratios are not favourable for the firm because they indicate lower profitability and poor expertise of controlling costs.

d) In case of any fixed expense a decrease in sales results in an increased expense ratio. But such increase in expense ratio does not reveal lower profitability and poor efficiency.
5. **Material Consumed Ratio -**

   Formula: \( \frac{(\text{Cost of Materials Consumed} \times 100)}{\text{Cost of Production}} \)

   Purpose and Use: It is used to analyse the managerial skill in carrying out production and in increasing the profitability of the firm. It explains the proportion of material cost of the total cost of production.

   **Significance and Interpretation:**
   
   a) A higher material consumed ratio comparison to the standard acceptable in the industry indicates that a greater proportion of total cost is spent for material. It is the indicator of managerial inefficiency and a possible lower profitability.
   
   b) If this ratio is lower than the industry standard it indicates that material cost as a part of total cost is lower and the wages and overhead cost are higher. From the viewpoint of managerial skill and profitability it is always desirable not to have a very high material consumed ratio.

6. **Manufacturing Expenses Ratio or Conversion Cost Ratio**

   Formula: \( \frac{(\text{Manufacturing Cost} - \text{Cost of Materials Consumed}) \times 100}{\text{Net Sales}} \)

   Purpose and Use: It is used to analyse the profitability and managerial efficiency. The relation between the cost of converting raw materials into finished goods and the net sales is explained by this ratio.

   **Significance and Interpretation:**
   
   a) If this ratio is high, it indicates excessive conversion Cost, low profitability and poor managerial efficiency.
   
   b) If this ratio is low, it indicates comparatively lower cost of conversion of raw materials, higher profitability and better managerial expertise.
   
   c) Conversion cost ratio reveals a more meaningful interpretation if studied along with other expense and profitability ratios.
7. **Operating Profit Ratio -**

Formula: \(\frac{(\text{Operating Profit} \times 100)}{\text{Net Sales}}\)

Operating Profit = Net Sales — (Cost of goods sold + Office and administrative expenses + Selling and distribution expenses)

or

Net Profit + Non operating Expenses — Non-operating Income or

or

Gross Profit — Operating Expenses excluding cost of goods sold.

- **Significance and Interpretation:**
  
  a) A high operating profit ratio is the indicator of good profitability and efficient managerial ability.

  b) A low operating profit ratio (less than the industry standard) shows an alarming situation of the firm because in such a case both the profitability and managerial ability of the firm are below the expected level.

  c) A low operating profit ratio along with a high net profit ratio reveal more dependence of the firm on non-operating income. It is not a healthy sign of the firms’ business policy.

  d) If this ratio is used along with other profitability ratios it provides a more meaningful interpretation of a firm’s profitability and managerial efficiency.

  e) It is relevant to mention in this context that the operating profit ratio and the operating ratio are complementary to each other. If a firm’s operating ratio is 80% its operating profit ratio will be \((100 - 80)\%\) or 20%.

8. **Operating Leverage Ratio -**

Formula: \(\frac{\text{Contribution}}{\text{Profit before Interest and Tax (PBIT) or Operating Profit}}\)

Contribution = (Sales — Variable Cost)

Purpose and Use: It is used to analyse the effect of fixed cost on the operating profit of the firm. It is used as an yardstick of measuring the operating risk of a firm.

- **Significance and Interpretation:**
  
  a) If in the total operating cost of a firm fixed cost is more than the variable cost the operating leverage ratio becomes high. A high operating leverage ratio indicates a higher rate of increase in profit as a result of an increase in sales. In
a firm having a high operating leverage ratio a small decrease in sales results in a significant fall in profit. It means that in such a firm change in sales has a more sensitive and rapid effect on profit. It is no doubt a situation of high operating risk.

b) If the operating leverage ratio is too low, i.e. a situation where variable cost is far more than the fixed cost, change in sales does not have so sensitive and wide impact on the profit of the firm. it indicates a lower operating risk of the firm.

c) A moderate operating leverage ratio indicates neither too much fixed cost nor excessive current cost. It is a balanced risk position which is favourable to the firm both from the viewpoints of profitability and risk.

9. Return on Investment (ROI) -

Formula:
\[
\frac{(\text{Net Profit before Interest and Tax} \times 100)}{\text{Gross Long-term capital or Net Capital Employed}}
\]


Net Capital Employed = (Equity Share Capital + Preference Share Capital + Reserves and Surplus) — Fictitious Assets

or

Fixed Assets + Current Assets — Current Liabilities

or

Fixed Assets + Net Working Capital

Note: [Return on Investment and Return on Capital Employed are almost same. Return on Capital Employed may be calculated on gross capital employed or net capital employed whereas Return on Investment may be calculated on Gross Long-term Capital (excluding current assets) or on Net Capital Employed.]

Purpose and Use: It is used to measure the profitability of the firm in terms of assets employed in the firm. It is also a yardstick of measuring managerial efficiency in relation to the utilization of assets.

- **Significance and Interpretation:**

  a) This ratio is a real test of the profitability and managerial efficiency. The higher the return on capital employed the higher is the profitability and the
sound is the managerial ability. From the viewpoint of shareholders and the management a high return on capital employed is always favourable.

b) A low return on capital employed in comparison to the industry standard reveals that the firm has not been able to earn a reasonable profit. It also explains that the managerial skill is not sound enough to increase the profitability. A low return on capital employed is against the interest of the shareholders and management.

c) If the cost of long-term borrowing is lower than the return on capital employed, return to shareholders would increase.

d) A high return on capital employed achieved for a few consecutive years indicates that the firm has a stable financial position and has good future prospect.

3.16 Psychological analysis of entrepreneurship

Systematic studies to bring out psychological factors in entrepreneurship are very much limited. Most of the studies that have been made, deal with achievement motivation (a variable related entrepreneurship) rather than entrepreneurship per se. Recently, in India, Bhattacharjee and Akhouri (1975) attempted to review the various characteristics of entrepreneurs as pointed out by researchers. They couldn’t develop a definite profile of characteristics because different studies dealt with different variables and it appeared that all characteristics are not necessary to be an entrepreneur.

Figure 3.4

Characteristics of self motivated entrepreneurs

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Satisfaction</th>
<th>Initiative</th>
<th>Self-Confidence</th>
<th>Positive thinking</th>
<th>Positive attitude</th>
<th>Will power</th>
<th>Introspection</th>
<th>Continuous evaluation</th>
<th>Dedication</th>
<th>Continuous learning</th>
</tr>
</thead>
</table>
3.16.1 Motivation and entrepreneurship:

The theories of motivation are used to understand the human behavior systematically and scientifically. The entrepreneurship behavior related problems could be minimized using motivation concepts, models, theories and strategies. The study of motivation guides the entrepreneurs to diagnose and analyze the behavior required for establishing, operating and expanding the business of the enterprise. The brief discussion of various concepts and theories of motivation and their interpretation in the light of entrepreneurship is given in subsequent paragraphs.

- Concept of motivation:
  Various experts have defined the motivation in different context and on different dimensions. Some of the significant definitions of motivation are given below -

  Definitions of motivation
  1) Bateman and Zeithaml – “Motivation refers to forces that energies, direct and sustain person’s efforts.”
  2) Stoner and Freeman – “The factors that cause channel and sustain individual’s behavior.”
  3) Kossenstan – “Motivation within various derives within, or environmental forces surrounding individuals that stimulate them to behave in a specific manner.”

- Entrepreneurial Motivation:
  A particular person is motivated to do a specific business and others are not, why it is so? If we try to find the answer of this question we come to know that motivation is one of the significant factors. A person cannot do anything without motivation. It is different issue that motive can be different for different persons. The indicative motives of entrepreneurs are stated as below,
  - Earning money.
  - Putting effort to do something that satisfied.
  - Pursue hobby.
  - Use expertise and experience.
  - Serving privileges group or specific.
• Achieving vision.
• Benefit the family and society.

An entrepreneur should understand the concept of motivation in depth because it is related to self-motivation as well as motivation of other persons such as employees, suppliers, Banks, customers etc. He has to motivate every human being to cooperate in the establishment, operation, growth and development of enterprise. In the context of entrepreneurship, motivation can be defined as an internal urge to establish an enterprise with a vision for growth, development and expansion, and customer delight.

• Use of motivation in entrepreneurship:

There is a high relationship between motivations and establishing enterprise. The understanding of motivation provides stimulus to potential entrepreneurs to identify the self potential and preferences in terms of needs. They guide and help the individuals to adopt behavior modification strategies to satisfy the needs. Theories of motivation help to understand the behavior of individuals and teams and designing appropriate strategies to satisfy the needs. Theories of motivation help to understand the behavior of the individuals and teams and designing appropriate strategies for the benefit of the enterprise.

According to K. Aswathappa, ‘Organizational Behavior’(2008), motivational theories are referred below.

3.16.1.1

Hierarchy of Needs Theory:

Maslow (1970) has classified the human needs in hierarchical order. He viewed human motivation, as a hierarchy of needs such as physiological need, safety and security needs, belongingness needs, esteem needs and self-actualization needs. These needs are shown in the figure below,
Maslow explained that individuals would be motivated to fulfill the powerful need at the given time. He stated that the needs change with respect to time and situation. The physiological, safety and social needs get satisfied because the persons are part of the society. Most of the persons get satisfied fulfilling these three lower level needs. These people do not belong to category of entrepreneurs. But people having strong needs of recognition, status achievement and development can become successful entrepreneurs, if they receive guidance, suggestions, training, opportunities and encouragement. According to Maslow when the lower order needs of the people are satisfied the harness their ability, capacity and interest for satisfying esteem level and self-actualization needs. They pursue challenging, new and different objectives. They put efforts for achieving the set objectives.

According to Maslow, the potent of lower level needs is very high and people get motivated to put efforts to satisfy the same. As the lower needs are satisfied, the motivation level of the people reduces as the potent of higher level needs is low. The entrepreneurs are those persons who are never satisfied and their level of motivation never reduces. Satisfaction of one need creates another need. They should explore their higher level needs, talent, ability; interest and capability apply for entrepreneurial activities. They should concentrate on esteem and self-actualization.
3.16.1.2

Two Factor Theory:

Hezrberg (1969) has proposed two factor theory for motivation that is job satisfaction factors and job dissatisfaction factors. He defined hygiene factors are those factors are those factors the presence of which prevent the dissatisfaction. In entrepreneurship the favorable condition in the market, easy government rules, availability of bank loans, simple rules for doing the business, and supportive family conditions may be considered hygiene factors for establishing enterprise. For running the enterprise, the hygienic conditions are clear rules and responsibilities of employees, adequate resources to perform the job, good salary, encouragement to excel better, healthy interpersonal relationship are considered to be hygiene factor. The hygienic factors are basic requirements for production and working together to achieve the objectives. In absence of these factors employees can perform up to the standard because of dissatisfaction.

The factors are motivating factors. The presence of these factors in the environment and family will encourage him to establish and operate enterprise. These factors are availability desired guidance, support from government and professional bodies, single window clearance of enterprise, big market place available,. Sound financial conditions of the person, professionally trained to accept the challenges and take risk and the like. The presence of these factors in the environment encourages him to establish and operate the enterprise. Similarly for the employees the motivating factors are preferred jobs, opportunities to grow and develop in the enterprise, autonomy to work, challenges in the job, defined responsibly, feedback on performance are the motivating factors for the employees to excel better. The two factors and their details are shown below,
3.16.1.3

Needs Theory:

• **Need for achievement:**

The need to excel known as n achievement is the most important and perhaps the only psychological factor which has been researched in relation to entrepreneurship. McCleland (1961) and McCleland and Winter (1969) have proved adequately that achievement motive is critical factor that leads an individual towards entrepreneurship.

Psychologists have found that entrepreneurs by and large are people with high drive and activity level. They constantly struggle to achieve something which they could call as their own accomplishment. They always like themselves to be different than others and want to accomplish the things which are not easy to accomplish. It is also observed that they (entrepreneurs) do not make efforts to achieve the things which are almost impossible to achieve. Such people (entrepreneurs) work very hard to achieve their goals. They have their goals constantly in their minds and all their activities are generally directed towards their goals. Some of the highly motivated entrepreneurs have been found to
develop an awareness of their strengths and limitations and constraints in their environment in the process of striving towards their goal. It is the achievement motive which makes the entrepreneurs diversify, expand and innovate.

- **Need for influencing others:**

Researchers suggest that an achievement leads one to the point of becoming an entrepreneur but it may not be sufficient to make him a successful entrepreneur. This is quite understandable because the motives, attitudes and skills are required to become an entrepreneur need not be the same to be a successful manager. When entrepreneur once starts his enterprise, he has to play the role of an entrepreneurial manager to be successful. An entrepreneurial manager requires the ability to influence and lead others. In a recent study McCleland and Burnham found that an entrepreneurial manager should have a high need for influencing others (i.e. need power), a low need to establish emotional relationship (i.e. low need of affiliation) and high capacity to discipline one’s own self (i.e. inhabitation).

The entrepreneur after building up his organization has to increasingly deal with people of his own organization. In order to be able to deal with people effectively entrepreneur must have drive to influence them. He must have the ability and skill to sell them (i.e. to sell to the people in the organization) his own ideas and to lead them in the process of establishing and expanding his organization. The drive to influence the people and lead them may also be called need of power.

3.16.1.4

**Expectancy Theory:**

Vroom (1964) has studied the human behavior and proposed the theory of expectancy. He has proposed that the motivation level of individuals depends on three factors i.e. expectancy, valence and instrumentality. He defined expectancy as the perception of individuals that if they put efforts they will be able to perform. He defined valence as the preference of the outcome and instrumentality as the probability of achieving the outcomes. The perception of individuals on three elements decide their motivation level to achieve particular goal. The three elements are shown in the figure,
Motivation level of individuals for different goals will vary as their preferences for the goal. Theory of expectancy is useful in understanding the goals of individuals and their preferences for the goal. It helps to understanding the expectancy of the person achieving a particular goal. It is also helpful in understanding the likelihood of achieving result.

The entrepreneurs should ask three questions before taking the decision for establishing the enterprise. These questions are- What results shall I get if I put efforts? Are the results commensurate my efforts? And what is the probability of success of getting desired result?

The expectancy of motivation is very useful in selecting the enterprise according to expectancy, instrumentality and valence. It is also useful in introducing the change in enterprise. It is also useful to motivate the employees working in the enterprise.

3.16.1.5
Goal Setting Theory:

Locke (1981) proposed goal-setting theory of motivation. It is based on the assumption that human beings have ability to think and set goals. It states that peoples’ values, emotions and desires to influence their personal goals. The goals encourage people and direct their thoughts and activities to achieve set goals. If the human beings are involved in goal setting process for them they have more commitment towards achieving them. The specific attainable and challenging goal act as motivating factors to put efforts to achieve them. The ability to perform tasks adds value in the process of achieving goals. The performance feedback is an inbuilt part of
the learning process. The goal setting theory of motivation is useful for motivating individuals. It is also useful for motivating the groups. The entrepreneur sets goals for enterprise. The entrepreneurs use participatory methods such as consensus seeking, meeting, sharing, working in team, interaction, validating and like to help the employees to set the individual and team goals and decide strategies to achieve them.

3.17 **Sense of efficacy:**
Entrepreneurs tend to present themselves as persons striving towards their goals that involve action. They are confident about their own abilities and resources. They see themselves as problem solvers rather than problem avoiders. At the same time, they have clear goals for future and they show tendencies to live with present with great involvement.

- **Hope of success:**
Entrepreneurs tend to approach their risks with a hope of success. They are optimists. They attempt any risk with the hope that they will succeed. Such a hope of success increases their confidence.

- **Belief that they can change environment:**
Entrepreneurs also tend to believe in their own ability to influence and to change the environment. They do not leave the matter to luck and God. They might have faith in God and other powers, but they strongly believe that they can shape their own destiny. They attribute their rewards and success to their own efforts rather than to luck or somebody’s grace. Such characteristic is referred to as internal locus of control in Psychology. Such a quality or characteristic helps them to make their efforts with vigor so that they can make things happen rather than to leave things to happen on their own. This also helps them to accept their mistakes and improve themselves.

3.18 **Competition and Collaboration:**
The entrepreneurs may not attempt to compete with each other in their business. No doubt they are competitive in their orientations, but they collaborate well
with other parties when they see such collaborations to their advantage. Their competition is against the goals set by themselves rather than with goals of others.

3.19 **Time orientation:**

An entrepreneur is neither past oriented nor completely future oriented. He uses his past and narrates it with a sense pride but he doesn’t live it. He is pragmatic and realist too. He looks into future, uses his past experience but necessarily lives in the present. He has a balance view of past, present and future.

3.20 **Changes Required leadership:**

Entrepreneurs have to work with people. While working with people they may exhibit different leadership styles. One leadership style may be called as benevolent style where entrepreneur is very protective about his employees. He sets personal example by hard work. He gives direction to the employees in such a way that employees accept them happily. Such type of behavior (style) is found in the entrepreneur in the beginning stage of managing unit. At this time they are required to socialize with their employees. However, as the time passes and unit gets stabilized, the entrepreneurs tend to change their leadership style and tend to become self-disposing type. In this, they delegate some of their responsibility to their employees, and trust them more, give them increased autonomy and create such a situation that a unit can run on its own. It is at this time the entrepreneurs think of expanding their enterprise, increasing their production and initiating new ventures. The entrepreneurs who cannot change their leadership style and remain benevolent throughout create dependency in the people. They become so much possessive that their organization cannot grow after a certain point. McClelland, in this context says that in order to be a successful entrepreneur one has also to be a good manager. To be an entrepreneurial manager, one needs to have flexibility and high psycho-social maturity.

• **Entrepreneur Leadership :-**

An entrepreneur is basically a leader. During handling people in his work group, he has to perform more leadership functions because group will be looking forward to him for guidance and encouragement. To become a good leader entrepreneur must acquire certain leadership qualities. He has to deal with human beings. He must understand them. he must be able to communicate with them
effectively. A leader entrepreneur must give patient hearing to the work group in order to develop a feeling of confidence between each other. An entrepreneur must be well versed in technical and management skill. But above all the human skills inherent in leadership brings him assured success, in business and in life, as a businessman and as a man.

Industrial and business leadership is found to adopt various forms. What form the leadership assumes in an organization depends upon number of factors as follows.(Business environment and entrepreneurship – Pratibha Joshi, A.G. Gosavi.)

1. **Personality of a leader** :- A leader has certain personality traits which are very much his own. His habits, likes and dislikes, abilities, skills, knowledge, values and interests are typically his own. The personality of a leader has an impression upon work practice in the organization and the leadership style will change accordingly.

2. **Personality of the group** :- Group consist of two or more persons bound by shared values objectives and interests. The leadership style depends upon the dynamics of the work group to a great extent. A receptive group may welcomes idea from leader. An enthusiastic group may have several suggestions for activities of the leader. A leader has to adopt a technique which suits the group.

3. **The situation** :- A leader cannot practice every time the leadership technique suitable to his personality or characteristics of the group. The situation in which he has to work is of utmost importance. A leader has to adjust his approach with the situation.

- **Types of leaders** :- The business and industrial leaders can be classified in different groups according to their behaviour pattern and attitude towards the work group.

1. **Authoritative leaders** :- These are also known as the autocratic leaders who keep all the controlling authority to themselves. The directions flow from the leader to the members of the group. He dose not take work group in confidence for his future plans.

2. **Democratic leaders** :- These leader entrepreneurs welcome participation of subordinates. A democratic entrepreneur does not keep business problems to himself. He exposes them to his subordinates and waits for suggestion from them.
3. **Laissez Faire Leader** :- laissez faire leader gives freedom to his subordinates in their activities. He assigns a lot of freedom to them in defining their job making decisions and implementing them. He does not participate in group action. Entrepreneurs do not go well with laissez faire style of leadership, by very nature of entrepreneurship.

An entrepreneur cannot choose to adopt a single leadership style permanently. He may be required to combine different styles according to the situation.

3.21 **Expectations from employees:**

Entrepreneurs usually tend to have high expectations from their employees. As they themselves are self made men, having developed their own career and come up on their own, they expect that their employees should also work hard. They set high goals for themselves and their employees and drive the employees hard to achieve the goals. They provide necessary guidance and supervision in their work. The styles of trusting the employees may be different. The degrees of trust differ from entrepreneur to entrepreneur.

3.22 **Analysis of Risk and Uncertainty:**-

Profit or the desire to earn more wealth may be regarded as an important motivating force. For some, desire to acquire more status may be more powerful than the desire to earn more wealth. This leads entrepreneur to open to risk in business. He risks the financial, material and human resources at his disposal in the venture that he undertakes. From social angle entrepreneur is a useful social function in the productive process. The entrepreneur can be considered as processing marginal revenue productivity in just the same way as any other factor of production. Prof. F. H. Knight developed his theory of profit wherein he gave answers to the following important questions.

1. What is the function of an entrepreneur in economic system?
2. Why is he productive?

Earlier economists failed to give an answer to the questions- why do entrepreneurs earn profits? The main reason of their failure was that, they didn’t distinguish profits from interest. The typical entrepreneur of the 19th century was also the owner of the capital of his firm. Economists confused the return which he received as entrepreneur with the money he earned as capitalist. They didn’t realize that the
receipt of interest as a reward for waiting and the receipt of profit as a reward for
taking the risks in business are not the same thing.

The modern theory of profit regards the entrepreneur’s contribution to the
process of production as that of bearing non-insurable risks and uncertainties. Here,
the distinction between insurable and non-insurable risk is important. Every
entrepreneur faces many risks besides the most important risk of losing money due to
misdjudgments of market conditions. For example there is always a risk of fire, theft,
death which may cause business losses. But such risks can be insured against.
Insurance facility provides great relief to the businessman.

It is clear that the entrepreneur only has to meet those risks which cannot be
insured against. So one has to differentiate insurable and non-insurable risk. The
entrepreneur has also to decide regarding increase or decrease of output of a given
article. This is always a very difficult decision. He may earn profit or may make loss.
But no one can say with any real degree of certainty how large that profit or loss will
be. In short it is not possible to ensure entrepreneur against commercial losses.

Here we can understand why entrepreneurs earn profits. Entrepreneurs earn
profits because they have to trust their own judgment about the likelihood of success
or failure if they expand or contract their output, raise or lower their prices. The real
function of the entrepreneur is to take those risks where the unknowns to be dealt with
are more intangible than the dangers like fire. The entrepreneur has to answer the
question, “Will consumer like my product?”

In short, entrepreneurs earn profit because they undertake non-insurable risks
because they have to bear with uncertainties, because they have to make price-output
decisions.

3.23 Stress and entrepreneur

Some of the most common entrepreneurial goals are independence, wealth and
work satisfaction. Studies of entrepreneurs show that those who achieve these goals
often pay a high price. Starting or buying a new business involves risk. The higher the
rewards, the greater the risk entrepreneurs usually face. This is why entrepreneurs
tend to evaluate risk very carefully. Entrepreneurs face a number of different types of
risk. These can be grouped into four basic areas.

1. Financial risk
2. Career risk
3. Family and social risk

4. Psychic risk: [Some entrepreneurs who have suffered financial catastrophes have been unable to bounce back, at least not immediately. The psychological impact has proven to be too severe for them.]

To achieve their goals, however, these entrepreneurs were willing to tolerate effects of stress. Majority of entrepreneurs surveyed had back problems, indigestion, insomnia, or headaches.

In general, stress can be viewed as a function of discrepancies between a person’s expectations and ability to meet demands, as well as discrepancies between the individual’s expectations and personality. If a person is unable to fulfill role demands, then stress occurs. To the extent entrepreneurs work demands and expectations exceed their abilities to perform as venture initiators, they are likely to experience stress.

Researchers David P. Boyd and David E. Gumpert have identified four causes of entrepreneurial stress.

1. **Loneliness:** Although entrepreneurs are usually surrounded by others – employees, customers, accountants, lawyer etc. they are isolated from people in whom they can confide.

2. **Immersion in business:** Most of the entrepreneurs are married to their business. They work long hours, leaving little time for civic organizations, recreation, or further education.

3. **People problems:** Successful entrepreneurs are to some extent perfectionists and know how they want things done, often they spend a lot of time with the people who are lacking in performance for bringing them to the required standards.

4. **Need to achieve:** More often than not, the entrepreneur was trying to accomplish too much. Many are never satisfied with their work no matter how well it was done. They seem to believe that if they stop or slow down, some competitor is going to come from behind, and everything they have built will fall apart.

There are ways entrepreneurs can improve the quality of their business and personal life by stress reduction techniques such as meditation, biofeedback, and regular exercise. By using specific ways such as, shearing with other business owners,
Getting away from all activities by taking short break, keeping comfortable relations with employees, delegating the authority.

3.24 Ethics and Entrepreneurship:

In the broadest sense, ethics provide the basic rules or parameters for conducting any activity in an “acceptable” manner. More specifically, ethics represent a set of principles prescribing a behavioral code that explains what is good and right or bad and wrong; ethics may, in addition, outline moral duty and obligations. The problem with most definitions of the term is not in the description but rather in the implementation.

This conflict arises for a number of reasons. First, business enterprises are confronted by many interests both inside and outside the organization-e.g., customers, stockholders, managers, community, government, employees and so on. Second, society is undergoing dramatic change. A definition of ethics in such a rapidly changing environment must be based more on process than on a static code.

**Figure 3.8**

**Ethics**

Quadrant II: Decisions Ethical and Illegal

Quadrant I: Decisions Ethical and Legal

Quadrant IV: Decisions Unethical and Illegal

Quadrant III: Decisions Unethical and Legal

Unethical

Legal

The quadrants depicted in figure demonstrate the age-old dilemma between law and ethics. For the entrepreneur the dilemma of legal versus ethical is a vital one. The law provides the boundaries for what is illegal, it does not supply answer for ethical considerations.
• Ethical Consciousness:-

The development of ethical consciousness is the responsibility of the entrepreneur because of his vision created the venture. The key figure to set the tone for ethical decision making and behavior is the entrepreneur. Even though ethics and social responsibility present complex challenges for entrepreneurs, the value system of an owner-entrepreneur is the key to establishing an ethical organization. An owner has the unique opportunity to display honesty, integrity, and ethics in all key decisions. The owners actions serve as a model for all other employees to follow.

In small businesses the ethical influence of the owner is more powerful than in a large corporation because his or her leadership is not diffused through layers of management. Therefore, entrepreneurs possess a strong potential to establish high ethical standards in all business decision.

3.25 Entrepreneurial issues for growth and development:

3.25.1 Strategic planning and entrepreneurship:

Although most entrepreneurs do some form of planning for their ventures, it often tends to be informal and unsystematic. The actual need for systematic planning will vary with the nature, size and structure of the business. Formal planning is usually divided into two major types viz. Strategic and Operational.

A. Strategic Planning:

It is the formulation of long range plans for the effective management of environmental opportunities and threats. In light of ventures strength and weaknesses. The strategic management process is the full set of commitments, decisions and actions required for a firm to achieve a strategic competitiveness and earn above average returns. The best strategic plan is influenced by many factors, among them the abilities of the entrepreneurs, the complexity of the venture and the nature of the industry. Five basic steps must be followed in strategic planning,

1. Examine the internal and external environments of the venture (strengths, weaknesses, opportunities, threats).
2. Formulate the ventures long range and short range strategies (mission, objectives, strategies and policies).
3. Implement the strategic plan (programs, budgets, procedures).
4. Evaluate the performance of the strategies.
5. Take follow-up action through continuous feedback.

It should be remembered that the greatest value of the strategic planning process is the ‘strategic thinking’ it promotes among business owners.

B. Operational planning:

Operational planning also referred to as short-range planning or functional planning consist of the specific practices established to carry out the objectives set forth in the strategic plan. The operational plan is thus an outgrowth or extension of the strategic planning process. In the areas of finance, marketing, production and management. Functional policies need to be established in order to implement the goals determined in the strategy. Research shows that small business manager more commonly performed operational planning than strategic planning.

3.26.2 The challenge of entrepreneurial growth:

Managing entrepreneurial growth may be the most critical tactic for the future success of the enterprises. After initiation of a new venture, the entrepreneur needs to develop an understanding of management change. This is great challenge because it often encompasses the art of mobile and dynamic factors.

Thus the survival and growth of a new venture requires that the entrepreneur posses both strategic and tactical skills and abilities.

![Figure No. 3.9](image-url)

A Ventures Typical Life Cycle
Alfred Chandler has presented a firms evolution in the following stages

1. Initial expansion and accumulation of resources.
2. Rationalization of the use of resources.
3. Expansion into new markets to assure continued use of resources.
4. Development of new structures to ensure continuing mobilization of resources.

3.26 The entrepreneurial company in the 21st century:

The pace and magnitude of change will continue to accelerate in the new millennium. Having the evolution and transformation of entrepreneurial firms match this pace will be critical. Two ways of building dynamic capabilities are internal-utilization of the creativity and knowledge from the employees-and external-the search for external competencies to complement the firms existing capabilities. The trend toward globalization, the advent of new technology, and the information movement are all examples of forces in this new millennium that are causing firms to examine their cultures, structures and systems for flexibility and adaptability. Innovation and entrepreneurial thinking are essential elements in the strategies of growing ventures.

The transitions between stages of a venture are complemented by the entrepreneur’s ability to make a transition in style. A key transition occurs during the growth stage of a venture. When the entrepreneur shifts into a managerial style. This is not easy to do. As researchers Hofer and Charan have noted, “among the different transitions that are possible, probably the most difficult to achieve and also perhaps the most important for organizational development is that of moving from one person, entrepreneurially managed firm to one run by a functionally organized, professional management team.” In order to bring about the necessary transition, the entrepreneur must carefully plan and then gradually implement the process. Hofer and Charan have suggested a seven step process,

1. The entrepreneur must want to make the change and must want it strongly enough to undertake major modifications in his own task behavior.
2. The day-to-day decision making procedures of the organization must be changed. Specifically participation in this process must be expanded.
3. The two or three key operation task that are primarily responsible for the organization success must be institutionalized. This may involve the selection
of new people to supplement or replace ‘indispensable’ individuals who have performed these tasks in the past.

4. Middle level management must be developed.
5. The firm’s strategy should be evaluated and modified, if necessary, to achieve growth.
6. The organizational structure and its management systems and procedures must be slowly modified to fit the company’s new strategies.
7. The firm must develop a professional board of directors.