CHAPTER 2

The Impact of Policy on Enterprises

FRUIT AND VEGETABLE PROCESSING SECTOR: AN ELABORATE PROFILE IN TERMS OF GENERIC AND INTERNAIONAL MARKETING

Although India is the largest producer of fruit and vegetables, their processing has largely remained in primary forms like pickling, sun drying and/or making preserves. Commercial processing is rather poor. Indians largely prefer fresh fruit and vegetables over processed foods because of economic reasons and food habits. High packaging costs make them expensive. *Therefore, the Ministry has offered specific support for the marketing and generic promotion of processed food.* Since India has varied agro-climatic conditions, some products are available throughout the year. Fruits and vegetables like banana are non-seasonal, while apples, oranges, potatoes, etc. are put in the cold storages and made available in the off-season as well. Fruits like guavas and oranges have two seasons and so are available fresh almost half the year.

Units registered under the Fruit Products Order, 1955, are distributed across the country and most are in cottage and small-scale sector. Liberalisation of the country's economic policies has attracted a few modern processing plants to produce mango pulp and tomato paste in aseptic packing and freeze drying of fruit and vegetables including mushroom. Joint ventures with USA, UK, Netherlands, Switzerland and Germany are on, focussing on technology transfer, financial and marketing tie-ups. Such projects focus on production of canned mushrooms, banana and mango puree, fruit concentrates, dehydration of vegetables and frozen fruits/vegetables. *The policy has been supporting such options.*

Items already being produced in the country include, pulps, particularly of tomatoes and mangoes, ready-to-serve juices, canned fruits, jam, squashes etc, while carbonated fruit drinks, dehydrated and freeze-dried fruits, fruit juice concentrate are poised to pick up. There is varied potential for the demand of processed food. The markets for mango pulp are Saudi Arabia, Kuwait, UAE, Netherlands and Hong Kong, while pickles and chutneys go to the USA, UK and Germany, besides Saudi Arabia and UAE. Products like tomato paste, jams, jellies and juices are exported to the USA, Russia, UK, UAE and Netherlands.

The Ministry of Commerce and the Ministry of Food Processing Industries have been giving specific support to international marketing initiatives.

Policy to bridge the gap between resource base and value addition

India is among the world's major producers of food products. It ranks first in the production of cereals, livestock population and milk; is the second largest fruit and vegetable producer; and among the top five producers of rice, wheat, groundnut, tea, coffee, tobacco, spices, sugar and oilseeds. And yet, India's share in international food trade is less than two per cent. Value addition to food by processing is poor.

This has encouraged a policy thrust on the sector and enlarged the Food Processing Industry Ministry's scope to promote it. It includes developing fruit/vegetable processing, food grain milling, dairy products and processing of poultry, eggs and meat products and fish, including canning and freezing. This is in addition to developing enterprises in bread, oilseeds, breakfast food, biscuits, confectionary, non-alcoholic beer and aerated drinks.

While the Ministry supports investment in R&D and product development, the Agricultural and Processed Food Products Export Development Authority (APEDA) offers subsidy to upgrade laboratory facilities. The Development Commissioner of Small Scale Industries (DCSSI) offers subsidy for implementation of ISO systems in business. The production quality as also hygienic and sanitary improvement in manufacture are accorded priority.

Simultaneously, the production base is being enlarged by modern methods of cultivation to improve yield and productivity. A cold chain is also being developed to reduce post-harvest losses and maintain freshness. With new hybrid varieties being added, the production season is getting extended. Thrust is being given to enhance productivity with better raw material.

Since liberalisation, several policy measures have come for regulation and control, fiscal changes, export and import, taxation, exchange and interest rate control, export promotion and several incentives to high priority industry, including food processing.

Deregulation and Decontrol

The policy initiatives include an important incentive that industrial license is not required for most food processing enterprises, except for products like beer, potable alcohol and wines, cane sugar, hydrogenated animal fat and oils, etc, and some items reserved for exclusive manufacture in the SSI sector, like pickles, chutneys, bread, confectionary, mustard, sesame and groundnut oil, ground and processed spices, other than spice oil and oleoresin, sweetened cashew nut products and tapioca flour. Price controls have been removed. Automatic investment approval up to a certain percentage of foreign equity or cent per cent NRI equity is allowed for most of the sector, except in the case of malted food, alcoholic beverages, etc. *Use of foreign brand names is freely permitted.* Most items can be freely imported and exported. *Capital goods may also be freely imported, including second-hand ones.* These initiatives are likely to encourage entrepreneurship in the field.

Fiscal Incentives with Additional Encouragement for Export

Under this, excise and import duty rates have been reduced. Many processed food items are exempted from excise duty. There are limited-period tax incentives for new manufacturing units, except for beer, wine, aerated water using flavouring concentrates, confectionery, chocolate, etc. A high capital investment subsidy is available for new processing units. Food processing is one of the thrust areas identified for exports. Free Trade Zones (FTZs) and Export Promotion Zones (EPZs) have been set up with necessary infrastructure. Capital goods, including spares, can be imported at concessional customs duty, subject to export obligations under the Export Promotion Capital Goods (EPCG). Export-linked duty-free imports are also allowed. Enterprises in EPZs and FTZs may retain a percentage of foreign exchange receipts in foreign currency accounts and a percentage of output is saleable domestically. *Profit from export sales are, however, being progressively brought under the corporate tax bracket. Effective capital structuring of projects has therefore become more critical.*

The WTO Agreement and the Sector

Trade liberalisation under the World Trade Organisation (WTO) is expected to improve scope for exports for the Indian food processing industry, while smoothening import barriers on inputs and making enterprises cost competitive. Enterprises will, however, need to improve safety and quality standards to reap the benefits of the new world order and avoid being penalised for non-tariff barriers. They will have to progressively follow a food quality management system called Hazard Analysis and Critical Control Points (HACCP). Many developed countries have already made this mandatory. The seafood processing enterprises have already faced the brunt of related bans from importing countries asking them to implement the costly requirements. Be it with regard to the aflatoxin content in groundnut, lead in milk or sulphur in sugar, it is safer to meet the more stringent international norms. Quality, safety and health are the buzzwords for the food enterprise of tomorrow.

Impact of Policy in Terms of Interest Rates and Income Tax on the Structuring of a Project

Policy incentives in terms of investment subsidies and duty relief have an obvious impact on project viability. Policy-related variables, such as interest rates on term loans and the working capital, also affect project viability. Similarly do variables, such as income tax on profit or net earnings of an enterprise. These variables have serious implications on the structuring of a project in terms of debt or loan and equity (promoters' contribution or investment) in either 'fixed assets' such as equipment, land, and buildings or with regard to 'current assets' or working capital (or money required for operating a business). The latter may imply cash, stock and receivables for credit sale. The structuring of a business in terms of capital basically involves decisions on the debt and equity mix. Policy variables also have implications on the structuring of costs.

Implication of policy variables on the structure of capital of an enterprise

Consider a mixed fruit jam project 'Manjunath Enterprises' that is to be sanctioned in Mysore, Karnataka. The enterprise requires an investment (project cost) of Rs.50 lakh. The project expects to earn a Return On Investment (ROI) of about 24 per cent every year. The enterprise plans to manufacture juice concentrates and jams. The interest rate on loan (debt) is about 15 per cent. If the project were structured in terms of wholly equity investment by the promoter, it would yield a much lower return on equity. For illustration, assume the tax on earnings is 50 per cent. An ROI of 24 per cent implies a net profit of Rs.6 lakh after tax. In the case of an alternative option assume that half the investment is financed by equity and one half (Rs.25 lakh) by debt. In this case it will be observed that net profit after payment of interest on loan and tax will be Rs.4,12,500. By investing an equity of Rs.50 lakh on this project, the net profit works out to Rs.6 lakh and alternatively, investing equity of only Rs.25 lakh net profit works out to Rs.4.125 lakh. In terms of return on money invested by the entrepreneur, return on the second case is about 33 per cent higher! This benefit is due to the tax shield on interest paid on debt. Therefore, the structure of investment is dependent on tax rates. If they are low or negligible or not `declared', it does not make a difference if the business is financed by high debt or high equity. Similarly, the structuring of a project should be based on interest rates on debt. If interest rates are higher than the ROI, going in for debt will kill an enterprise, as repayment will not be possible. It is, therefore, necessary to understand past trends and make a judgement on future trends on these two parameters before taking a decision on the structuring of a business in terms of capital.

In fact, there is yet another critical impact on debt-equity mix on a business. Consider Tables 2.1 and 2.2 below. The Tables consider profit after taxes for a given increase in the ROI in two circumstances. A project that entails an investment of Rs.50 lakh is considered. Table 2.1 considers an option of 25 per cent equity in capital structure while Table 2.2 considers 100 per cent equity investment. The Tables indicate the impact of the structure of capital of the enterprise on Profit before Tax (PBT) and Profit after Tax (PAT).

Table 2.1 Capital Structure of Manjunath Enterprises: (75% debt, 25% equity)

(Rs.in lakhs)

ROI	**8% (Rs.4 lakhs)**	**12% (Rs.6 lakhs)**
Interest	3	3
PBT	1	3
Taxes	0.5	1.5
PAT	0.5	1.5

Table 2.2 Structure of Capital of Manjunath Enterprises: (100% equity)

(Rs.in lakhs)

ROI	**8%**	**12%**
PDBIT	4	6
Interest	-	-
PBT	4	6
Taxes	2	3
PAT	2	3

The tables above illustrate a similar benefit with regard to the rate of increase in profit with similar increase in return on investment. The ROI increases by 50 per cent in both cases but profit after taxes increases by the same amount in a self-financed project (Table 2.2) but by 200 per cent if highly debt financed (Table 2.1). Therefore the rate of increase in profit is much higher for a unit increase in the ROI, if the project is highly debt financed.

Implication of policy variables on structuring project costs

Compare the proposed cost structure of Arundhati Enterprises in Ahmedabad with another proposed enterprise ABC Food Products. The latter plans to focus on largely outsourced 'manufacture' of pickles, while Arundhati Enterprises plans on largely in-house processing of pickles. In the case of Arundhati Enterprises fixed costs are higher while in the case of ABC Food Products, variable costs are higher. The fixed cost in operation includes costs such as rent that do not vary with output, while variable costs such as raw-material purchase costs do. As the table below indicates, Arundhati Enterprises could make more profit than the outsourcing 'packager' (ABC Enterprises). This indicates that scale economies operate on the manufacturing front. Nevertheless, in the case of Arundhati Enterprises, the extent

Table 2.3 Cost Structure of Enterprises

	ABC Enterprises	Arundhati Enterprises
Production (Jars)	80,000	80,000
Selling price (per jar)	Rs.40	Rs.40
Variable price (per jar)	Rs.30	Rs.10
Contribution (per jar)	Rs.10	Rs.30
Sales revenue (Total)	Rs.32,00,000	Rs.32,00,000
Variable cost (Total)	Rs.24,00,000	Rs.8,00,000
Contribution (Total)	Rs.8,00,000	Rs.24,00,000
Fixed cost (Total)	Rs.1,60,000	Rs.10,00,000
Profit (Total)	Rs.6,40,000	Rs.14,00,000

of fall in profits with fall in sales or sales margins is likely to be higher. The interest cost on term loan is a fixed cost, while the interest cost on the working capital is a variable cost. Arundhati Enterprises is likely to operate with a substantial term loan while ABC enterprises is likely to be operating more with mere working capital. It may be estimated that a 20 per cent fall in sales will lead to about 25 per cent fall in profit in the case of ABC Enterprises. There is a much greater fall (about 34 per cent) in the case of Arundhati Enterprises. The reverse operates in the case of an increase in sales. Therefore, studying potential for interest rate change on the working capital and term loans and market demand which in turn may be affected by policy variables such as customs duties on finished products (market protection) remains critical either in terms of reducing business risk or enhancing profitability.

Therefore, particularly for those who declare profit 'realistically' such as exporters, interest rates and income tax rates critically determine the extent of debt finance to be sought for a project. This benefit occurs due to the tax shield on interest on loan or debt finance. Similarly the trend falls in interest rates as indicated by fall in the Prime Lending Rate (PLR) of lending institutions as also increased implementation of income tax rules may encourage going in for debt finance.

The cost structure in a business, which in effect helps decide on the 'size' of an enterprise in terms of fixed investment, is affected by interest rates and customs duties, among other variables. Further, customs duties on inputs used by food processing manufacturers, for instance, may initially help on deciding on the structuring of a project. For instance, customs duties on oranges as raw material may be rather stagnant at 35 per cent, while customs duties on squashes as finished product may be progressively reducing at a higher rate. In this case, the manufacture of a standard product (with little scope for differentiation) like a 'squash' may warrant export orientation as to import inputs sans duty (as per the export-import policy) and remain competitive.

THE IMPORTANCE OF POLICY:

The Cases of Purshottam Enterprises and Mahila Udhyam Sanstha

The case of Purshottam Enterprises in Patna exemplifies the importance of sourcing and production management, including purchase decisions and channel motivation, to serve as critical success determinants of projects in the sector. Purshottam Enterprises was launched in 1985. It initially started off as a flourmill, which set up a retail outlet. The enterprise has graduated from a turnover of about Rs.40 lakh to about Rs.3 crore. The enterprise, which started off as a tiny unit, has now become a flourishing small-scale enterprise. This has happened without its availing support in the form of any incentive or schemes. In fact, the promoter has been 'blissfully' ignorant of such schemes. Investment in equipment over the years has been done by the promoter out of the surplus generated by the business. Further, the enterprise uses formal finance of only about Rs.10 lakh in the form of a cash credit facility from a bank. It uses about Rs.60 lakh of own funds as the working capital.

The enterprise is involved in the manufacture of spices, viz. chilly powder and various types of spices. The enterprise operates through 183 distributors. Raw material is sourced from various parts of India directly viz. chillies from Andhra Pradesh, for instance. The working capital is largely locked up in credit sales. About 25 per cent of output is sold on cash basis and 75 per cent on credit sales of 2 months. A cash discount of 3 per cent is offered for cash purchase. The enterprise has not availed itself of any bills discounting facility from agencies such as the National Small Industries Corporation (NSIC) or commercial banks. As a matter of fact, blocking on own funds on equipment and fixed assets and on the working capital has affected potential growth prospects of the enterprise. Policy and support system incentives have not been effectively availed of. There is a virtual dearth of information on support schemes. Policy and support seems to have hardly played any role in the current success of this enterprise. The enterprise proposes to attempt at exporting its spices-based 'masalas' to target NRIs viz. ethnic Biharis in particular. However, information on the Market Development Assistance Schemes of the Ministry of Commerce or the Development Commissioner–Small Scale Industry (DCSSI) is not known. The enterprise would like to go in for ISO implementation but is ignorant of sources such as the Indian Statistical Institute and the Small Industries Service Institute. The enterprise, therefore, plans its growth as it had operated since inception—absolutely 'self-driven' and not policy or support driven. Though, a costly proposition, the case of Purshottam

Enterprises highlights that effective management of a business is the key to performance. Policy support may be required to augment and not substitute this requirement.

Handholding needs to be coupled with business acumen and drive: Policy and support alone will hardly suffice.

Consider the enterprises established by the support system in the 1990s. These include enterprises established by the Khadi and Village Industry Board in different states. The cottage industries' department in Tamil Nadu had established a self-help group of 200 women under the leadership of Neelavalli who acts as the President of 'Mahila Udhyam Sanstha'. The enterprise had secured about Rs.1 lakh for equipment with a significant amount of subsidy and reaps interest subsidy as to secure C.C. facility at the rate of only about 9 per cent. Support agencies such as the State Export Promotion Corporation have helped them 'indirectly' export their 'papads' to Europe. Support in the form of entrepreneurship and management skill development training has been received and financial support in terms of soft loans and marketing support offered. But since the beginning the enterprise's turnover has remained stagnant. Despite support right from the conception stage, the enterprise has hardly even taken off despite a decade of operation.

Policy with Regard to Sales Tax and Customs Duties

A 'masala' manufacturer in Guwahati makes chilli powder and sells it in an average lot size of 1 kg. He gives his distributor a margin of 15 per cent and his retailer a margin of 30 per cent on the MRP. He also offers various schemes for retailers such as a one kg pack for every 10 kg of material paid for. He essentially uses retailer or channel motivation at the point of sale as a tool to push his products. Bigger 'masala' manufacturers and suppliers are believed to offer a margin of only 7 per cent to distributors and 5 per cent to retailers. The net margin on chillies is believed to be about 10 per cent. His own costing of the product is as follows: for one kg. of chilli—raw material cost works out to Rs.4, labour about Rs.1.5, packaging about Rs.2.5, marketing (advertising/hoardings) Rs.3 and transport (raw material and finished products) Rs.2. The product is offered to distributors at Rs.19, viz. he believes he makes a net profit of about Rs.6. He does not consider interest or opportunity on own cost of capital under which circumstance margins may vary. Large Indian business houses are believed to enjoy economy of scale advantages (in terms of lower per unit cost) of even 15-20 per cent on various products. It is their marketing expenses in terms of TV commercials, etc., that are believed to be high. It is believed that larger enterprises focus on a 'consumer-pull' strategy, while smaller enterprises lay emphasis on a 'customer-push' strategy. The latter seems to work better! It is believed that 'masalas' and chilli powders, for instance, have to be blended to suit the palate of different communities in India. Hence, large enterprises do not manufacture many 'masala' varieties; cottage and small units do well. It is, therefore, efficient marketing that serves as a critical success determinant.

Yashwant Bakery in Patna has a turnover of Rs.1.25 crore. The equipment utilised include semi-automatic mixers. The promoter had taken an NSIC loan of Rs.25 lakh. Equipment was sourced from an Indian agent of the machinery manufacturer. The enterprise's main competitor is a medium-sized manufacturer. The competitor, who has a turnover of over Rs.10 crore and a market share of about 50 per cent in the region, uses fully automatic equipment. Yashwant Bakery seems to have not realised the value of using the push strategy to enhance market reach. Perhaps, this is why both enterprises, which started at about the same time with similar investment, have different performances. For instance, in the 400 gm. 'sandwich bread' that he manufactures, the retailer is offered a margin of Rs.2 and distributor a margin of 80 paise. He sells at Rs.7.20 to distributors. He makes a net margin of about 8 per cent on sale price. Price has been about the same for over a 3 year period. Unlike his competitor, he gives exclusive agency or distributorships and low 'customer' or middleman margins.

The larger enterprise, which has the bulk of the market share in the region, offers 50 per cent higher margins to dealers (wholesalers) and retailers. No wonder Yashwant Bakery has a 5 per cent market share of Patna city, while his competitor is believed to have an over 50 per cent market share. What is also obvious is that market growth in the case of chilli powder and bread, for instance, is more likely to be merely related to population growth. Setting up new projects in such relatively saturated markets could only affect the performance of existing enterprises, while affecting the sustainability of new enterprises. Existing enterprises in the sector would, in fact, have to look for options such as technology upgradation to further reduce costs and enhance performance. Further, with regard to new projects, a focus on value added and newer products such as bread with soya etc. would benefit. New value added products may be considered by new projects and technology upgradation options may be pursued by existing enterprises as to reduce costs and increase margins in new markets. Technology upgradation may be in terms of incorporating high-speed mixers and kneading machinery.

Policy is often skewed towards protecting raw material providers. For example, in 400 gms. of sandwich bread offered at Rs.7.20, raw material cost (maida, wheat flour, yeast) is about 65 per cent, labour 10 per cent, electricity 5 per cent and chemicals and salt and oil about 12 per cent. Raw material costs in India are skewed towards the higher side in the international perspective due to lower productivity in agriculture. With regard to surviving even in the context of high domestic raw material costs, enterprises may do well if they focus on ethnic and traditional products. South East Asian competitors cannot afford to focus on 'masala' powders targeted at the region specific taste and preference segments! Sickness in the industry is believed to be largely due to problems in credit realisation and inefficient speculation in raw material prices, both of which affect performance. Efficient management is the key.

A 'masala' powder and confectionery manufacturer in Chennai has the 'Agmark' label and is also involved in intra-state trade. He believes that while bread has no sales tax, items like masala and cakes and pastries have tax fixed at 2 per cent on 'Masalas' and 12 per cent on cakes and pastries. Supplying beyond a state could imply payment of local sales tax in a state plus octroi at the rate of, say, 2 per cent for entry into different regions as also sales tax in the target state. This effectively keeps away efficient competition from other states, a sort of tariff barrier to protect local manufacturers in a state. Further, food inspectors in other states are believed to be a source of 'harassment' in terms of pulling up intra-state suppliers under the Weights and Measures Act, ingredient content and mix, labelling norms, etc. While the various acts are necessary, filing cases in local courts by authorities proves to be expensive for entrepreneurs. This entrepreneur in Chennai has been going to court in Andhra Pradesh for the last 25 years to resolve a relevant dispute. A promoter needs to understand such aspects before planning and implementing a business.

The margins secured by entrepreneurs in some sectors are believed to be phenomenal. In the manufacture of confectionery products such as 'pedas', for instance, for the manufacturing enterprises in Pune, which are integrated into own retail outlets, returns on cost of production are expected to be 200 per cent. Cottage and smaller enterprises do well if they operate in fragmented markets. Markets may be fragmented either due to the perishable nature of the product with low shelf life such as bread or due to regional variations in preferred taste or choice. Pickles and certain spices are all examples. Further, in some products such as 'rotis', which are convenience products that are tending towards becoming necessities, pricing has to be low. MNCs are not likely to enter into such products, as it is difficult to charge premium prices for their brand image. Hence, small enterprises have their own opportunities in the sector, while larger enterprises have theirs.

Regional characteristics of demand are also critical. In cities like Mumbai and Pune, the fast pace of life and palate of local consumers have encouraged a wide range of processed enterprises to be established. In a city like Ahmedabad, however, convenience foods have not made as much an entry. Hence, such aspects also play a critical role in determining the success of a project. An example of regional variation is that of chilli preferred in Gujarat which is less pungent than in other states. Consumers stress more on colour, i.e. in terms of 'dark red'. Bigger enterprises may find it difficult to enter into such fragmented markets by reaping scale economies in manufacturing or purchase as their production run may not be optimised, particularly if such fragmented markets are relatively small as also price conscious. Exchange rates are critical policy related factors for price competitiveness. 'Basmati' rice from Pakistan has an advantage over that from India, currently, given their lower rupee–dollar rates.

The cases of different enterprises presented in this section indicate the importance of management along with the need for incorporating possible policy trends such as regulatory norms, sales tax, customs duties, etc., while planning a project and implementing it.

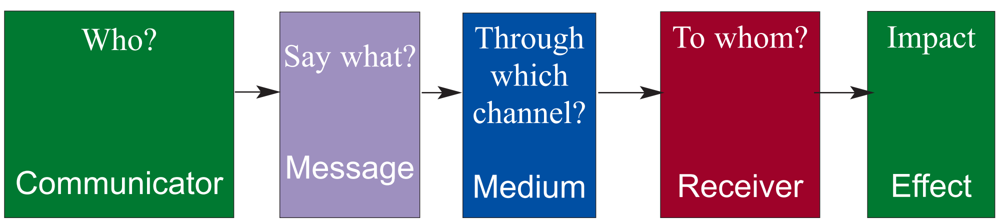
CHAPTER

4

Soft Skills for Entrepreneurs

Communication Skills

Communication is the process of exchanging ideas, facts or opinions by two or more persons. For communicating, we use different modes, like oral, written or non-verbal. The process is explained by using this diagram:



Major vehicles for communication:

Speech – Face to face (oral)

Writing Formal – long (reports, documents, etc)

Non-verbal – Facial expression, body language

In life, we use several methods to communicate effectively (i.e. gestures/ watch for response/ words/ pictures). Successful communication depends on correct receipt of the message and receiving is an active element. Communication vehicles will be effective only if both parties are involved in the process. Good communicators listen and observe. They are alert receivers of response signals while they are also communicating. This helps them tailor their communication style to make it easier for the receiver to absorb or accept the message.

There are certain rules for communication:

i. Fitness of purpose:

- Will it achieve the objective?
- What, why, when, where, how?
- Select the most effective way to achieve the objective.

ii. Quality of the message:

- Always maintain clarity, accuracy and simplicity.
- Don't leave the important part of the message merely implied.

We all transmit personal, non-verbal signals continuously, mostly reflecting our attitudes and responses to communication systems. By observing and responding to signals appropriately, we can build on the positives and weed out the negatives. To some extent, most people respond to non-verbal communication, but often only to the obvious, well-known signals. The table below gives examples of such signals and their implications:

Sr. No.	Behaviour	Reason	Circumstances	Responses
1	Leaning Forward	• Concentration • Increased emphasis	• Important meeting • Negotiation	• Make points clearly • State your own case
2	Leaning Back	• Taking time to think • Inviting expansion • Looking for conclusion	• After a proposition/explanation • Towards end of meeting	• Allow silence thought • Wait for others to speak first
3	Clasping both hands behind neck	• Extreme confidence • Relaxation	• Non-threatening situations • In charge of situations	• Maintain openness of situatiuon • Be positive about your own case
4	Straight gaze No head movement	• Failing attention • Dislike what is communicated • Lack of co-operation	• Disputed occasions • Unwelcome instructions	• Ask for reactions/ feelings • Ask for suggestions
5	Narrowing eyes	• Disapproval • Disbelief • Dislike	• Expects to challenge • Patience may be short	• Allows expression of opinion • Shows that you acknowledge difference • Give your reasons

Source: Adapted from *Communication Skills*, 1996 by Carter Wendy

Creativity and Problem Solving

An entrepreneur has to be creative. He has to arouse and enhance creativity and experience competition not only with others but also the standards of excellence set for himself. Certain pre-conceived ideas create barriers in the growth of creative thinking. The barriers are:

1. Self-imposed
2. Restricted mindset
3. Nature of compliance
4. Backtracking to obvious challenge
5. Jumping to conclusion
6. Fear of being ridiculed

It calls for a positive attitude, an open mind, insight and right perception to remove these barriers and arouse and enhance creativity. Everyone faces problems of different nature and magnitude. Sometimes in daily life, we encounter problems so often that we don't even notice them and this is because of our monotonous experience in dealing with them and hence the spontaneous reactions result in solutions. But we do get stuck when faced with unusual and difficult problems, as our routine reactions fail to produce solutions. In such cases, different approaches and ways have to be tried out.

Similarly, as an entrepreneur you may face several problems while managing your small-scale enterprise. If you develop an appropriate system, approach and methodology to solve problems, it will prepare you to manage your affairs and problems smoothly and without tension.

There are several qualitative and quantitative approaches evolved in management science to help solve problems. The right strategy would be to understand your own environment, resources, capacities, limitations, strengths and weaknesses in order to design the right approach. This approach will help you, initially, in working on problems and, later, in formulating your own strategy to solve them. These steps help you have a problem-solving attitude and mechanism:

- Create a desire to solve problems
- Recognise the problem
- Formulate the possible causes

- Specify the problem
- Test each cause
- Explain each cause with minimum assumptions
- Verify your explanation and determine the cause
- Establish objectives about the resources to be produced and resources used
- Classify objectives into 'MUST', 'DESIRABLE' and 'CAN BE IGNORED' categories
- Generate alternative solutions
- Choose one solution
- Compare each solution in terms of positive and adverse consequences
- Make a decision to implement
- Internalise the process