
UNIT 4 MANAGING A RURAL ENTERPRISE

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4.0 OBJECTIVES

After studying this unit you should be able to:

- identify the key areas of enterprise management that the entrepreneur has to focus on for attaining entrepreneurial success.
- understand the essence and key processes of managing an enterprise in rural areas including coordination of men, money and materials, along with the maintenance and upgrading of technology.
- analyse the points of concern for a rural entrepreneur, such as operating cycle, working capital, organizing production / services, de-risking through trials, break-even point and quality control.
- discuss the significance of finance management (costing, pricing, break-even analysis, working capital management and cash flows management, accounting and book-keeping including writing balance sheet and income statement) for ensuring economic health and financial discipline in a rural enterprise.
- understand the pitfalls in managing and sustaining a rural enterprise.

4.1 INTRODUCTION

A farmer in a village usually tills his land, cultivates crops and manages his farm operations on an individual basis. He is the owner, and also the worker on his farm. Similarly most of the rural enterprises are owned and run by single individuals – entrepreneur, owner, technician, worker, salesman and supervisor – all in one. At the most, a few may engage family labour to assist them occasionally. While rural enterprises constitute traditional enterprises such as village industries, handlooms and cottage industries, a few modern enterprises can also be seen in some pockets. A wide variety of small enterprises are seen operating at several levels of sophistication, technical upgradation, financial investment, and scale of operation.

After launching a rural enterprise, various entrepreneurial activities are taken up by the entrepreneur for optimizing resource use, maximizing profits and enhancing the efficiency of running the enterprise. So he engages himself in producing and marketing products. He has the simple goal of making the unit economically viable and sustainable. Hence managing the enterprise assumes greater importance to achieve efficiency and to make profits on a continuous basis. So managing a rural enterprise becomes the top priority of the entrepreneur.

Organizing resources – men, money and materials for production, processing, packaging, and marketing of goods is the essence of managing an enterprise. Choosing and upgrading appropriate technology is also a key factor for the success of the enterprise. In managing a rural enterprise, following aspects are considered as constituents of the unit: scale of operation, de-risking through trials, sourcing supply of inputs, working capital, operating cycle, adopting a gradual growth of production, supervising cash flows and quality control, using available idle capacity, managing waste, and checking pilferage.

Enterprise management is the process of planning, organizing, controlling and budgeting of the works of a rural enterprise. Enterprise management comprises various management practices – planning for long-term and short-term goals, organizing production or services, arranging working capital for operating cycles, coordination of all enterprise activities, marketing, decision-making, delegating, controlling, monitoring and supervising, managing cash flows and finance management, book-keeping *including* writing balance sheet and income statement for budgeting.

In this unit, we shall first discuss how a rural entrepreneur attempts at managing his enterprise through three sets of enterprise management functions: primary, production management and financial management functions of running a rural enterprise. This will help the reader to understand the complexities of managing a rural enterprise. While discussing these aspects, care is taken to explain the management practices being followed and those practices that distinguish successful and unsuccessful entrepreneurs. In the end, common pitfalls in managing and sustaining a rural enterprise are also discussed.

4.2 PRIMARY MANAGEMENT FUNCTIONS

Whenever a new entrepreneur attempts at launching a new venture – a small industry or an enterprise or business in rural areas, s/he needs to understand the key functions of running and managing enterprise to attain entrepreneurial success.

The new entrepreneur has to have a clear vision for his enterprise and plan for achieving a long-term goals. So *planning* is the most essential of all the primary management functions. The *decision-making* about the choice of product line and technology to be used is also very important. Then *organizing production / services* is another essential aspect that the entrepreneur has to think of. Organizing involves *resourcing* the enterprise, which includes arranging for men, money and material resources for starting production work. *Staffing*, i.e., recruiting and selecting suitable manpower to run the enterprise, is yet another primary aspect for the entrepreneur-manager. Each of these four primary management functions is discussed in detail here, with suitable examples and cases to enable the reader to have a clear understanding of the intricacies involved in managing a rural enterprise.

The *primary* management functions include most essential functions, such as planning, decision-making, organizing and staffing.

4.2.1 Planning

Planning is a process of setting goals and a suitable course of action for achieving the enterprise goals. It is an essential management practice for running an enterprise successfully. Planning is done at two levels: strategic and operational levels.

Strategic Planning: When an entrepreneur adopts a clear long-term goal with a clear vision and well expressed and articulated mission statement for his enterprise, the entrepreneur is said to be practicing strategic planning. It has been found through studies that the successful entrepreneurs are, more often, not adopting strategic planning in their enterprises.

In the small-scale industries and rural enterprises, there is very limited scope to adopt systematic planning and adherence to strategies. The management process is essentially *adaptive* in nature. Like in medium and large-scale industries, they cannot afford to adopt a *predictive* management process, which involves setting objectives, formulating policies, drawing up strategies to realize the set objectives. While the larger firms make heavy investments in terms of capital and human resources, anticipate the demand and control the market to achieve its targets, the small-scale units struggle to survive by adapting to the fluctuating market forces. However, a rural entrepreneur is advised to adopt a strategic planning process at least to set long-term goals.

The small scale units with their need to adopt an adaptive process of management perhaps have to depend on primary relationships like close friendships or kinship ties for their management functions. Because of the adaptive nature of management, small-scale units do not permit professionalism to a great extent.

Operational Planning: Once the strategic plans are laid, and long-term goals are set, an entrepreneur attempts at operationalizing the enterprise activities in order to realize the long-term goals. In this attempt, s/he states clearly the day-to-day detailed plans of activities, with short-term goals, which are called *operational* plans. These operational plans may, when put to execution, yield desired results. Thus, adequate operational planning assumes great significance for entrepreneurial success. Successful entrepreneurs can easily be distinguished from unsuccessful entrepreneurs in their adherence to the best practices of operational planning in their enterprise activities to achieve both short-term as well as long-term goals.

Rural entrepreneurs usually adopt operational planning process in achieving their enterprises' short-term goals. Since the daily activities related to enterprise are within their immediate control, the rural entrepreneurs plan them well and also execute their plans quite satisfactorily. Since a rural entrepreneur usually starts an enterprise for which s/he has quite adequate knowledge, skills, and competencies, s/he successfully follows her/his daily operational plans in running the rural enterprise.

4.2.2 Decision-making

The art of decision-making is central to the practice of managing an enterprise or small business through a continuous and conscious shaping of the enterprise into a profit-yielding productive organization. Making appropriate decisions – *right decisions* at *right time* – is an important part of every entrepreneur-manager's job. It is the process of identifying, selecting and implementing a course of action to deal with a specific problem or to take advantage of an opportunity for achieving enterprise goals.

Usually every rural entrepreneur takes several decisions; on a regular basis, for handling daily operations of production, assessing the sale volumes for production, assessing working capital requirements, maintaining quality of products or services, reducing costs, increasing profits, etc. Appropriate decision-making is the hallmark of successful entrepreneurs. An element of *risk taking willingness* of an entrepreneur plays a key role in taking right decisions. Usually the decisions taken would prove to be right or wrong only after the results start coming and after assessing the consequences.

Product Choice: Entrepreneurs make several decisions about product choice. When an entrepreneur attempts to make a difficult or complex product, say an electric mains switch, marketing it is relatively easier than the items which can be easily produced. Running around marketing of simple and easy products consumes more time and pays fewer dividends. Moreover, with difficult products in hand, the

entrepreneur can even monopolize the market, while with simple products s/he faces heavy competition due to many players in the market.

Technology Choice: Appropriate choice of technology plays a significant role in getting better product quality and market share. A spice manufacturer had installed an imported machine that enabled him to powder the spices at low temperatures so that the quality is not affected, which otherwise normally happens with the indigenous machines because of heat generated in the grinding process. Costs may increase in such cases but it is the quality of final product that gets an entrepreneur the money back.

Successful entrepreneurs usually end up taking decisions that yield desired results and may prove to be right in retrospect. So, practicing appropriate decision-making in their enterprises may be one of the reasons for their entrepreneurial success.

4.2.3 Organizing Production/Services

A rural entrepreneur needs to organize the production process or service operations for achieving entrepreneurial success. So s/he starts installing the equipment and machinery, organizes space and sets up the enterprise according to the project proposal.

Managing a rural enterprise involves looking after production processes to ensure quality control and wastage reduction. So, technically trained entrepreneurs spend more time in close and direct supervision of the production process. Those people who had prior experience of working in a product line also give special emphasis to production process. So, they assume that production is crucial part of small-scale enterprises and feel that time devoted to production never goes waste.

The entrepreneur-manager also takes care of raw material supplies and studies the raw material market, explores for new dealers and spends a lot of time for getting better raw materials and components for the enterprise. The organizing function of managing a rural enterprise evolves into an expertise and specialized field for entrepreneurs because this is one area of enterprise control where costs can be controlled.

Adequate experience and enough knowledge about all the raw material components required and their sources to get them at competitive prices is another essential feature of successful management of an enterprise. Getting to know the reliable supplier of raw materials does not happen in a day or two. It involves many trials and tests and is quite painstaking. A good manager believes in simple truths: "*No pains, no gains!*"

4.2.4 Staffing

An entrepreneur, in an attempt to launch a new enterprise, creates employment not only for himself but also for many others – skilled as well as unskilled labour. The staff including workers, technicians, mechanics, foremen, supervisors, managers, etc., is the most essential of all resources for running the production process and realizing the dream project of the enterprise.

Recruiting and selecting the staff: This is most critical aspect for the entrepreneur who has to select only those people who not only provide necessary skills and competencies for the enterprise and but also share her/his dream, values, standards of excellence and quality products or services. But getting the required people is always a difficult task for the entrepreneurs.

Managerial Staff: They usually take in a few of their own family members in management cadre for many reasons, such as convenience, familiarity, understanding and being less risky. But the experience has shown that this has yielded mixed results. In some cases, the relatives managed to cooperate with each other, while in others, tensions caused even closure of the enterprises. Most of the entrepreneurs depend

on the primary relationships because they adopt an adaptive mode of management, which may not allow for professionalism to a great extent.

Retired government officials or middle-aged persons offer their services for managerial jobs in small industries, but usually prove to be misfits due to unrealistic expectations and mismatched performance standards.

Most of the managerial staffs possess very little experience as the entrepreneurs of small-scale industries find it difficult to attract experienced managerial personnel. They often learn their job according to the exigencies without much prior practical training. Due to shortage of management staff, it is imperative for the entrepreneur-owner to also handle other's jobs to ensure that the work does not get held up in case someone is absent.

Managers have also to be recruited suiting their abilities and temperament. A good manager diagnoses the problem objectively and does not get carried away by emotions and tempers. Similarly the capable and competent supervisors and foremen on the shop floor make a great difference in production performance and quality control.

Work-force in the Enterprise: The entrepreneur can handle most of the operations of her/his enterprise. Yet s/he needs trained manpower, so that s/he can get enough time to concentrate on crucial aspects of management process. This manpower includes staff for running the enterprise: the workers, foremen, the supervisors, the technicians, the mechanics, etc. When the staff works with a collaborative and cooperative spirit, then the desired results of enterprise can be achieved.

As a good manager, the entrepreneur has to adopt an enabling mode of leadership so that the skilled labour evolves to become experts in their own field. An effective manager handles the work-force in the enterprise effectively for harnessing their full potential. They are motivated for attaining greater efficiency and effectiveness on the shop floor. So enough importance has to be given to:

- a) *Recognition* of the talent,
- b) *Freedom* and autonomy at work place, and
- c) *Adequate remuneration* to suit their skills, capabilities and technical competencies.

If these three are not taken adequate care of, the trained and skilled employees may leave for better pastures, resulting in loss to the enterprise in terms of human resources.

So the entrepreneurs need not only search and select the best talent in the field but also make determined efforts to nurture them well. Adequate opportunities have to be created to develop them further so that they become an asset to the enterprise.

Training the unskilled labour: Getting the skilled labour may become difficult as the better skilled people may not opt for working in a rural industry. But the unskilled labour may take long time as they learn everything on the job and through experience may acquire necessary skills. In such cases, where skilled labour are hired from outside, they may soon quit for better opportunities elsewhere. So when these people leave the enterprise, the lower level unskilled labour may take over operations with mixed results. In the process, the enterprise slows down and suffers.

The lower skilled or unskilled labour force are usually not provided any technical training for the fear of losing them as they may leave for better options after acquiring the training. Adequate specialized training needs to be given to the employed man power for running the machinery in order to develop masters of some specific tasks. Employed staffs need to be observed critically for their competencies and weaknesses and they need to be assigned tasks accordingly, and developed appropriately to become experts in a particular field. Otherwise, the employee may become *jack-of-all-trades* but *master of none*.

Nurturing human resources: The entrepreneur needs to display immense patience and empathy to interact with the employees to assess the production problems and work in a cooperative manner to improve quality of products.

In addition, special efforts need to be taken to groom such workers in the enterprise who are down-to-earth and innovative and those who have a questioning attitude, with an outlook of improving the performance levels of the production in the enterprise.

Similarly efforts also have to be taken not to promote sycophancy in the enterprise lest it may result in sickness of the enterprise and may lead to sinking of the firm or factory. Instead, a place has to be given to a 'No' person who is protected and well heard and whose views are considered. Giving an ear to a 'Yes' man or a sycophant may lead to wrong decisions and result in a chaos in the enterprise, which can be easily avoided.

Care has to be taken to listen to and promote the staff who are competent, more capable and objective in their decisions. These competent people generally tend not to conform but be independent in their approach and thinking. Effective management also involves not giving into any attempt to nepotism, i.e., preferential treatment to relatives. So the entrepreneur has to provide a leadership that nurtures efficiency and competency in her/his enterprise.

Thus, the new entrepreneur plans for the enterprise, chooses a technology, installs machinery and equipment, employs staff, organizes resources and sets up the enterprise. Then s/he starts production on a trial basis, assesses quality, checks market acceptance and launches production.

4.3 PRODUCTION MANAGEMENT FUNCTIONS

The *production* management functions include those functions in running the enterprise, such as production management, arranging working capital for operating cycles, assessing the break-even point, and marketing of products/services.

4.3.1 Production Management

Production management is the process of arranging and allocating work, men, money, and material resources in such a structured manner to achieve the twin goals of an enterprise – reducing costs and increasing profits. Once an enterprise is set up, i.e., once the entrepreneur has organized space, machinery, equipment, and other fixed assets, and also recruited and selected required work force, s/he would start production. S/he is ready and set to start operations of her/his enterprise.

The entrepreneur needs working capital for starting production. S/he tries to understand the operating cycles of production assesses working capital requirements and sets about producing goods. So s/he needs to understand operating cycle, working capital, etc.

Then the new entrepreneur would make attempts at production, engages in trial production and adopts a pricing policy based on the costing of making the products.

Working Capital: An entrepreneur needs finance for various operating expenses. S/he needs to buy raw materials, consumables, packaging materials, etc., and needs money for salary and wages, rent, premium and other services. So, in order to cover all these expenses s/he would need money, which is known as the working capital. This money can be recovered once the entrepreneur sells the finished goods. Till that time, the funds gets locked up in the production process.

So, working capital can be defined as the amount of capital perpetually locked up in the form of current assets viz. raw materials, work-in-progress, finished goods, credit

given and cash required to sustain a specified level of activity in terms of production and sales.

To find out the requirement of working capital, one needs to understand the concept of operating cycle.

Operating Cycle: One needs to buy and maintain the stock of raw materials for a certain minimum period. This will depend upon various factors like nearness of the market, cost of procurement, availability of the raw materials and their shelf life. The stocking period will vary from a day to even 5-6 months.

To convert the raw material into finished products will also take certain time. This will depend upon the process involved and timely availability of all the needed resources. Once the product is ready it has to reach the buyers and in return the sale proceeds are to be collected. This also takes some time depending upon the demand and terms of sales.

The time taken for all the three stages above, i.e., the *stocking period*, *production time* and *sales realization time* put together constitute an operating cycle of the business. The working capital is the total funds required to meet all the expenses of one operating cycle.

Usually, the small entrepreneurs consider the production expenses only as working capital. They neither consider the stocking period nor presume the sales realization time. So it is very important to understand the concept of operating cycle and calculate the working capital required for the entire period. And working capital is the sum total of all operating expenses for the period of one operating cycle.

Working capital management is the most dynamic concept of financial management in an enterprise. Effective working capital management would lead to:

- a) Lower investment of finance in working capital for a given activity level.
- b) Effective management of cash, which is an idle investment.
- c) Reduction in cost of production as a result of lower investment of finance in working capital.

Operating cycle should be as fast as possible so that the working capital is required for only a short period of time as it incurs interest costs. Faster operating cycles also enable more number of operating cycles and greater volume of production.

4.3.2 Marketing Management

Marketing is perhaps the most crucial of all management functions in rural enterprise management. If the entrepreneur can understand the preferences of customers and adopts an effective strategy for marketing and selling, distributes products and services directly or through agencies to customers, then probability of success is very high. A good entrepreneur makes prior agreements for assured marketing and adopts an effective marketing strategy and thus earns profits through marketing.

Marketing involves assessment of the needs of customers, a good pricing policy, promotional and advertising approach and distribution system, and finally good profit. Hence, a customer is the focus point of all marketing management and strategies.

The customers decide:

- a) What they want and need,
- b) What they will pay for the product or service to satisfy that need, and
- c) Where and from whom they will buy it.

Hence the customer is focused in marketing and promotion strategies. The entrepreneur needs to understand that marketing is the backbone of one's enterprise as this alone can bring in cash for further production and sustenance.

Since marketing is assumed to be crucial to entrepreneurial success, marketing management needs to be taken up ardently by the new entrepreneurs.

Check Your Progress I

- Note :** i) Space is given below for your answer.
ii) Compare your answer(s) with the text.

1) Explain the key/primary management functions of a rural enterprise.

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2) Why do rural and small entrepreneurs do not adopt strategic planning in their enterprises?

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3) Discuss the significance of staffing and human resource development in managing rural enterprises.

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4) Why do you think the understanding of key concepts like operating cycle, working capital is required for a rural entrepreneur?

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4.4 FINANCIAL MANAGEMENT FUNCTIONS

The *financial* management functions include those functions that deal with handling cash and finances, costing, pricing, break-even analysis, managing cash flows, accounting and book-keeping, writing a balance sheet and income statement for budgeting.

Financial management is a very important area of control. It involves management of long-term finance for establishing enterprise, expansion and growth; as well as short-

term finance for getting working capital. Proper estimation and management of finances for the enterprise are necessary for the success of any enterprise.

Against the usual presumptions that financial management is a technical discipline, one has to believe that it is nothing more than common sense. Anybody willing to think logically can learn the basics that might help in establishing and managing the business venture on sound lines.

For the new entrepreneur, it becomes difficult to understand the basics of costing and pricing and break-even point. Since assessing costs incurred in producing goods and setting a price for the finished goods are crucial in the initial stages of production process, the entrepreneur needs to have a comprehensive understanding of these financial management concepts.

4.4.1 Costing

The process of determining how much it costs to produce and sell a product or service is known as costing. It is the cost of the product that would decide the price and hence profit or loss. Cost can be controlled and improved with a proper system of costing. This has to be done in advance and not after the expenses have been made. Cost would include both direct costs and indirect costs. Direct costs are the costs of those items that become part of end product, e.g., raw materials, labour, packing material, etc. and since these costs vary with level of production, they are also termed as variable costs. Indirect costs are the expenses incurred in running a business and cannot be identified directly with the end product and these are fixed costs, e.g., interest, administrative expenses, phone bills, postage, repair and maintenance of equipment, etc.

Thus the fixed costs (all expenses incurred to stay in business whether or not entrepreneurs produce and sell anything) and the variable costs (expenses that rise and fall depending on production and sales volume) are taken into account when fixing the prices.

An entrepreneur needs to understand the role of both these costs in fixing prices for finished goods. While the direct costs for each product unit increase proportionately, the indirect costs will generally decrease with increase in number of product units manufactured. Care should be taken to include the costs incurred in production wastages, loss in handling and transit, customer rejections, after sales service, loss in man-hours, transportation costs, distribution and sales costs, local taxes, etc., as these directly affect the price of finished products. An entrepreneur-manager needs to calculate these costs carefully in order to arrive at reasonable profits.

4.4.2 Pricing

The process of setting a price for the finished products poses a great challenge to a new entrepreneur. Usually, three criteria need to be considered when fixing prices:

- a) Actual cost of the item,
- b) Prices the competitors charge for the same item (or a similar one), and
- c) Sensitivity of the customers to price (i.e., are the consumers very cost conscious, moderately concerned about price, or not concerned at all).

Correct pricing of product / service is vital to the success of business. An entrepreneur should determine:

- What is the lowest price that can be charged in order to draw customers and still cover all costs? and
- What is the highest price that can be charged in order to maximize the profits without driving away the customers to the competitors?

Price of the products or services depends a great deal on the cost of doing business. The cost of sales tells what to charge to stay in business. This is known as setting the floor price, or the minimum price. The competition will set the ceiling price, or the maximum price.

The entrepreneur needs to charge enough for the product or services so that both fixed costs and variable costs will be covered by sales and a small profit is also derived. If prices are set too high, it may not be possible to attract sufficient business to cover fixed costs; if prices are too low, the larger number of customers attracted may not still generate enough revenue to cover all costs.

4.4.3 Break-even Analysis

A break-even analysis can and should be done to check the reasonableness of the prices fixed. Break-even helps to take fixed costs and variable costs into account when fixing the prices. Initially, in the first and second operating cycles of production, it may not be possible for the entrepreneur to break-even but over time the entrepreneur moves beyond break-even point and starts making profits. It is always better to reach break-even point sooner than later.

The break-even point is a valuable tool to analyse how much one needs to sell to make profits. If the entrepreneur knows approximately how much s/he needs to sell, s/he can order the proper amounts of stock of raw materials, produce, and find a way to sell that much. Once these basic elements are identified and estimated, one can calculate the break-even point.

So for every operating cycle of production, the estimated sales will determine the production and the required working capital. Here the risk taking ability of the entrepreneur comes into play and reflects her/his 'realistic goal' setting behaviour.

Break-even analysis determines the point at which sales revenues equal production costs. The break-even point can also be defined in terms of physical units sold, or the level of capacity utilization at which sales revenues and production costs match each other. So entrepreneurs always attempt to utilize maximum capacity of their equipment, machinery and labour and reduce idle capacity utilization.

4.4.4 Cash Flows Management

The new entrepreneurs need to know as to what amount of money has come in and how money has gone out in a certain period. It will give them an idea whether the business is likely to yield profits and enable them to realistically forecast money movements. The money movement into and out of business is a matter to be controlled by the entrepreneur.

Cash flow refers to the actual movement of cash into and out of an enterprise. A cash flow statement is prepared for a few years, and it is usually sub-divided into the cash movements on a monthly basis for first two years and even on a daily basis in the initial stages.

Cash inflow from sales depends on the method of payment to be expected. This is because credit trading has the effect of shifting cash flow into a later period than the date of actual sales. In *cash outflow* the actual payment is considered, depending on the credit terms arranged with the material suppliers, as this will allow payment some time after the delivery of raw material. If a business is to keep out of trouble, it must have enough cash inflow to pay day-to-day expenses like wages, suppliers, rent and electricity, etc.

Effective cash flow management calls for negotiating and persuasive skills on the part of entrepreneurs in handling cash inflows from sales distributors and cash outflows

to raw material dealers. If the customers do not pay on time, and creditors will not wait, and the bank will not help, the business is in trouble. The timing of cash flows is what causes failure.

A cash flow statement should be prepared to include cash in hand (both in cash box and in the bank at the beginning of the month), sources of cash (the amount of cash to be generated from sales revenues during each month and the cash credit sales due in the next month) and disbursements (the amounts to be spent for raw material supplies, wages and salaries, etc.). In addition, the cash flow statement needs to include such regular expenses as monthly charges for rent, telephone, insurance, electricity, etc.

A cash flow statement helps to forecast or estimate cash situation. It is possible for an enterprise to have too much money available. It is wrong to have more money than is needed in cash or in a bank account because idle money accrues cost and could not be put to better use in business.

Cash liquidity is required for many reasons. It is not enough for a business to be profitable; it should also have cash liquidity for growth and survival.

Adequate and smooth cash flows are the life-blood of an enterprise. It is usually the delays in cash flows that make the enterprise sick and may be fatal to the enterprise. Monitoring cash flows and ensuring smooth flow of cash forms one of the healthy practices of an entrepreneur. A healthy cash flow and finance management would ensure healthy enterprise and thereby entrepreneurial success.

4.4.5 Accounting and Book-keeping

Every new entrepreneur is advised to form a system of maintaining books of accounts and records from inception. If s/he does not do it, s/he is likely to fail in the absence of the current financial data when needed. Recording all accounts regularly is a routine work that may be monotonous and boring but its worth can only be seen in its absence. Absence of a system of accounting is one of the important reasons of failure. Accounts are eyes of business and show the economic condition and financial health of the business very clearly.

Book-keeping or maintaining a record of all accounts of the enterprise – the expenditure incurred, the wages, the payments due and the overall income-expenditure-profit details help the entrepreneur to assess the financial health and financial discipline of the enterprise.

If an entrepreneur is keeping all records of vouchers, bills, account slips, etc. in various cash books and registers, then s/he is practicing book-keeping for her/his enterprise and also running the enterprise in a systematic manner. Successful entrepreneurs resort to regular accounting and book-keeping of their enterprises which provides ready data on finances and may guide them in making appropriate decisions and running their enterprises efficiently.

Balance Sheet: Balance Sheet describes the enterprise's financial condition at a given point in time, in terms of its assets, liabilities and net worth. Writing balance sheets on an annual basis or for each production operating cycle is essential for assessing break-even point. This is an important management practice to take necessary corrective steps if the enterprise is not being run on expected lines. It is done essentially to assess reinvestment and diversification possibilities, credit requirements for next cycle of production and to evaluate the performance of the enterprise.

The successful entrepreneurs usually write their balance sheets on a regular basis and may turn out to be good enterprise managers and hence achieve success in their entrepreneurial ventures. The unsuccessful entrepreneurs, more often than not, do not prepare any balance sheet whatsoever.

Income Statement: Income statement summarizes the enterprise's financial performance over a given interval of time. An entrepreneur, after all, works to earn an income from her/his enterprise. If s/he is not aware of how much s/he had earned over a period of time, s/he is not in a position to decide whether to continue or stop or change the course of action. Through an income statement, the entrepreneur will have a fair idea of the operational costs, cost of products sold, administrative expenses, taxes and interests paid and the net income earned. The income statements of over a period of years or cycles of production will also help the entrepreneur to actually know whether there are incremental gains or losses in her/his enterprise.

Effective financial management practices form the core of managing a rural enterprise. The rural entrepreneurs need to grasp the intricacies of costing, pricing and break-even analysis in order to attain entrepreneurial success.

4.5 SUSTENANCE MANAGEMENT FUNCTIONS

After successful attempts at sourcing supply of required inputs and components, and producing quality products, working capital, operating cycle, supervising cash flows and ensuring quality control, a gradual growth of production is adopted to reach maximum/ optimal capacity utilization of the machines, materials, men and money. In order to utilize the available idle capacity for optimizing production, efforts are made for managing waste and checking pilferage.

Once the production process is on, the rural entrepreneurs need to concentrate their energy and efforts on sustaining the activities of the enterprise. The major management functions that would help sustain the enterprise are coordination, controlling, delegating and supervising.

4.5.1 Coordination

An entrepreneur is the technician, worker, manager, financier and the boss – all in one. S/he has to take care of all the activities involved in the raw material supply, production, quality control, packaging, marketing, budgeting, recycling funds and managing the enterprise, among others. So the likelihood of an entrepreneur being successful depends on the way he or she coordinates all the activities of the enterprise. Thus, coordination is the process of integrating enterprise works in order to pursue entrepreneurial goals effectively.

Effective coordination of all enterprise activities helps in efficient running of the enterprise. As a businessman, the entrepreneur has to observe keenly whether the operational goals are being met, whether the production process yields quality products, and whether the cash flows are timely and prompt. So the rural entrepreneurs need to coordinate and integrate all managerial functions without neglecting any one of them.

4.5.2 Controlling

An entrepreneur takes steps to ensure that the actual activities of running enterprise conform to the plans and goals already set for the enterprise. If a production target is set, it has to be met within the specified time frame. Otherwise, delays may prove very costly. Thus the production process is monitored. This management practice is called 'controlling', which helps managers to monitor the effectiveness of their planning, organizing, decision-making, and actions. An essential part of controlling process is taking corrective actions, as and when needed, to achieve the entrepreneurial goals.

In fact, it is the constant close supervision of the enterprise owner that helps in steering the enterprise in the right direction. In case, the enterprise is not being run in desired direction, the entrepreneur controls it, i.e. s/he sees if the enterprise goals are in sight and if not, changes the direction towards the set goals.

To enable better controlling of the enterprise, the enterprise follows the simple practices of monitoring the cash flows to and from the enterprise. Strict financial management practices help attain better control of the enterprise. Even close supervision and monitoring of production process helps in quality control.

4.5.3 Delegation

In the tiny units, the owner has to manage almost everything. Or s/he may have one of her/his family members or relative to help as an assistant. As the size of the unit grows, the need for delegation of responsibility increases. When the scale of operation of an enterprise gets enlarged, the entrepreneur usually has to attend to various activities of the enterprise and is hard pressed for time. In such cases, s/he usually hands over some specific work to one of her/his employees or family members for monitoring and completion. This act of assigning work related to management coupled with formal authority and responsibility is called delegation. Entrepreneurs delegate work to others in order to manage the enterprise efficiently and successfully. In this process, the entrepreneur personally handles some of the most essential jobs and gets other less critical jobs done under her/his instruction and supervision.

Usually many entrepreneurs learn something about all the tasks of their enterprise. An entrepreneur who can handle all operations of one's unit is more likely to succeed only because s/he pays equal attention to all aspects of managing the enterprise. Moreover, s/he can easily diagnose what went wrong and where. Time management also assumes significance as proper distribution of time proportionately among all aspects of enterprise ensures success.

Many of the successful entrepreneurs, even though they delegate some specific works to supervisors in their enterprises, are not entirely happy with the process of delegation. They would insist that the responsibility still rests with them in ensuring the completion of some works and quality of products/services. To give an example, the poultry farmers rarely delegated the technical tasks like vaccination of birds at regular intervals as it involves high level of skill and its poor performance may result in high losses. On the other hand, a low skill task with low risks like 'daily feeding of birds' was often delegated to the workers.

4.5.4 Supervising

Supervision may be defined as the art of directing the effort or harnessing the energy of human resources of the enterprise for the attainment of enterprise goals. Supervision involves directing, delegating and controlling functions of a manager. Close and direct supervision is essential for maintaining quality control.

Supervision needs to be seen as cooperative activity as it happens through shared ideas, efforts and experiences of all the staff members. Supervision needs to be creative and needs to provide space for originality and self-expression. A good supervisor nurtures the capabilities of all the staff for harnessing their energy to the optimum levels. A good supervisor provides opportunities for enabling and enriching experience and promotes good relationship among the staff members for effective functioning and enhancing efficiency.

An entrepreneur, who is quite an involved personally in all the key places in one's factory, goes around the unit on inspection rounds at regular intervals in a day to see if the work allotted is completed according to the specifications. S/he feels that unless the personally checks, there would be slackness in the work which may prove very costly afterwards when finished products get rejected in the market due to poor quality.

Quality Control: Quality consciousness is another aspect that fetches more monetary returns. Improving quality of products by redesigning and using better components is

possible only when the entrepreneur herself/himself spends adequate time with workers on shop floor, diagnosing problems and immediately correcting them, and by getting directly involved in the manufacturing process.

To ensure quality, mid-way in the process of manufacturing various components, the entrepreneur conducts various tests, because improper components may not be useful to assemble better final products.

One entrepreneur, who makes cardboard cartons for a beer manufacturer, supervises the production of quality cartons. He instructed his workers to be very careful and cautious in maintaining quality. For instance, he explained the real worth of quality to a worker:

"A beer carton that we make is bought for Rs. 10 and would contain 12 bottles and each bottle costs Rs. 10. Each carton would contain bottles worth Rs. 120. If the quality of carton is bad, the loss for the beer manufacturer will be Rs. 120 and not just Rs. 10 he paid us for the carton. The beer manufacturer relies on us and to get repeated orders, we and the workers have to maintain quality."

Once the production process is set in then the manager plans to improve the performance of the enterprise. Although most of the tasks become routine, the entrepreneur does not sit idle. S/he starts thinking about reducing costs, increasing returns, diversifying and growing further. To assess the financial worth of the enterprise, s/he has to make deliberate efforts at better financial management options. S/he seeks information of the financial health of her/his enterprise through accounting and book-keeping and starts making income statements, balance sheets and budgeting.

4.6 PITFALLS IN MANAGING A RURAL ENTERPRISE

A promoter of a rural enterprise faces a plethora of problems, usually called 'teething troubles' when s/he sets up her/his enterprise. First, arranging working capital becomes the major task as s/he runs out of money to buy raw materials though s/he may not yet have earned any reputation in the market to get raw materials on credit. Similarly, s/he makes several production trials, refines the finished products, improves quality, attempts to set a price for her/his products, etc. In the process, s/he learns from the customers and distributors about the preferences and prices.

Common Pitfalls

A person who does not believe in long-term strategic plans but gets entangled in daily chores of running the enterprise usually meets with failure for lack of preparedness for future eventualities. Among rural entrepreneurs, the practice of strategic planning is found to be quite inadequate. Since the rural people, in general, have often fallen victims to vagaries of monsoons, prices and other uncertainties, they seldom venture to think of future plans and are usually ill-prepared for any contingencies. They were also found to be confusing the term strategic planning with daydreaming. The usual dictum is "Do not count your chickens before they are hatched!" But successful entrepreneurs believe in "Hope for the best, but prepare for the worst", and hence success.

Most of the managerial staffs recruited have very little experience. They often learn their job according to the exigencies without much prior practical training. However, the scope for specialization is limited. Due to shortage of managerial staffs, it is imperative for one to handle other's jobs to ensure that work does not get held up in case someone is absent. The managerial jobs are plural in nature to a greater degree in the small-scale sector than in the medium and large-scale industries.

In cases where the scale of operation of an enterprise has increased, small-scale industries are also started as joint ventures with two or more partners. But partnerships

may yield mixed results. While some units survive because of committed partnerships, others have failed due to lack of understanding between partners. A good deal of mutual faith, maturity and complementary support are essential for successful partnership in enterprises. An entrepreneur needs to look beyond into future with long-term goals in mind. A narrow outlook, inferiority complex and lack of patience and lack of exposure will be great impediments for enterprise development. Merely thinking of limited gains will not make a successful entrepreneur. Suspicion and jealousy may not find place in a partnership venture.

Most of the rural entrepreneurs are not serious with the practice of organizing resources for production/services for their enterprises. Usually, they take it for granted this crucial issue of organizing inputs, money and other key resources because they take up only familiar entrepreneurial activities on which they have adequate command and knowledge. They find organizing of resources as an easy and routine affair and conduct themselves in a 'business as usual' manner.

Most of the entrepreneurs supervise their production work by themselves. However, they have to learn to delegate various responsibilities to their partners and subordinates. Otherwise, they tend to get bogged down in one aspect of production at the cost of ignoring some other crucial aspect of managing the enterprise and so productivity may decline.

The small entrepreneurs usually do not prepare long-term plans. They often believe that their ideas cannot be implemented for want of resources. However, it is the inadequate understanding of the intricacies of business and lack of proper planning which hampers their dreams. Usually they learn the basic principles of financial management from their own mistakes. In the process, many of them burn their fingers and get disheartened in the beginning.

Even if they know their job and business skills, they are not able to reflect upon the mistakes of the past. Quite often in the absence of records, the access to formal credit facilities is also denied. So it is important for them to learn and adopt the principles of financial management as well as maintain the necessary records.

Managing cash flows poses a great challenge for the entrepreneurs. Delayed cash flow is a big pitfall which may not be avoided by even the best of entrepreneurs. Similarly large gaps are seen in the understanding the operating cycle and working capital requirements by the new entrepreneurs. An effective manager-entrepreneur will take special care of cash flows in running one's enterprise.

4.7 SUSTAINING A RURAL ENTERPRISE

All rural entrepreneurs face a set of problems at every stage of enterprise development: choosing an idea, making a project proposal, launching, running and managing. It takes the real worth of the entrepreneur to take on the challenges, overcome the obstacles and attain entrepreneurial success. So, an entrepreneur invests a lot of her/his time and effort to sustain her/his enterprise.

To begin with, a rural entrepreneur faces a set of 'teething troubles' when s/he starts production on her/his enterprise: setting up the machinery, trial production, refining the quality of the final product, fine-tuning the machinery and equipment for better capacity utilization and calculating the time taken for completion of one operating cycle. So a successful entrepreneur can handle all the operations well by optimum capacity utilization and quality control. Thus s/he makes all efforts to sustain her/his enterprise.

Similarly, having completed one operating cycle, s/he draws lessons from the process and attempts at reducing costs, increasing output and realizing more profits. Through such a process, s/he sustains the production and gains experience.

Sometimes, the entrepreneur faces many hardships and feels like quitting. S/he loses her/his confidence and the motivation to continue any further. In such times, s/he has to seek help from other seniors in the field in order to sustain her/his interest and motivation to move forward and attain success.

Check Your Progress II

- Note :** i) Space is given below for your answer.
ii) Compare your answer(s) with the text.

1) Discuss the interrelationship between costing and pricing in the small enterprises.

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2) How does break-even analysis help the new entrepreneur assess the profitability of one's small enterprise?

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3) Discuss the significance of cash flow management for the financial health and survival of a small enterprise.

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4) Discuss the significance of delegation and supervising in quality control.

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4) Highlight some of the common pitfalls that small entrepreneurs usually fall into, while managing their enterprises.

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4.8 LET US SUM UP

Managing a rural enterprise is a challenging task and requires skillful handling of many crucial aspects of running an enterprise efficiently. Some key concepts are summarized here.

Working capital: Usually, the small entrepreneurs consider the production expenses only as working capital. They neither consider the stocking period of raw materials, nor presume the sales realization time. So it is very important to understand the concept of operating cycle and calculate the working capital required for the entire period.

Let us remember – Working capital is required for the:

- Time for which ready stock of raw materials is to be maintained,
- Time taken for producing one marketable lot of the product/s,
- Time taken for selling and collecting the proceeds of one marketable lot.

And working capital is the sum total of all operating expenses for the period of one operating cycle.

An entrepreneur needs to develop very good understanding of financial terms such as:

- Costing, the process of assessing fixed costs and variable costs of production,
- Pricing, the process of setting a reasonable price so as to cover the variable costs and also a part of fixed costs, and
- Break-even point, the point at which sales revenues equal production costs.

Cash flows management is one of the most dynamic of all financial management practices of an entrepreneur that gauges the health of the finances in the enterprise. A regular system of accounting and book-keeping allows for getting current financial data needed for assessing the working capital requirements and arranging finance on short-term loans.

Other important management functions include supervision, delegation and controlling in order that adequate quality control mechanisms are operating in the enterprise.

4.9 KEY WORDS

- Strategic Planning** : The process of setting goals and a suitable course of action for achieving vision and long-term goals of the enterprise.
- Operational Planning** : The process of setting short-term goals and day-to-day plans of activities to yield desired results and attain long-term goals of the enterprise.
- Break-even Point** : The point at which the sales revenues equal production costs.
- Working Capital** : The amount of capital perpetually locked up in the form of current assets to sustain a specified level of activity in terms of production and sales.
- Operating Cycle** : It is the total time taken for all the three stages of business: stocking period, production time and sales realization time put together.
- Fixed Costs** : All the expenses incurred to stay in business whether or not entrepreneurs produce or sell anything. These are indirect costs incurred in running a business.
- Variable Costs** : All the expenses that rise and fall depending on production

and sales volume. These are the direct costs incurred on the cost of those items that become part of the end product.

- Floor Price** : The minimum price that can be set to cover costs incurred in production.
- Ceiling Price** : The maximum price that can be set to beat the competition.
- Cash Flow Statement** : A statement of cash inflows and cash outflows of the enterprise. It includes cash in hand, sources of cash (sales revenues and cash credit dues) and disbursements (amounts of cash spent on raw materials, wages and salaries).

4.10 SUGGESTED READINGS

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