NEW AGE

MANAGEMENT AND ENTREPRENEURSHIP

VEERABHADRAPPA HAVINAL

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Dedicated to

My Parents

and

Wife

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Preface

It gives me immense pleasure to author the book "Management and Entrepreneurship" prescribed for B.E. 5th/6th Semester courses of all branches of Engineering of the Visvesvaraya Technological University. This subject is of immense value for budding engineers to make them better managers and successful entrepreneurs.

I have felt a huge shortage of books and relevant materials on this subject. The books available in the market are mostly written with Western World Perspective and the examples in those books were not relevant to our educational system. This has motivated me to write this book.

The first four chapters of the book discuss on the management functions and principles and the last four chapters discuss the entrepreneurship. Adequate number of illustrations have been included in each chapter. In addition, each chapter contains student learning activities to give the readers a chance to enhance the learning process.

I wish to thank Dr. S. Jayanna, Prof. and Chairman, Vijayanagara Institute of Management Studies, Gulbarga University PG Centre, Bellary for his inspiration, help and guidance extended while writing this book. I extend my thanks to Dr. S.S. Bhavikatti for his inspiration to author this book.

I also gratefully acknowledge the help and support of my wife Smt. Nagaveni Biradar, my colleagues Prof. Yadavalli Basavaraj and Kotresh Sardar.

Sincere thanks are also due to the publishers for their effective cooperation in the early release of this book. Perfection cannot be achieved in a single literature, but there is always scope for improvement. Hence the author invites suggestions from the readers to further improve the book.

Veerabhadrappa Havinal

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CHAPTER 1

MANAGEMENT

Learning Objectives:

- To introduce the concept and definitions of management.
- Present the characteristics of management.
- Understand the functions of management.
- Understand the functional areas of management.
- Distinguish administration and management.
- Introduce the role of management.
- Present the levels of management.
- Trace the development of management thought.

1.1 MEANING

Giving precise definition of management is not so simple because the term management is used in a variety of ways. Being a new discipline it has drawn concepts and principles from a number of disciplines such as Sociology, Economics, Psychology, Statistics, Anthropology and so on. The contributors from each of these groups have viewed management differently. For example economists have treated management as 'a factor of production'; Sociologists treated it as 'a group of persons'. Hence, taking all these view points, it becomes difficult to define management in a comprehensive way and no definition of management has been universally accepted. Many definitions were given by various contributors; one popular definition is given by Mary Parker Follet. According to Follet management is '**the art of getting things done through people**'. This definition clearly distinguishes between manager and other personnel of the organization. A manager is a person who contributes to the organization's goal indirectly by directing the efforts of others, not by performing the task by him. A person who is not a manager makes his contribution to the organization's goal directly by performing the tasks by himself. Some times a person may play both roles simultaneously. For example, a sales

manager plays managerial role by directing the sales force to meet the organization's goal and plays non-managerial role by contacting an important customer and negotiating deal with him. The principal of an institution plays the role of manager by directing the heads of the departments and plays non-managerial role by teaching a subject. There are two weaknesses of this definition. The first weakness is that the definition states that management is an art. Art deals with application of knowledge. But management is not merely application of knowledge. It also involves acquisition of knowledge i.e., Science. Managing using intuition or thumb rule is not correct management. The second weakness of this definition is that it does not explain the various functions of management.

A better definition is given by George R Terry who defines management as "a process consisting of planning, organizing, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources". According to him, management is a process-a systematic way of doing thing using four managerial functions namely planning, organizing, actuating and controlling. 'Planning' means thinking of the manager's action in advance. The actions of the managers are based on logic, plan or some method rather than hunch. 'Organizing' means coordinating machines, materials and human resources of the organization. 'Actuating' means motivating, directing the subordinates. 'Controlling' means that manager must ensure that there is no deviations from plans. This definition also indicates that managers use people, materials and other resources to accomplish the organizations objectives. The objectives may vary with each organization. For example the objective of a technical or management institute might be to provide quality education according to the needs of the industry. The objective of a hospital might be to provide medical care to the community at reasonable price. Whatever may be the objectives of the organization management is a process by which the objectives are achieved.

From the view point of economics, sociology, psychology, statistics and anthropology management has different meanings. There are four views of management:

(1) Management is a process.

(2) Management is a discipline.

(3) Management is a human activity.

(4) Management is a career.

Management is a process: A process is defined as systematic method of handling activities. Often we hear the statements "that company is well managed" or "the company is miss-managed". These statements imply that management is some type of work or set of activities, these activities sometimes performed quite well and some times not so well. These statements imply that management is a process involving certain functions and activities that managers perform.

Management is a discipline: Discipline refers to the field of study having well defined concepts and principles. Classifying management as discipline implies that it is an accumulated body of knowledge that can be learnt. Thus, management is a subject with principles and concepts. The purpose of studying management is to learn how to apply these principles and concepts at right circumstances at the right time to produce desired result.

Management is a human activity: If you say that "the restaurant has an entirely new management" or "He is the best manager I have worked for", you are referring to the people who guide, direct and thus manage organizations. The word 'management' used here refers to the people who engage in the process of management. Managers are responsible for seeing that work gets done in organization.

Management is a career: Today management is developed as a career focused on specialization. Marketing management, finance management, personal management, Industrial management, production management, quality management are some of the specializations in management. Specialists are appointed at various positions of the organizational hierarchy. Hence, management is career.

According to Ralph C Devis, "Management is the executive leadership anywhere".

According to William Spriegal, "Management is that function of an enterprise which concerns itself with the direction and control of various activities to attain business activities".

Ross Moore states "Management means decision-making".

According to Donald J Clough, "Management is the art and science of decision-making and leadership".

Joseph L Massie defines as "Management is the process by which a cooperative group directs actions towards common goals".

According to F.W. Taylor, "Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way".

John F Mee states "Management is the art of securing maximum results with minimum efforts so as to secure maximum prosperity for employer and employee and give the public the best possible service".

According to Koontz and O'Donnel, "**Management is the direction and maintenance of an internal environment in an enterprise where individuals working in groups can perform efficiently and effectively towards the attainment of group goals**". It is the art of getting the work done through and with people in formally organized groups.

Learning Activity 1.1: List the Managerial and Non-managerial activities of your Principal and Head of the department.

1.2 CHARACTERISTICS OF MANAGEMENT

The critical analysis of the above definitions, the following characteristics of management evolve.

(1) ***Management is a continuous process***: The process of management consists of planning, organizing, directing and controlling the resources to ensure that resources are used to the best advantages of the organization. A single function alone cannot produce the desired results. Management involves continuous planning, organizing, directing and controlling.

(2) ***Management is an art as well as science***: Management is an art in the sense of possessing managing skill by a person. Management is science because certain principles, laws are developed which are applicable in place where group activities are coordinated. This will be discussed in detail later in this chapter.

(3) ***Management aims at achieving predetermined objectives*:** All organizations have objectives that are laid down. Every managerial activity results in achievement of these predetermined objectives.

(4) ***Management is a factor of production*:** An enterprise produce goods or services using resources like land, labour, capital, machines etc. These resources themselves cannot realize the organizations goals. The goals are achieved when these are effectively coordinated by the entrepreneur. In case of small enterprises an individual can do such type of job where as in large enterprises the coordination job is done by management. Therefore, management is a factor of production.

(5) ***Management is decision-making*:** Decision-making is selecting the best among alternative courses. Decision-making is an important function of a manager. Whatever a manager does, he does it by making decisions. The success or failure of an organization depends upon the quality of decision. A manager must make a right decision at right time.

(6) ***Universal application*:** The principles and concepts of management are applicable to every type of industry. The practice of management is different from one organization to another according to their nature.

(7) ***Management is needed at all levels*:** The functions of management are common to all levels of organization. The functions of planning, organizing, directing, controlling, decision-making are performed by top level as well as lower level supervisors.

(8) ***Management aims at maximum profit*:** The resources are properly utilized to maximize profit. Maximizing the profit is the economic function of a manager.

(9) ***Dynamic*:** Management is not static. Over a period of time new principles, concepts and techniques are developed and adopted by management. Management is changed accordingly to the social change.

(10) ***Management as a career*:** Today management is developed as a career focused on specialization. Marketing management, finance management, personal management,

industrial management, production management, quality management are some of the specializations in management. Specialists are appointed at various positions of the organizational hierarchy. Hence management is career.

(11) ***Management is a profession*:** Management is a profession because it possesses the qualities of a profession. The knowledge is imported and transferred. The established principles of management are applied in practice. This is discussed in detail later in this chapter.

(12) ***Management is a discipline*:** Discipline refers to the field of study having well defined concepts and principles. Classifying management as disciplines implies that it is an accumulated body of knowledge that can be learnt. Thus, management is a subject with principles and concepts. The purpose of studying management is to learn how to apply these principles and concepts at right circumstances, at the right time to produce desired result.

1.3 NATURE OF MANAGEMENT

The principles, concepts and techniques of management have changed over the period of time. Various contributions to the field of management have changed its nature. The nature of management can be described as follows:

(1) ***Multidisciplinary*:** Management is multidisciplinary. It draws freely ideas and concepts from the disciplines like economics, sociology, psychology, statistics, operations research etc. Management integrates the ideas taken from various disciplines and presents newer concepts which can be put into practice. The integration of these ideas is the major contribution of management.

(2) ***Dynamic nature of principles*:** A principle is truth which establishes cause and effect relationships of a function. Principles are developed by integration of ideas from various disciplines supported by practical evidence. These principles are flexible and change with the environment in which organization works. Continuous researches are being carried on to establish new principles; many older principles are changed by new principles. There is nothing permanent in management.

(3) ***Relative not absolute principles*:** Management principles are relative and not absolute. They must be applied according to the need of the organization. Each organization is different from other. The principles of management should be applied in the light of prevailing conditions.

(4) ***Management – science or art*:** There is controversy whether management is science or art. Earlier management was regarded as art but now it is both science and art. This aspect has been discussed in detail in this chapter.

(5) ***Universality of management*:** Management is universal phenomena. Though universal yet management principles are not universally applicable but are to be modified according to the needs of the situation.

1.4 MANAGEMENT FUNCTIONS OR THE PROCESS OF MANAGEMENT

A function is a group of similar activities. There is divergence of view on "What functions are undertaken by managers in organizations?" Some management experts classify these functions into four types and others classify into five types and some others classify them as seven items. The Table 1.1 presents the management functions identified by various writers. The Table 1.2 gives the combined list of management functions.

Table 1.1: Management functions

	Writers	Management Functions
1	Henry Fayol	Planning, organizing, commending, coordinating, controlling
2	Luther Gulick	Planning, organizing, staffing, directing, coordinating, reporting and budgeting (POSDCORB)
3	Lyndall Urwick	Planning, organizing, commanding, coordinating, communicating, forecasting, and investigating.
4	E.F.L. Brech	Planning, organizing, motivating, coordinating, controlling
5	Koontz and O'Donnell	Planning, organizing, staffing, directing (leading), controlling.

Table 1.2: Combined list of management functions

Planning	Directing	Controlling
Formulating purpose	Leading	Investigating
Decision making	Motivating	Evaluating
Innovating	Commanding	Coordinating
Organizing	Activating	Representing
Staffing	Securing Efforts	Administration
Appraising	Communicating	

The list of management functions is too long. However it can be shortened by combining some functions into one. For example, leading, motivating, communicating and commanding may be combined into a single function namely directing.

For our purpose we shall designate the following five as the functions of the manager. In addition we briefly refer to "Innovation and representation as two additional managerial functions considered important by Earnest Dale.

(1) ***Planning*:** Planning is the primary function of management. It is looking ahead and preparing for the future. It determines in advance what should be done. It is conscious determination of future course of action. This involves determining why to take action? What action? How to take action? When to take action? Planning involves

determination of specific objectives, programs, setting policies, strategies, rules and procedures and preparing budgets. Planning is a function which is performed by managers at all levels – top, middle and supervisory. Plans made by top management for the organization as a whole may cover periods as long as five to ten years, whereas plans made by low level managers cover much shorter periods. This "Planning" is discussed in detailed in Chapter–2.

(2) ***Organizing*:** Organizing is the distribution of work in group-wise or section-wise for effective performance. Once the managers have established objectives and developed plans to achieve them, they must design and develop a human organization that will be able to carry out those plans successfully. Organizing involves dividing work into convenient tasks or duties, grouping of such duties in the form of positions, grouping of various positions into departments and sections, assigning duties to individual positions and delegating authority to each position so that the work is carried out as planned.

According to Koonz O'Donnel, "**Organization consists of conscious coordination of people towards a desired goal**". One has to note that different objectives require different kinds of organization to achieve them. For example, an organization for scientific research will have to be very different from one manufacturing automobiles.

(3) ***Staffing*:** Staffing involves managing various positions of the organizational structure. It involves selecting and placing the right person at the right position. Staffing includes identifying the gap between manpower required and available, identifying the sources from where people will be selected, selecting people, training them, fixing the financial compensation and appraising them periodically. The success of the organization depends upon the successful performance of staffing function.

(4) ***Directing*:** Planning, organizing and staffing functions are concerned with the preliminary work for the achievement of organizational objectives. The actual performance of the task starts with the function of direction. This function can be called by various names namely "leading", "directing", "motivating", "activating" and so on. Directing involves these sub functions:

(a) ***Communicating*:** It is the process of passing information from one person to another.

(b) ***Leading*:** It is a process by which a manager guides and influences the work of his subordinates.

(c) ***Motivating*:** It is arousing desire in the minds of workers to give their best to the enterprise.

(5) ***Controlling*:** Planning, organizing, staffing and directing are required to realize organizational objectives. To ensure that the achieved objectives confirm to the pre-planned objectives control function is necessary. Control is the process of checking to determine whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct any deviations. Control involves three elements:

(a) Establishing standards of performance.

(b) Measuring current performance and comparing it against the established standard.

(c) Taking action to correct any performance that does not meet those standards.

(6) ***Innovation*:** Innovation means creating new ideas which may be either results in the development of new products or finding new uses for the old ones. A manager who invents new products is an innovator. A salesman who persuades Eskimos to purchase refrigerator is an innovator. One has to note that innovation is not a separate function but a part of planning.

(7) ***Representation*:** A manager has to spend a part of his time in representing his organization before various groups which have some stake in the organization. A manager has to be act as representative of a company. He has dealings with customers, suppliers, government officials, banks, trade unions and the like. It is the duty of every manager to have good relationship with others.

Learning Activity 1.2: Visit your bank and identify various functions performed by the bank manager.

1.5 FUNCTIONAL AREAS OF MANAGEMENT

Management process involves several functions. A distinction should be maintained between management functions (planning, organizing, staffing, directing and controlling) and the organizational functions (productions, finance etc.) Organizational functions differ from organization to organization depending upon their nature while management functions are common to all. A manager may be put either in production or finance or marketing, he performs all the managerial functions. These organization functions are called functional areas of management. There are four functional areas of management namely production, finance, marketing and finance and personnel. Each functional area may have a number of sub-activities.

***Production*:** This is generally put under production manager and he is responsible for all production related activities.

This area has a number of activities, few of them are given below:

(1) ***Purchasing*:** Which is related with the purchase of various materials required by the organization. Purchasing involves procuring right quantity of materials at the right quality, at the right time and at the right price from the right supplier.

(2) ***Materials management*:** This involves storing of materials, issue of materials to various departments.

(3) ***Research and Development*:** It deals with improving the existing products and process and developing new products and process.

***Marketing*:** This area involves the distribution of organizations' products to the buyers. The sub-activities are:

(1) ***Advertising*:** Involves giving information about products to buyers.

(2) ***Marketing research*:** It is related with the systematic collection, analysis of data relating to the marketing of goods and services.

(3) ***Sales management*:** It involves management efforts directed towards movement of products and services from producers to consumers.

***Finance and accounting*:** It deals with intelligent investment of financial resources and record-keeping of various transactions. The various sub-functions are

(1) ***Financial Accounting*:** Deals with record keeping of various transactions.

(2) ***Management Accounting*:** Deals with analysis and interpretation of financial records so that management can take certain decision.

(3) ***Costing*:** It deals with recording of costs, their classification and analysis for cost control.

(4) ***Investment Management*:** Takes care of how financial resources can be invested in various alternatives to maximize returns.

(5) ***Taxation*:** Deals with various direct and indirect taxes to be paid by the organization.

***Personnel*:** It deals with the management of human resources with the following sub-activities:

(1) ***Recruitment and Selection*:** It deals with recruitment and selection of employees.

(2) ***Training and Development*:** It deals with training of employees and making them more efficient.

(3) ***Wage and Salary Administration*:** Deals with fixing of salaries, job evaluation, promotion, incentives etc.

(4) ***Industrial Relations*:** Deals with maintenance of good employee relations.

1.6 MANAGEMENT: A SCIENCE OR ART?

There is great controversy whether management is science or art. It is an art in the sense of possessing of managing skill by a person. It is a science also because of developing principles or laws which are applicable in a place where a group of activities are coordinated. In fact management is both science and art as it clear from the following discussion.

***Management as science*:** Science is a systematized body of knowledge. We call a discipline scientific if its

(1) Methods of inquiry are systematic and empirical.

(2) Information can be ordered and analyzed; and

(3) Results are cumulative and communicable.

'Systematic' means, being orderly and unbiased. Moreover, enquiry must be empirical and not merely an armchair speculation. Scientific information collected in the raw form is finally ordered and analyzed with statistical tools. It is communicable which permits repetition of study. When study is replicated then the second try produces the results similar to the original. Science is also cumulative in that what is discovered is added to that which has been found before. We build upon the base that has been left by others.

Science denotes two types of systematic knowledge; natural or exact and behavioural or inexact. In exact or natural science (such as physics and chemistry) we can study the effect of any one of many factors affecting a phenomenon. For example, we can study in the laboratory, the effect of heat on density by holding other factors (like humidity, pressure etc.) constant, whereas in behavioural or in exact science it is not possible. In management we have to study man and number of factors affecting him. For example, we cannot study the effect of monetary incentives on workers productivity, because in addition to monetary incentives other inseparable factors like leadership styles, workers need hierarchy and leadership styles will also have simultaneous effect on productivity. At the most we may get only rough idea of the relationship between monetary incentives and productivity. Therefore, management is in the category of behavioural science.

***Management is an art*:** Management is the art of getting things done through others in dynamic situations. A manager has to coordinate various resources against several constraints to achieve predetermined objectives in the most efficient manner. Manager has to constantly analyze the existing situation, determine objectives, seek alternatives, implement, and control and make decision. The theoretical lessons on principles, concepts and techniques learnt by a manager in classroom is not enough to get the aimed results unless he possess the skill (or art) of applying such principles to the problems. The knowledge has to be applied and practised. It is like the art of musician or painter who achieves the desired results with his own skill which comes by practice. A comparison between science and art is given in table 1.3.

Table 1.3: Comparison between science and art

Science	Art
Advances by knowledge	Advances by policies
Process	Feels
Predicts	Guesses
Defines	Describes
Measures	Opines
Impresses	Expresses

Management uses both scientific knowledge and art in managing an organization. As the science of management increases so should the art of management. A balance between the two is needed.

1.7 MANAGEMENT: A PROFESSION

According to McFarland, "**Profession**" possesses the following characteristics:

(1) Existence of an organized knowledge.

(2) Formalized method of acquiring training and expertise.

(3) Existence of professional association.

(4) Existence of an ethical code to regulate the behaviour.

(5) Charging of fees based on service with due regard to social interest.

Management does not possess all the above characteristics of profession. Management has no fixed norms for managerial behaviour. There is no uniform code of conduct or licensing of managers. There are no restrictions to individuals to possess an academic degree. Unlike medical or legal professionals, a manager need not possess an academic degree. In the light of absence of these characteristics, management cannot be called as profession. However, 'professionalization' of management started and it is essential nowadays to acquire some professional knowledge or training. In this regard government of India has started six national institutes of management and a number of universities and institutions are offering MBA programmes.

1.8 MANAGEMENT AND ADMINISTRATION

The term administration and management are used synonymously. Some writers urge that running of a business requires skills, which is known as management and functioning of government departments and non-profit institutions requiring skill is known as administration. Various views expressed by thinkers of management led to the emergence of there approaches:

(1) Administration is above management.

(2) Administration is a part of management.

(3) Management and administration are same.

According to classical thinkers, Administration is above management so far as different in the organization are concerned. According to Spreigal, "Administration is that phase of business enterprise that concerns itself with the overall determination of institutional objectives and the policies necessary to be followed in achieving those objectives. Management on the other hand is an executive function which is primarily concerned with carrying of broad policies laid down by the administration". This implies that administration deals with establishing objectives and policies and is done by the top level whereas management is the execution of these policies by the middle and lower organizational level. Table 1.4 shows the distinction between administration and management.

Table: 1.4: Differences between administration and management

Basis of difference	Administration	Management
1. Level of organization	Top Level	Middle and Lower Level
2. Major focus	Policies formulation and objective determination	Policies execution for objectives achievements
3. Nature of function	Determinative	Executive
4. Scope of functions	Broad & Conceptual	Narrow & Operational
5. Factors affecting decision	Mostly external	Mostly internal
6. Employer – Employee relation	Entrepreneurs & Owners	Employee
7. Qualities required	Administrative	Technical

E. El. Brech urges that administration is a part of management. According to Brech, "Management is a generic name for the total process of executive control in industry or commerce. It is a social process entailing responsibility for the effective and economical planning and regulation of the operation of an enterprise in the fulfilment of a given purpose or risk. Administration is that part of management which is concerned with the installation and carrying out of procedures by which it is laid down and communicated, and the process of activities regulated and checked against plans. According to this view, administration become a subordinate function to overall management function. According to the third approach which is the most popular and practical one, management and administration are same. Both involve the same functions, principles and objectives. The term administrator found its origin in bureaucratic structure of government or in regulation of some laws. The government often uses the terms administrator who is supposed to execute broad policies laid down by government.

The basic point of controversy between management and administration lies in forms of coverage of activities. The content of policy formulation is higher at higher levels; it is lower at lower levels, while executive is more at lower levels and lower at higher levels. Hence, it becomes unimportant whether policy formulation function is known as administration or management.

1.9 ROLE OF MANAGEMENT

A manager performs planning, organizing, directing and controlling to achieve the organizational objectives. It has been questioned whether these functions provide an adequate description of the management process. As against these management functions Henry Mintzberg has defined the role of managers to identify what managers do in the organizations. Mintzberg has identified ten roles of manager which are classified into three broad categories as shown in fig. 1.1.

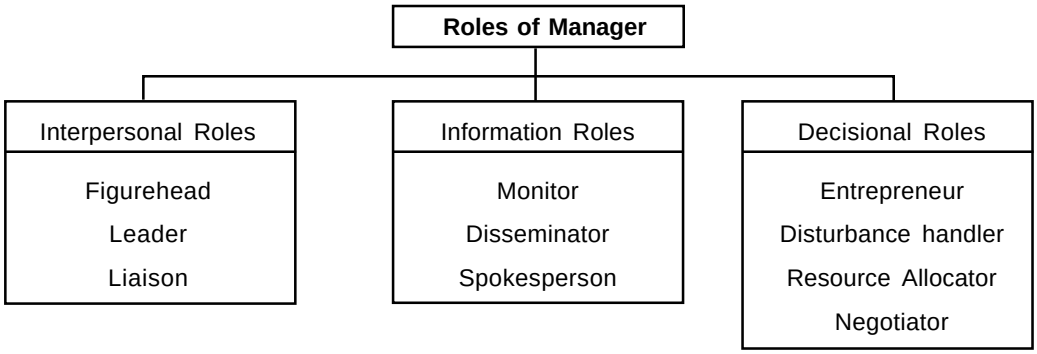

Fig. 1.1: Roles of manager

***Interpersonal role*:** This role is concerned with his interacting with people both organizational members and outsiders. There are three types of interpersonal roles:

(1) ***Figure head role*:** In this role manager has to perform duties of ceremonial nature such as attending social functions of employees, taking an important customer to lunch and so on.

(2) ***Leader role*:** Manager's leader role involves leading the subordinates motivating and encouraging them.

(3) ***Liaison*:** In liaison role manager serves as a connecting link between his organization and outsiders. Managers must cultivate contacts outside his vertical chain to collect information useful for his organization.

***Information roles*:** It involves communication. There are three types of informational roles:

(1) ***Monitor*:** In his monitoring role, manager continuously collects information about all the factors which affects his activities. Such factors may be within or outside organization.

(2) ***Disseminator*:** In the disseminator role, manager possesses some of his privileged information to his subordinates who otherwise not be in a position to collect it.

(3) ***Spokesperson*:** As a spokesperson manager represents his organization while interacting with outsiders like customers, suppliers, financers, government and other agencies of the society.

***Decisional roles*:** Decisional role involves choosing most appropriate alternative among all so that organizational objectives are achieved in an efficient manner. In his decisional role manager perform four roles:

1. ***Entrepreneur*:** As an entrepreneur, a manager assumes certain risks in terms of outcome of an action. A manager constantly looks out for new ideas and seeks to improve his unit by adopting it to dynamic environment.

2. ***Disturbance handler*:** In this role manager works like a fire-fighter manager contains forces and events which disturb normal functioning of his organization. The forces and events may be employee complaints and grievances, strikes, shortage of raw materials etc.
3. ***Negotiator*:** In his role of negotiator, manager negotiates with various groups in the organization. Such groups are employees, shareholders and other outside agencies.

Readers are advised to note that management functions and roles do not exist opposite to each other but these are two ways of interpreting what managers do. All these roles can be integrated with earlier classification of management which is presented in fig. 1.2.

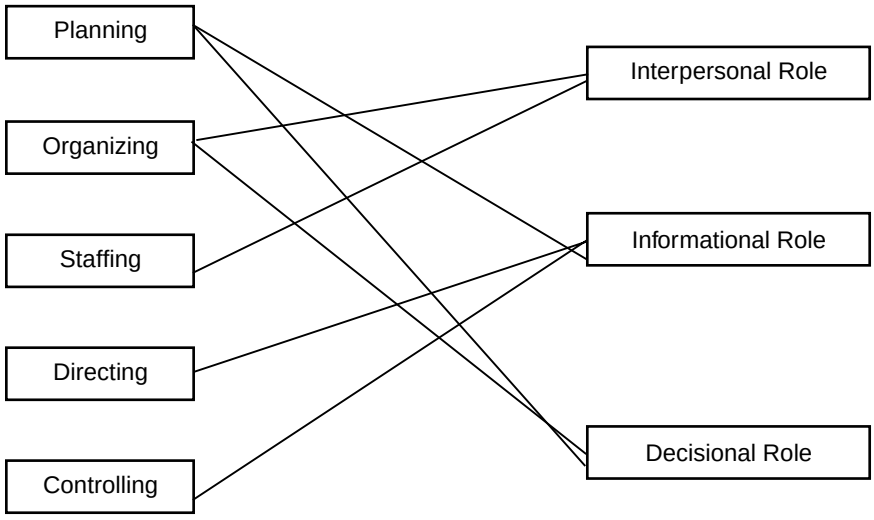

Fig. 1.2: Functions and roles of manager

In planning a manager performs informational and decisional role as he has to collect information on the basis in which he makes decisions. Similarly in performing other functions some or the other roles are performed by manager.

Learning Activity 1.3: Visit an industry, identify and analyze various roles of the manager.

1.10 LEVELS OF MANAGEMENT

People in an organization are arranged in an hierarchy and they all have the relationship of superior-subordinates. Every manager in an organization performs all five management functions. The relative importance of these functions varies along the managerial levels. There may be as many levels in the organization as the number of superiors in a line of command. Some of these levels are merged into one on the basis

of nature of functions performed and authority enjoyed. E.F.L. Brech has classified management levels into three categories – Top Management, Middle Management and Supervisory/Lower Level as shown in fig 1.3.

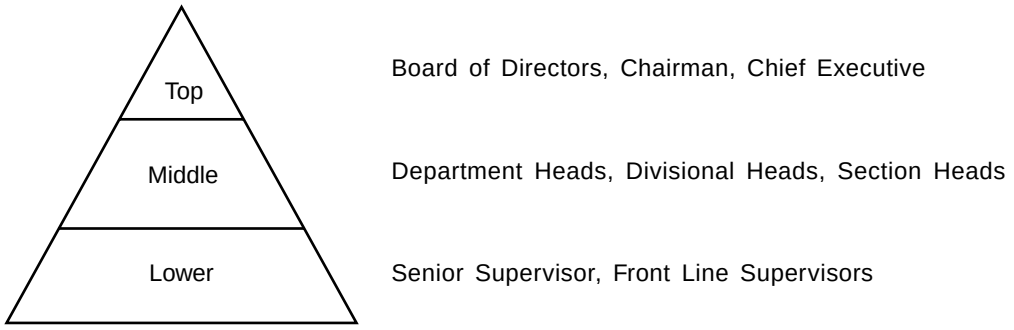

Fig. 1.3: Levels of management

Top management of an organization consists board of directors, chairman and chief executive officer. Top level management determines goals and objectives. It performs overall planning, organizing, staffing, directing and controlling. It integrates organization with environment, balances the interest groups and is responsible for overall results. Middle management stands between top management and supervisory management level. Middle level management establishes programs for department and carries out functions for achieving specific goals. The other functions of middle level management are training and development of employees, integrating various parts of the department. Supervisory management is concerned with efficiency in using resources of the organization. A supervisor is an executor of policies and procedures making a series of decisions with well-defined and specified premises.

Learning Activity 1.4: Identify various levels of management of your institution.

1.11 EVOLUTION OF MANAGEMENT

Management in one or other form has existed in every hook and corner of the world service the down of civilization. Although the 20th century is marked in history as an 'Era of scientific management', yet it does not mean that management was totally absent in yester years. 1700 to 1800 highlights the industrial revolution and the factory system highlights the industrial revolution and the factory system highlighted the importance of direction as a managerial function. Several economists during this period explained the concept of management. For example, Adam Smith explained the concept of division of labour, Jacques Turgot explained the importance of direction and control, and Baptiste explained the importance of planning. But management is emerged as a separate discipline in the second half of 19th century with the introduction of Joint Stock

Company. This form of enterprises separated management of business from their ownership and gave rise to labour inefficiency and inadequate systems of wage payments. In search of solution to this problem, people began to recognize management as a separate field of study. During 20th century, Management has become more scientific discipline with standard principles and practices. The evaluation of management thought during this period can be classified into two parts namely

(1) Early management approaches represented by Taylor's scientific management, Foyal's administrative management and human relations movement.

(2) Modern management approaches, represented by behavioural approach, quantitative/management science approach, systems approach and contingency approach.

Early Management Approaches

Taylor's Scientific Management

F.W. Taylor started his career as an apprentice in a steel company in USA and finally became Chief Engineer. Taylor along with his associates made the first systematic study in management. He launched a new movement in 1910 which is known as scientific management. Taylor is known as father of scientific management and has laid down the following principles of scientific management.

(1) ***Separation of planning and doing***: In the pre-Taylor era, a worker himself used to decide or plan how he had to do his work and what machines and equipments would be required to perform the work. But Taylor separated the two functions of planning and doing, he emphasized that planning should be entrusted to specialists.

(2) ***Functional foremanship***: Taylor introduced functional foremanship for supervision and direction. Under eight-boss-scheme of functional foremanship, four persons: (i) route clerk, (ii) instruction card clerk, (iii) time and cost clerk and (iv) disciplinarian are related with planning function, and the remaining four: (vi) speed boss, (vii) inspector, (viii) maintenance foreman, and (ix) gang-boss are concerned with operating function.

(3) ***Elements of scientific management***: The main elements of scientific management are:

   (a) Work study involving work important and work measurement using method and time study.

   (b) Standardization of tools and equipments for workmen and improving working conditions.

   (c) Scientific Selection, placement and training of workers by a centralized personal department.

(4) ***Bilateral mental revolution***: Scientific management involves a complete mental revolution of workmen towards their work, toward their fellow-men and toward their employers. Mental revolution is also required on the part of management's side–the foreman, the superintendent, the owners and board of directions.

(5) ***Financial incentives***: In order to motivate workers for greater and better work Taylor introduced differential piece-rate system. According to Taylor, the wage should be based on individual performance and on the position which a worker occupies.

(6) ***Economy***: Maximum output is achieved through division of labour and specialization. Scientific Management not only focuses on technical aspects but also on profit and economy. For this purpose, techniques of cost estimates and control should be adopted.

Taylor summed up his approach in these words:

Science, not rule of thumb

Harmony, not discord

Cooperation and not individualism

Maximum output, in place of restricted output

The development of each man to his greatest efficiency and prosperity.

Henry Fayol's Administrative Management (1841–1925)

Henry Fayol was a French Mining Engineer turned into a leading industrialist and successful manager. Fayol provided a broad analytical framework of the process of administration. He used the word Administration for what we call Management. Foyal focused on general administrative and managerial functions and processes at the organizational level. Foyal divided activities of business enterprise into six groups: Technical, Financial, Accounting, Security, and Administrative or Managerial. He focused on this last managerial activity and defined management in terms of five functions: Planning, Organizing, Commanding, Coordinating and Controlling. He emphasized repeatedly that these managerial functions are the same at every level of an organization and is common to all types of organizations.

Foyal presented 14 principles of management as general guides to the management process and management practice. His principles of management are as follows:

1. ***Division of work*:** This is the principle of specialization which is so well expressed by economists as being necessary to efficiency in the utilization of labour. Fayol goes beyond shop labour to apply the principle to all kinds of work, managerial as well as technical.
2. ***Authority and responsibility*:** In this principle, Fayol finds authority and responsibility to be related with the letter, the corollary of the former and arising from the latter. The conceives of authority as a combination of official authority

deriving from a manager's official position and personal authority, "Compounded of intelligence, experience, moral worth, past services etc".

3. ***Discipline*:** Holding that discipline is "respect for agreements which are directed at achieving obedience, application, energy and the outward marks of respect". Fayol declares that discipline requires good superiors at all levels, clear and fair agreement, and judicious application of penalties.
4. ***Unity of command*:** This is the principle that an employee should receive orders from one superior only.
5. ***Unity of direction*:** According to Fayol, unity of direction is the principle that each group of activities having the same objective must have one head and one plan. As distinguished from the principle of unity of command, Fayol perceives unity of direction as related to the functioning of personnel.
6. ***Subordination of individual interest to general interest*:** In any group the interest of the group should supersede that of the individual; when these are found to differ, it is the function of management to reconcile them.
7. ***Remuneration of personnel*:** Fayol perceives that remuneration and methods of payment should be fair and afford the maximum satisfaction to employee and employer.
8. ***Centralization*:** Although Fayol does not use the term 'Centralization of Authority', his principle definitely refers to the extent to which authority is concentrated or dispersed in an enterprise. Individual circumstances will determine the degree of centralization that will give the best overall yield.
9. ***Scalar chair*:** Fayol thinks of the scalar chair as a line of authority, a 'Chain of Superiors" from the highest to the lowest ranks and held that, while it is an error of subordinate to depart 'needlessly' from lines of authority, the chain should be short-circuited when scrupulous following of it would be detrimental.
10. ***Order*:** Breaking this principle into 'Material order' and 'Social Order', Fayol thinks of it as the simple edge of "a place for everything (everyone), and everything (everyone) in its (his) place". This is essentially a principle of organization in the arrangement of things and persons.
11. ***Equity*:** Fayol perceives this principle as one of eliciting loyalty and devotion from personnel by a combination of kindliness and justice in managers dealing with subordinates.
12. ***Stability of tenure of personnel*:** Finding that such instability is both the cause and effect of bad management, Fayol points out the dangers and costs of unnecessary turnover.
13. ***Initiative*:** Initiative is conceived as the thinking out and execution of a plan. Since it is one of the "Keenest satisfactions for an intelligent man to experience", Fayol exhorts managers to "Sacrifice Personal Vanity" in order to permit subordinates to exercise it.

14. ***Esprit de corps*:** This is the principle that 'union is strength' an extension of the principle of unity of command. Fayol here emphasizes the need for team-work and the importance of communication in obtaining it.

Human Relations Approach

The human rationalists (also known as neo-classicists) focused as human aspect of industry. They emphasize that organization is a social system and the human factor is the most important element within it. Elton Mayo and others conducted experiments (known as Hawthorne experiments) and investigated informal groupings, informal relationships, patterns of communication, patterns of internal leadership etc. Elton Mayo is generally recognized as father of Human Relations School.

The human relationists, proposed the following points as a result of Hawthorne experiments.

(1) ***Social system*:** The organization in general is a social system composed of numerous interacting parts. The social system defines individual roles and establishes norms that may differ from those of formal organization.

(2) ***Social environment*:** The social environment of the job affects the workers and is also affected.

(3) ***Informal organization*:** The informal organization does also exist within the frame work of formal organization and it affects and is affected by the formal organization.

(4) ***Group dynamics*:** At the workplace, the workers often do not act or react as individuals but as members of group. The group plays an important role in determining the attitudes and performance of individual workers.

(5) ***Informal leader*:** There is an emergence of informal leadership as against formal leadership and the informal leader sets and enforces group norms.

(6) ***Non-economic reward*:** Money is only one of the motivators, but not the sole motivator of human behaviour. Man is diversely motivated and socio-psychological factors act as important motivators.

Modern Management Approaches

Behavioural Approach

This is an improved and more matured version of human relations approach. The various contributors of this approach are Douglas Mc Gregor, Abraham Maslow, Curt Levin, Mary Porker Follelt, Rensis Likert etc. Behavioural Scientists regard the classical approach as highly mechanistic, which finds to degrade the human spirit. They prefer more flexible organization structures and jobs built around the capabilities and aptitudes of average employees. The behavioral approach has laid down the following conclusions.

(1) Decision-making is done in a sub-optimal manner, because of practical and situational constraints on human rationality of decision-making. The behaviorists attach great weight age on participative and group decision-making.

(2) Behavioral Scientists encourage self direction and control instead of imposed control.

(3) Behavioral Scientists consider the organization as a group of individuals with certain goals.

(4) In view of behavioural scientists the democratic-participative styles of leadership are desirable, the autocratic, task oriented styles may also be appropriate in certain situation.

(5) They suggest that different people react differently to the same situation. No two people are exactly alike and manager should tailor his attempts to influence his people according to their needs.

(6) They recognize that organizational conflict and change are inevitable.

Quantitative Approach

Quantitative approach (also known as management approach) started during Second World War during which each participant country of the war was trying to seek solutions to a number of new and complex military problems. The interdisciplinary teams who were engaged for this purpose were known as operation research teams. These operation research teams developed quantitative basis for making military decisions. These quantitative tools later are used to make business, industry and enterprise decisions.

The focus of quantitative approach is on decision making, and to provide tools and techniques for making objectively rational decisions. Objective rationality means an ability and willingness to follow reasonable, unemotional and scientific approach in relating means with ends and in visualizing the totality of the decision environment. This approach facilitates disciplined thinking while defining management problems and establishing relationships among the variables involved. This approach is widely used in planning and control activities where problems can be defined in quantitative terms.

Systems Approach

A system is a set of interdependent parts which form a unit as a whole that performs some function. An organization is also a system composed of four independent parts namely, task, structure, people and technology. The central to the system approach is 'holism' which means that each part of the system bears relation of interdependence with other parts and hence no part of the system can be accurately analyzed and understood apart from the whole system. A system can be open or closed system. In open system, a system interacts with surrounding. An organization is open system because it interacts with it.

Contingency Approach

According to this approach, management principles and concepts have no general and universal application under all conditions. There is no best way of doing things under

all conditions. Methods and techniques which are highly effective in one situation may not give the same results in another situation. This approach suggests that the task of managers is to identify which technique in a situation best contribute to the attainment of goals. Managers therefore have to develop a sort of situational sensitivity and practical selectivity. Contingency views are applicable in designing organizational structure, in deciding degree of decentralization, in motivation and leadership approach, in establishing communication and control systems, in managing conflicts and in employee development and training.

CHAPTER SUMMARY

Management is defined as the art and science of getting things done through others. Management is the process of designing and maintaining the environment in which individuals working together in groups, accomplish their aims effectively and efficiently. Managers carry out the functions for Planning, Organizing, Staffing, Directing and Controlling. Planning involves thinking ahead and preparing for future. It determines in advance what should be done. Organizing involves dividing work into convenient tasks or duties, grouping of such duties in the form of positions, grouping of various positions into departments and sections, assigning duties to individual positions, and delegating authority to each position so that work is carried out as planned. Staffing consists of selecting and placing the right people at right position. Directing involves various sub functions like Communicating, Leading and Motivating. Control is the process of checking to determine whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct any deviations. All these functions are performed to achieve predetermined goals. The nature of management can be described by its multidisciplinary, dynamic nature, relative principles and universality of Management. The functional areas of Management are Production, Finance, Marketing and Personnel. A clear distinction can be made between Administration and Management. Administration involves policy formulation, objective determination and Management deals with policy execution and achieving objectives. A manager plays inter-personal roles, information roles and decision roles. There are many theories of Management and each theory contributes something to our knowledge of what managers do. F W Taylor, Adam Smith, Henry Fayol, Elton Mayo and others have contributed to the development of Management concept.

QUESTIONS

(1) Define management. Explain the functions to be performed by managers to attain the set goals.

(2) Explain in brief the nature management.

(3) Write a note on characteristics of management.

(4) Discuss the functional areas of management.

(5) 'Management is an art as well as science'. Comment on this statement.
(6) Draw the distinction between administration and management.
(7) Explain different roles of management.
(8) Discuss the levels of management.
(9) Explain Taylor's concept of scientific management.
(10) Discuss Henry Fayol's principles of management.
(11) Explain in brief the following approaches of management
    (a) Systems approach.
    (b) Contingency approach.
    (c) Behavioural approach.
    (d) Human relations approach.
(12) Write short notes on the following
    (a) Planning
    (b) Organizing
    (c) Staffing
    (d) Directing
    (e) Controlling

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CHAPTER 2

PLANNING

Learning Objectives:

- To introduce the meaning and definitions of management.
- Analyze the nature and importance of planning.
- Discuss various types of planning.
- Understand types of plan.
- Present steps in planning.
- Understand the meaning and types of decisions.
- Discuss steps in rational decision making.
- Present decision environment.

2.1 MEANING

The management functions as discussed earlier are planning, organizing, staffing, direction and controlling. These functions are essential to achieve organizational objectives. If objectives are not set then there is nothing to organize, direct and control. An organization has to specify what it has to achieve. Planning is related with this aspect.

Every person whether in business or not has framed a number of plans during his life. The plan period may be short or long. One of the characteristic of human being is that he plans. Planning is the first and foremost function of management. According to Koontz and O'Donnel "Planning **is deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap from where we are and to where we want to go. It is in essence the exercise of foresight".** According to M.S. Hardly "Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives.

Heying and Massie define "Planning is that function of the manager in which he decides in advance what he will do. It is a decision making process of a special kind. It is an intellectual process in which creative mind and imagination are essential". Planning is an attempt to anticipate the future in order to achieve better performance. Plans derive the following benefits:

(1) Planning focus managers to think ahead.
(2) It leads to development of performance standards.
(3) Having to formulate plans forces management to articulate clear objectives.
(4) Planning makes organization to be better prepared for sudden developments.

On the basis of definitions of planning the following **features** can be identified.

(1) Planning is primarily concerned with looking into future. It requires forecasting the future.
(2) Planning involves selection of suitable course of action. It means there are several ways to achieving objectives.
(3) Planning is undertaken at all levels of the organization because managers at all level are concerned with determination of future course of action.
(4) Planning is flexible. Planning involves selection of best course of action under specific environment. If environment changes an adjustment is needed between various factors of planning.
(5) Planning is pervasive and continuous managerial function.

2.2 NATURE OF PLANNING

The nature of planning may be understood in terms of it being a rational approach, open system, flexibility and pervasiveness.

Planning: A Rational Approach

Planning is a rational approach for defining where one stands, where one wants to go in future and how to reach there. Rationalist denotes a manager chooses appropriate means for achieving the stated objectives rational approach fills the gap between the current status and future status. The difference between two time periods T1 and T2 may be as long as 5 years or as short as one year. The desired and the current results are usually expressed in terms of objectives, which can be achieved by an action or set of actions. The actions required resources and the rational approach emphasis an appropriate use of resources.

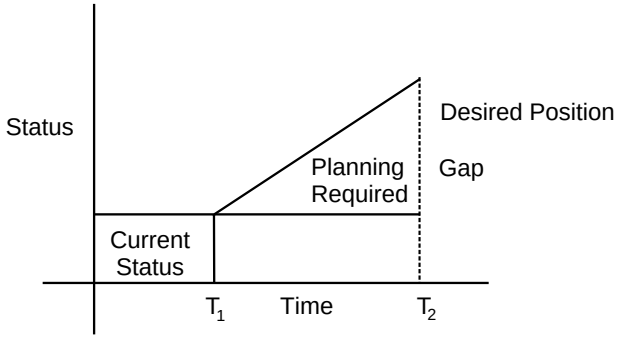

Fig. 2.1: Planning for bridging current & desired

Planning: An Open System Approach

An organization is an open system because it accepts inputs from the environment and exports output to environment. Planning adopt an open system approach. Open system approach indicates that the gap between current and desired status and the action required to bridge this gap is influenced by a variety of environmental economic, legal, political, technological, socio-cultural and competitive factors. These factors are dynamic and change with time. Therefore managers have to take into account the dynamic features of environment while using open system approach.

Flexibility of Planning

By flexibility of a plan is meant its ability to change direction to adopt to changing situations without undue cost. The plans must be flexible to adapt to changes in technology, market, finance, personal and organizational factors. However flexibility is possible only within limits, because it involves extra cost. Some times the benefit of flexibility may not be worth the cost.

Pervasiveness of Planning

Planning is pervasive and it extends throughout the organization. Planning is the fundamental management function and every manager irrespective of level, has a planning function to perform within his particular area of activities. Top management is responsible for overall objectives and action of the organization. Therefore it must plan what these objectives should be and how to achieve them. Similarly a departmental head has to devise the objectives of his department within the organizational objectives and also the methods to achieve them. Thus planning activity goes in hierarchy as shown in fig 2.2.

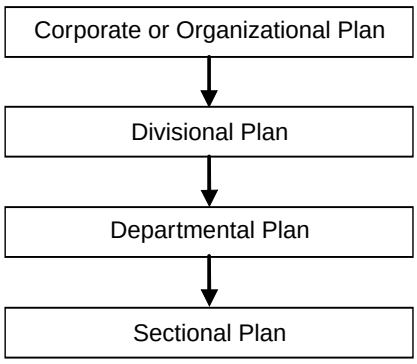

Fig. 2.2: Planning at various levels

2.3 IMPORTANCE OF PLANNING

Planning is of great importance in all types of organization whether business or non-business, private or public, small or large. The organization which thinks much ahead

about what it can do in future is likely to succeed as compared to one which fails to do so. Without planning, business decisions would become random, ad hoc choices. Planning is important because of the following reasons.

(1) ***Primacy of planning*:** Planning is the first and foremost function of management, other functions follow planning. What is not planned cannot be organized and controlled. Planning establishes the objectives and all other functions are performed to achieve the objectives set by the planning process as shown in fig 2.3.

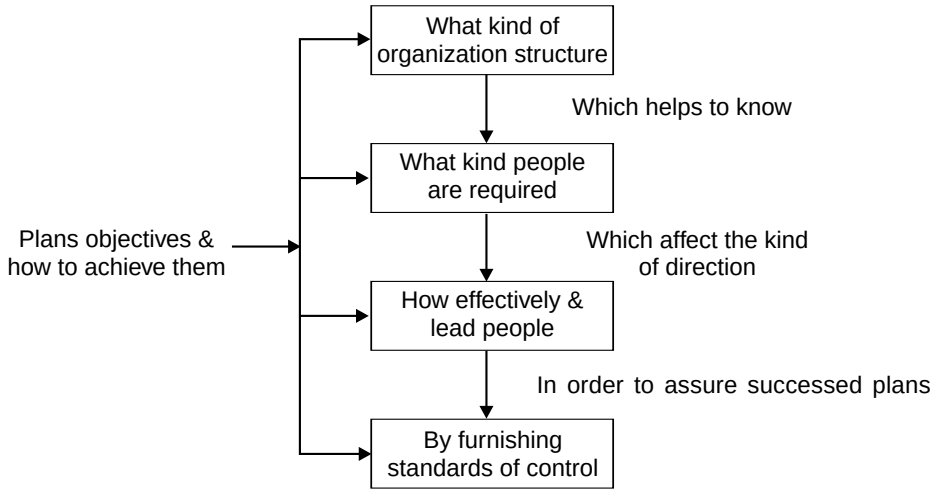

Fig. 2.3: Primacy of planning

(2) ***To minimize risk and uncertainty*:** The organization continuously interacts with the external dynamic environment where there is great amount of risk and uncertainty. In this changing dynamic environment where social and economic conditions alter rapidly, planning helps the manager to cope up with and prepare for changing environment. By using rational and fact based procedure for making decisions, manager can reduce the risk and uncertainty.

(3) ***To focus attention on objectives*:** Planning focuses on organizational objectives and direction of action for achieving these objectives. It helps managers to apply and coordinate all resources of the organization effectively in achieving the objectives. The whole organization is forced to embrace identical goals and collaborate in achieving them.

(4) ***To facilitate control*:** Planning sets the goals and develops plans to achieve them. These goals and plans become the standards or benchmarks against which the actual performance can be measured. Control involves the measurement of actual performance, comparing it with the standards and initiating corrective action if there is deviation. Control ensures that the activity confirm to plans. Hence control can be exercised if there are plans.

(5) ***To increase organizational effectiveness*:** Effectiveness implies that the organization is able to achieve its objectives within the given resources. The resources are put in a way which ensures maximum contribution to the organizational objectives. Effectiveness leads to success.

2.4 TYPES OF PLANNING

Though the basic process of planning is same yet there are several ways in which an organization can undertake planning process. Planning can be classified on the basis of coverage of activities, importance of contents in planning, approach adopted in planning process, time dimension and degree of formalization in planning process as shown in Table 2.1

Table 2.1: Types of planning

Dimension	Types of planning
1. Coverage of activity	Corporate and functional planning
2. Importance of contents	Strategic and tactical/operational planning
3. Time period involved	Long term and short term planning
4. Approach adopted	Proactive and reactive planning
5. Degree of formalization	Formal and Informal planning

Corporate and functional planning: The planning activities at the corporate level which cover the entire organizational activities are known as corporate planning. The focus in corporate planning is to determine long term objectives as a whole and to generate plans to achieve these objectives bearing in mind the probable changes in dynamic environment. This corporate planning is the basis for functional planning. Functional planning which is derived from corporate planning is undertaken for each major function of the organization like production, marketing, finance etc., Since functional planning is derived out of corporate planning and therefore it should contribute to the corporate planning.

Strategic and operational planning: Strategic planning sets future directions of the organization in which it wants to proceed in future. Strategic planning involves a time horizon of more than one year and for most of the organization it ranges between 3 and 5 years. Examples of strategic planning may be diversification of business into new lines, planned grown rate in sales etc. Operational planning also known of tactical planning on the other hand involves deciding the most effective use of resources already allocated to achieve the organizational objectives. The time horizon in operational planning is less than one year. Operational planning is undertaken out of the strategic planning. The examples of operational planning may be adjustment of production within available capacity, increasing the efficiency of the operating activity by analyzing past

performance etc. Table 2.2 gives the differences between strategic and operational planning.

Table 2.2: Differences between strategic and operational planning.

Strategic planning	Operational planning
1. It decides major goals and policies of allocation of resources to achieve these goals.	1. It decides the detailed use of resources for achieving these goals
2. It is carried at higher level of management.	2. It is carried at lower level of management.
3. It is long term.	3. It is short term.
4. It is based on long term forecasting considering the possible impact of political, economical, technological and competitive factors and is more uncertain.	4. It is generally based on past performance of the organization and is less uncertain.
5. It is less detailed.	5. It is more detailed.

Long and short term planning: The long term planning is strategic in nature and involves more than one year period and can extend to 15 to 20 years or so. Short term planning usually covers one year. Short term plans are made with reference to long term plans because short term plans contribute to long term plans.

Proactive and reactive plans: Planning is an open system approach and hence it is affected by environmental factors which keep on changing continuously. The organization's response to these changes differs. Based on these responses planning may be proactive and reactive. Proactive planning involves designing suitable courses of action in anticipation of likely changes of environment. Managers adopting proactive changes do not wait for environment to change, but take action in advance of environmental changes. For this, continuous scanning of environment is necessary. In reactive planning response comes after environmental changes take place. By the time organization responds to change in environment there may be further change in environment. Hence this type of planning is suitable in the environment which is fairly stable over a long period of time.

Formal and informal planning: Large organizations undertake planning in a formal way. Generally a separate corporate planning cell is formed at higher level. The cell is staffed by people of different backgrounds like engineers, economists, statisticians etc., depending upon the nature. The cell continuously monitors the environment. When environment shows some change the cell analysis the environment and suggest suitable

measures to take the advantage of the changing environment. This type of planning is rational, systematic, regular and well documented. On the other hand informal planning is undertaken generally by small organizations. This planning process is based on manager's experience, intuitions rather than based on systematic evaluation of environmental changes. This planning process is part of manager's regular activity and is suitable for small organizations.

Learning activity 2.1: Identify and analyze the long range and short plans of your institution.

2.5 TYPES OF PLANS

Plans are classified into standing plans and single use plans as shown in fig 2.3. Standing plans provide guidelines for further course of action and are used over a period of time. Standing plans are designed for situations that recur often enough to justify a standardize approach. For example a bank designs a standing plan to process a loan application. Using this standing plan the bank manager decides whether to approve or not a loan application depending upon the details furnished by the applicant. Once formulated these plans are in operation for a long period unless there is change in these plans. Examples of such plans are organizational mission, long term objective, strategies, policies, procedures and rules. On the other hand single use plans are designed for specific end; when that end is reached, the plan is dissolved or formulated again for next end. Examples of such plans are project, budgets, quotas, targets etc. Single use plans are generally derived from standing plans. Organization set their mission and objectives, out of which strategic actions are determined. In order to put these actions into operations, projects, budgets etc., are prepared for specific time period.

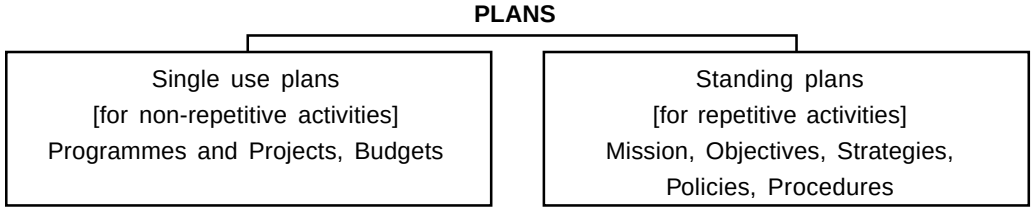

Fig. 2.3: Types of plans

Various organizational plans discussed above are interlinked and may be arranged in hierarchy in which higher order plans helps to derive lower order plans. In turn a lower order plan contributes to the achievement of the objectives of a higher order plans. The hierarchical nature of various plans is represented in fig. 2.4.

Fig. 2.4: Hierarchies of plans

Mission and Purpose

Setting organizational objectives is the starting point of managerial actions. Every organization is purposive creation, it has some objectives; the end results for which the organization strive. These end results are referred to as mission, 'purpose', 'goal', 'target' etc. which are often used inter-changeably. However there are differences in the contest in which these terms are used.

In every social system, enterprises have a basic function or task, which is assigned to them by society. The mission or purpose identifies this basic function or task of the organization, for example the purpose of university.

Mission and purpose are often used interchangeably though there is difference between the two at least at theoretical level. Mission has external orientation and relates the organization to the society in which it operates. A mission statement links the organization activities to the needs of the society and legitimates its existence. Purpose is also externally focused but is relates the organization to that segment of the society to which it serves; it defines the business which the company will undertake. The difference between the two may be visualized in the mission and purpose of Hindustan Lever Limited. The mission statement of HLL is:

> "Hindustan Lever's commitment to national priorities has ensured that the company is a part of people lives at the grass root level, making a difference to India and to Indians- in depth, width and size. Hindustan has always identified itself with the nations priorities; employment generation, development of backward area, agricultural linkages, exports etc."

The purpose of the company is:

> Our purpose in Hindustan lever is to meet the every day needs of the people every where – to anticipate the aspirations of consumers and customers and to respond creatively and competitively with branded products and services which raise the quality of life.

The mission of the company says what it can be for the country i.e., society in general and purpose suggest how this contribution can be made. However in general practice mission and purpose are either used interchangeably or jointly.

Objectives

Every organization is established for the purpose of achieving some objectives. An individual who starts a business has the objective of earning profits. A chartable institution which starts schools and colleges has the objectives of rendering service to the public in the field of education. Though objectives may differ from one organization to another, yet each organization has its own objective. According to Mc Farland, "**Objectives are the goals, aims or purposes that the organizations wish to achieve over varying periods of time**". George R Terry defines ". A managerial objective is the intended goal which describes definite scope and suggests direction to the efforts of a manager". Objective is the term used to indicate the end point of management programme, for which an organization is established and tries to achieve.

Objectives have the following characteristics.

(1) ***Objectives are multiple in numbers*:** Every business enterprise has a package of objectives set in various key areas. Peter Drucker has emphasized setting objectives in eight key areas namely market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility.

(2) ***Objectives are tangible or intangible*:** Some of the objectives such as productivity, physical and financial resources are tangible; where as objectives in the areas of manager's performance, workers morale is completely intangible.

(3) ***Objectives have a priority*:** At a given point of time one objective may be important than another. For example maintaining minimum cash balance is important than due date of payment.

(4) ***Objectives are generally arranged in hierarchy*:** It implies that organization has corporate objectives at the top and divisional, departmental and sectional objectives at the lower level of organization.

(5) ***Objectives some time clash with each other*:** An objective of one department may clash with the objectives of other department. For example the objectives of production of low unit cost achievement through mass production of low quality products may conflict with goal of sales department selling high quality products.

Requirements of Sound Objectives

(1) Objectives must be clear: There should not be ambiguity in objectives. The framed objectives should be achievable and are to be set considering various factors affecting their achievements.

(2) Objectives must support one another.
(3) Objectives must be consistent with organizations mission.
(4) Objectives should be consistent over period of time.
(5) Objectives should be rational, realistic and not idealistic.
(6) Objectives should start with word 'to' and be followed by an action verb.
(7) Objectives should be periodically reviewed.

Advantages of Objectives

The following are some of the advantages of objectives.

(1) ***Unified planning*:** Various plans are prepared at various level in the organization. These plans are consistent with the objectives and hence objectives encourage unified planning.
(2) ***Individual motivation*:** Objectives act as motivators for individual and departments imbuing their activity with a sense of purpose.
(3) ***Coordination*:** Objectives facilitate coordinated behavior of various groups which otherwise may pull in different directions.
(4) ***Control*:** Objectives provide yardstick for performance. The actual performance is compared with standard performance and hence objectives facilitate control.
(5) ***Basis for decentralization*:** Department-wise or section wise objectives are set in order to achieve common objectives of the organization. These objectives provide basis for decentralization.

Learning activity 2.2: Identify the objectives of your department and institution.

Strategies

'Every organization has to develop plans logically from goals considering the environmental opportunities and threats and the organizational strengths and weakness. A strategy is a plan which takes into these factors and provides an optimal match between the firm and external environment. Two activities are involved in strategy formulation namely environmental appraisal and corporate appraisal.

Environmental appraisal involves identifying and analysis of the following factors:

(1) ***Political and legal factors*:** Stability of government, taxation and licensing laws, fiscal policies, restrictions on capital etc.
(2) ***Economic factors*:** Economic development, distribution of personal income, trend in prices, exchange rates etc.,
(3) ***Competitive factors*:** Identifying principal competitors and analysis of their performance, anti-monopoly laws, protection of patents, brand names etc.

Corporate analysis involves identifying and analyzing company's strength and weakness. For example a companies strength may be low cost manufacturing skill, excellent product design, efficient distribution etc.,. Its weakness may be lack of physical and financial resources. A company must plan to exploit these strengths to maximum and circumvent it's weakness.

The formulation of strategy is like preparing for beauty contest in which a lady tries to highlight her strong points and hide her weak points. The process of matching company's strength and weakness with environmental opportunities and threats is known as SWOT analysis.

Standing Plans

Policies

A policy is a general guideline for decision making. It sets up boundaries around decisions. Policies channelize the thinking of the organization members so that it is consistent with the organizational objectives. According to George R Terry " Policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and directions in which managerial action will take place". Although policies deal with "how to do" the work, but do not dictate terms to subordinates. They only provide framework within which decisions are to be made by the management in various areas. Hence an organization may have recruitment policy, price policy, advertisement policy etc.,

Types of policies: Policies may be classified on the basis of sources, functions or organizational levels as shown in fig 2.5.

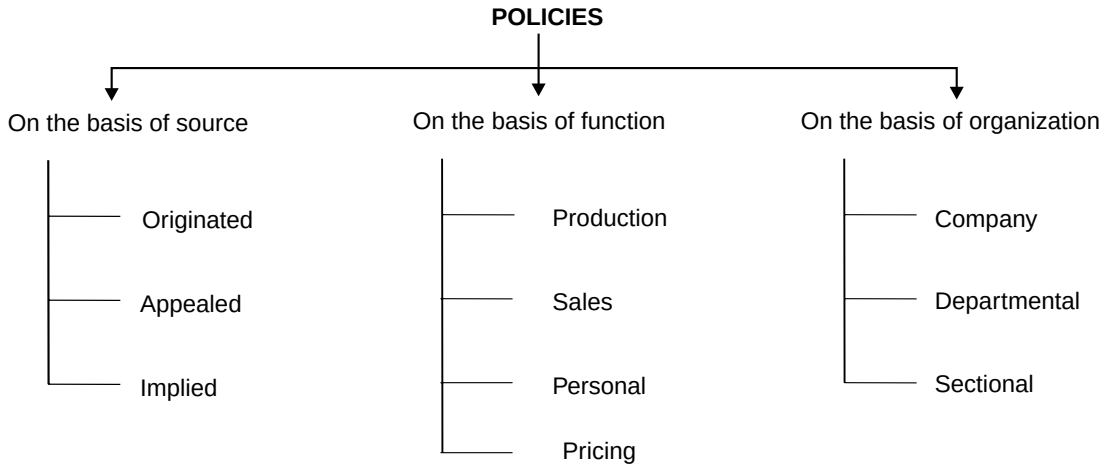

Fig. 2.5: Classification of policies

Originated policies are policies which are established formally. These policies are established by top managers for guiding the decisions of their subordinates and also

their own and are made available in the form of manuals. Appealed policies are those which arise from the appeal made by a subordinate to his superior regarding the manner of handling a given situation. When decisions are made by the supervisor on appeals made by the subordinates, they become precedents for further action. For example a books dealer offers a discount of 10% on all text books. Suppose if an institution requests for a discount of 15% and prepared to pay full amount in advance, the sales manager not knowing what to do may approach his superior for his advice. If the superior accepts the proposal for 15% discount, the decision of the superior become a guideline for the sales manager in future. This policy is an appealed policy because it comes into existence from the appeal made by the subordinate to the superior. The policies which are stated neither in writing nor verbally are known as implied policies. The presence of implied policies can be ascertained by watching the actual behavior of various superiors in specific situations. For example if company's residential quarters are repeatedly allotted to individuals on the basis of seniority, this may become implied policy.

On the basis of business function policies may be classified into production, sales, finance, personnel policies etc. Every one of these function may have a number of policies. For example the personnel function may have recruitment policy, promotion policy and finance function may have policies related to capital structure, dividend payment etc.,

On the basis of organizational level policies may range from major company policies through major departmental policy to minor or derivative policies applicable to smallest segment of the organization.

Advantages of Policies

The advantages of policies are as follows:

(1) Policies ensure uniformity of action at various organization points which make actions more predictable.

(2) Since the subordinates need not consult superiors, it speeds up decision.

(3) Policies make easier for the superior to delegate more and more authority to his subordinates because, he knows that whatever decision the subordinates make will be within the boundaries of the policies.

(4) Policies give a practical shape to the objectives by directing the way in which predetermined objectives are to be attained.

Procedures

Policies are carried out by means of more detailed guidelines called procedures. A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work. A procedure is a list of systematic steps for handling activities that occur regularly. The same steps are followed each time that

activity is performed. A streamlined, simplified and sound procedure helps to accelerate clerical work without duplication and waste of efforts and other resources. Difference between policies and procedures can be explained by means of an example. A company may adopt a policy of centralized recruitment and selection through labor department. The labor department may chalk out the procedure of recruitment and selection. The procedure may consist of several steps like inviting application, preliminary interview aptitude and other tests, final interview, medical examination and issue of appointment orders. The following are advantages of procedures.

(1) They indicate a standard way of performing a task.
(2) They result in simplification and elimination of waste.
(3) Procedure improves the efficiency of employees.
(4) Procedure serves as a tool of control by enabling managers to evaluate the performance of their subordinates.

Methods

A method is a prescribed way in which one step of procedure is to be performed. A method is thus a component part of procedure. It means an established manner of doing an operation. Medical examination is a part of recruitment and selection procedure, method indicate the manner of conducting medical examination. Methods help in increasing the effectiveness and usefulness of procedures. By improving methods, reduced fatigue, better productivity and lower costs can be achieved. Methods can be improved by eliminating wastes by conducting "motion study".

Rules

The rules are the simplest and most specific type of standing plans. Every organization attempts to operate in an orderly way by laying down certain rules. Rules are detailed and recorded instructions that a specific action must or must not be performed in a given situation. Rules are more rigid than policies. Rules generally pertain to the administrative area of a procedure. For example sanctioning overtime wages to workers, sanctioning traveling bills etc., need uniform way of handling them. These are all covered by rules of the enterprises. A rule may not be part of procedure. For example 'no smoking' is not related to any procedure. Rules demand strict compliance. Their violation is generally associated with some sort of disciplinary action.

Single Use Plans

Programme

A programme is a sequence of activities directed towards the achievement of certain objectives. A programme is action based and result oriented. A programme lays down the definite steps which will be taken to accomplish a given task. It also lays down the time to be taken for completion of each step. The essential ingredients of every

programme are time phasing and budgeting. This means that specific dates should be laid down for the completion of each successive stage of programme. In addition a provision should be made in the budget for financing the programme. A programme might include such general activity as purchasing new machines or introducing new product in the market. Thus a programme is a complex of objective, policies, procedures, task assignments, steps to be taken, resources to be employed and other elements to carry out a given course of action.

Budgets

A budget is a single use plan since it is drafted for a particular period of time. A budget is a statement of expected results expressed in quantitative terms i.e. rupees, man hours, product units etc. Since it is a statement of expected results, it is also used as an instrument of managerial control. It provides a standard by which actual operations can be measured and variation could be controlled. One should not forget that making budget is clearly planning. The important budgets are sales budgets, production budgets, cash budgets, and revenue and expenses budgets.

2.6 STEPS IN PLANNING

The planning process is different from one plan to another and one organization to another. The steps generally involved in planning are as follows:

(1) ***Establishing goals/objectives*:** The first step in planning process is to determine the enterprise objectives. These are set by upper level managers after number of objectives has been carefully considered. The objective set depends on the number of factors like mission of the organization, abilities of the organization etc., Once the organizations objectives are determined, the section wise or department wise objectives are planned at the lower level. Defining the objectives of every department is a very essential one; then only clear cut direction is available to the departments. Control process is very easy if the objectives are clearly defined.

(2) ***Establishing planning premises*:** This is the second step in planning which involves establishing planning premises that is the conditions under which planning activities will be undertaken. Planning premises are planning assumptions—the expected environmental factors, pertinent facts and information relating to the future such as general economic conditions, population trends, competitive behavior etc.

The planning premises can be classified as below:

(1) Internal and External premises.

(2) Tangible and Intangible premises.

(3) Controllable and non-controllable premises.

Internal and External premises: Premises may exist within or outside the enterprise. Internal premises include sales forecasts, ability of the organization in the form of machines, methods of design, behavior of the owners and employees etc., The external premises exists outside the enterprise and include general business and economic environment, technological changes, government policies and regulations, population growth etc.,

Tangible and Intangible premises: Tangible premises are those which can be quantified. They include population growth, industry demand, capital and resources invested etc., On the other hand political stabilities, sociological factors, attitudes and behavior of the owners etc., are intangible premises.

Controllable and non-controllable premises: Some of the planning premises are controllable and others are non-controllable. Some examples of non-controllable factors are strikes, wars, natural calamity, legislation etc., Because of the presence of non-controllable factors; organizations have to revise plans periodically in accordance with current development. The controllable factors are availability of resources, skill of managers and labor etc.,

(3) ***Deciding the planning period*:** Once the long term objectives and planning premises are decided, the next task is to decide the period of the plan. Some plans are made for a year and in others it will be decades. Companies generally base their period on a future that can reasonably be anticipated. The factors which influence the choice of a period are:

(a) Lead time in development and commercialization of a new product: An aircraft building company planning to start a new project should have a planning period of five to ten years where as a small manufacturer of spare parts who can commercialize his idea in a year or so makes annual plans.

(b) Time required for recovering capital investment or the pay back period: The pay back period also influence the planning period. For example, if a machine costs 50 lakhs and generates cash in flow of Rs. 10 lakhs a year, it has a pay back period of 5 years. Therefore the plans should also be for at least five years.

(c) Length of commitment already made: The plan period should be long enough to enable the fulfillment of already made commitments. For example if a company has agreed to supply goods for five years, it needs to plan for the same period to fulfill its commitments.

(4) ***Identification of alternatives*:** The fourth step in planning is identifying alternatives. A particular objective can be achieved through various actions. For example an organization's objective is to grow further which can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organization

and so on. With each category there may be several alternatives. For example, diversification may point out the possibility of entering into one of the several fields.

(5) ***Evaluation and selection of alternative*:** Once the alternatives are identified the next step is to evaluate the alternatives in the light of the premises and goals and to select the best course or courses of action. This is done with the help of quantitative techniques and operations research. In addition software packages are available for evaluating alternatives.

(6) ***Developing derivative/supportive plans*:** Once the plan is selected, various plans are derived so as it support the main plan. The derivative may be planning for buying equipments, buying raw material etc. These derivative plans are formulated out of the main plan and therefore, they support.

(7) ***Measuring and controlling the process*:** One should not allow plan to run on its own without monitoring its progress. Managers need to check the progress of their plans so that remedial action can be taken to make plan work or change the plan if it is unrealistic. Hence process of controlling is a part of any plan.

2.7 DECISION-MAKING

Decision-making is an essential part of modern management. Whatever a manager does he does by making decisions. A manager makes hundreds of decisions consciously or subconsciously every day. Decisions are made by the managers and actions are taken by others. Major decisions are taken carefully and consciously by the application of human judgment and experience where as minor decisions are made almost subconsciously using rules. Decision-making permeates through all managerial functions namely planning, organizing, staffing, directing and control. In planning for example manager decides what to produce, where and when etc., and in organizing manager decides about division of work, delegating authority and fixing responsibility. Decision-making is commitment to something, a point of view, a principle or course of action. It is selecting the best among alternative courses of action. The decision-making has the following factors.

(1) Decision-making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem.

(2) Existence of alternatives suggests that the decision-maker has freedom to choose an alternative of his liking.

(3) Decision-making like any other managerial process is goal oriented. It implies that the decision maker attempts to achieve some results through decision-making.

Types of Decisions

Decisions are classified in a number of ways as below:

Programmed and non-programmed decisions: Programmed decisions are those that are made in accordance to policy, procedure and rules. These decisions are routine and repetitive and programmed decision are relatively easy to make. For example determining salary payment to the workers who have been ill, offering discounts for regular customers etc. are programmed decision. Non-programmed decisions are novel and non-repetitive. If a problem has not arisen before or if there is no clear cut method for handling it, it must be handled by non-programmed decision. For example what to do about a failing product line is a non-programmed decision because no definite procedure exists for it. For programmed decision clear cut rules exists and hence it is not possible for two persons to reach different solutions to the some problem.

In case of non-programmed decision there are no clear cut rules for handling the problem, each manager may bring his own personal beliefs, attitudes and judgments to bear on the decision, it is possible for two managers to arrive at distinctly different solutions to the same problem. For manager at higher level this ability to make non-programmed decisions becomes important.

Major and minor decisions: The decisions which have their impact for long-period or which have impact on other departments are known as major decision. On the other hand decisions which does not have long term effect or affecting one department are known as minor decisions, diversification of existing product lines, adopting new technology are the major decisions. The decision to procure raw materials is a minor decision, Major decisions are made at higher level and minor decisions are taken at lower level in the organizational hierarchy.

Simple and complex decisions: If very few variables are to be considered for solving a problem the decision is sample. If the variables are many, then it is a complex decision.

Strategic and tactical or operational decisions: Strategic decision is a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Strategic decisions are major and non-programmed decisions having long term impact. A strategic decision may involve major departure from earlier ones. For example change in the product mix. Strategic decisions are made by the higher level managers. Tactical or operational decision is derived out of strategic decision. It relates to day-to-day working of the organization and is made in the context of well-set policies and procedures. Decisions relating to provisions of air conditioning, parking facilities are operational decisions. These decisions are made at the lower level of the organization.

Individual and group decisions: Decision may be taken either by an individual or group. Decisions which are routine in nature, with few variables and definite procedures exists to deal with them are taken by individuals. On the other hand

decisions which have their impact on other departments, which may result into some changes in the organization, are generally taken by groups.

Learning activity 2.3: Enumerate the major and minor decisions that you have made in the recent past.

Decision Making Process: Steps in Rational Decision Making

A decision is rational if appropriate means are chosen to reach the desired end. The following steps are involved in the process decision making.

(1) Recognizing the problem.
(2) Deciding priorities among the problems.
(3) Diagnosing the problem.
(4) Developing alternative solutions or courses of activities.
(5) Evaluating alternatives.
(6) Converting the decision into effective action and follow up of action.

(1) ***Recognizing the problem*:** When a manager makes a decision it is in effect the organization's response to a problem. Hence it is necessary to search the environment for the existence of a problem. A problem is said to exist;

(a) When there is deviation from past experience. For example the present year's sales are lower than previous year, the expenses are more than previous years etc.,
(b) When there is deviation from plan. For example sales are lower than anticipated, expenses are more than expected etc.,
(c) When competitors outperform. For example other companies manufacture the goods of same quality at lower costs.
(d) When people bring problems to the manager, For example workers may complain about poor ventilation.

(2) ***Deciding priorities among problems*:** A manager might have identified a number of problems. All these problems vary in their importance. He may find that some of the problems are such that they can be solved by their subordinates because they are closest to them. All such problems should be passed on to them. Some problems may need information available only at higher level or affecting other departments. Such problems are referred to higher level managers. And those problems which can be best solved by him are to be focused.

(3) ***Diagnosing the problems*:** Symptoms of the problem that are observed by the manager may some times mislead him. The symptom may lead manager to suspect one part when the defect may lie hidden in another part. For example if there is decline in sales, the management may think that the problem is one of poor selling procedure or

the saturation of the old market. But the real problem may be inability to move quickly to meet changing needs of the customers. For diagnosing the problem a manager should follow the systems approach. He should study all the sub-parts of his organization which are connected with the sub-part in which the problem seems to be located.

(4) ***Developing alternative solutions or courses of action***: A problem can be solved in several ways; however all the ways cannot be equally satisfying. If there is only one way of solving a problem, then no question of decision arises. Therefore decision maker must identify various alternatives available in order to get most satisfactory result of a decision. It should also be borne in mind that it is not possible to consider all alternatives either because information about all alternatives may not be available or some of the alternatives cannot be considered because of limitations. Hence while developing alternatives; the concept of limiting factor should be applied. Limiting factor is one which stands in the way of accomplishing a desired objective. For example, if an organization has limitation in raising sizable finance, it cannot consider projects involving high investment.

A decision maker can identify alternatives using his own experience, practices followed by others and using creative technique. A decision maker using past experience takes into account the action taken by the decision maker in the past with the difference between former challenges and the present one. The successful action of the past may become an alternative for the future. The limitation of this is, what was successful in the past may not be so in the present context because of change in context under which decision was made. Copying from experience of others is another way of generating alternatives. Alternatives used by successful decision makers can be thought of alternatives of decision making. The third method of generating alternatives is through creative process where various exercises are taken to generate entirely new ideas. Creative ideas of individuals or groups help in developing alternatives. One popular group technique is brain storming. The brain storming group consists of 5 to 10 people. The best idea behind brain storming is to think of as many alternatives as possible without pausing to evaluate them.

(5) ***Measuring and comparing consequences of the alternative solution***: Once various alternatives are developed, the next step is to measure and compare their consequences of alternatives using quality and acceptability. The quality of a decision must be determined considering both tangible and intangible consequences. Tangible consequences are those which can be quantitatively measured or mathematically demonstrated. For example the one can calculate the installing and running costs of two types of air conditioners. Intangible consequences cannot be measured quantitatively. For example the effect of good labor relationship in one location cannot be compared with the local taxes in another location.

Acceptability of solution is also important. A decision though good in quality may be poor in acceptability or decision though acceptable may not be good in quality. In

such cases managers must find the relative importance of these two. In production, finance, purchase etc. the solution's quality is important than acceptability, where as in all human maters such as lighting condition, layout of office etc., the acceptability is more important. If sufficient information about quality or acceptability of a solution is not available, it is suggested to experiment it on a small scale known as pilot testing. For example a company may test a new product in a certain market before expanding its sale nationwide.

(6) ***Converting the decision into effective action and follow up of action***: This step involves communication of decisions to the employees. Decision must be communicated in clear and unambiguous terms. All necessary efforts should be made to secure employees participation in some stages of decision making. Association of employees in decision making not only enhance the acceptability, but also improves the quality of decision. Sometimes due to non-availability of data, a manager may not take correct decision. As a safeguard against incorrect decision, the manager while converting a decision into effective action should institute a system of follow-up so that he can modify or alter his decision at the earliest opportunity.

ENVIRONMENT OF DECISION-MAKING

A decision-maker may not have the complete knowledge about decision alternatives or about the outcome of a chosen alternative. This problem may be highly complex and uncertain. These conditions of knowledge are referred to as the 'environment of decision making'. The environment may be of three types; certainty risks and uncertainty. The environment of decision-making is a continuum, at one end there is complete certainty and at the other end there is complete uncertainty as shown in fig 2.6.

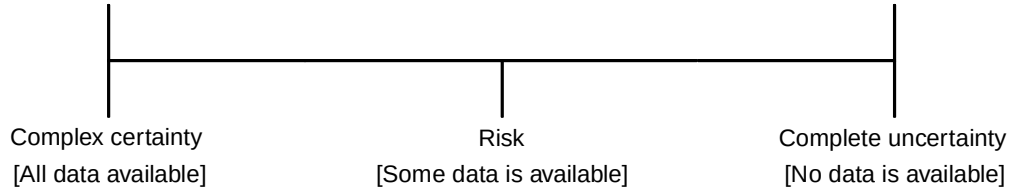

Fig. 2.6

Decision-making under certainty: The term certainty refers to accurate knowledge of the outcome of each alternative. All relevant data are available for making decision. For example a company wants to transport goods from five warehouses to a number of customers. It is possible to obtain the relevant facts for the problem like type of transport available, the cost of transporting a unit from each warehouse to each customer. With this it is possible to design least cost distribution pattern.

Decision-making under risk: In decision making under risk, the consequences of a particular decision cannot be specified with certainty but can be specified with known

probability values. The value of probability is a measure of likelihood of the occurrence of that event. In such cases, alternatives are evaluated by computing the expected value of the payoff associated with each alternative. For example, while estimating the demand of a product for future where there is great amount of uncertainty, a manager can make three estimates of demand associated with the probability of occurrence as show is table 2.3.

Table 2.3

Types of demand	Demand	Probability
High demand	1000	0.3
Medium demand	800	0.5
Low demand	500	0.2

Then the expected demand is computed as follows

Expected demand $= 1000(0.3) + 800(0.5) + 500(0.2)$

Decision making under uncertainty: Uncertainty is said to exist when the decision maker does not know the probabilities associated with the possible outcomes, though he has been able to identify the possible outcomes and their related pay-offs. Since the probabilities are not known, the decision maker cannot use the criterion of maximizing the pay off. He can however use MaxiMin criterion. MaxiMaxi criterion or Minimax regret criterion. If a manufacturer is pessimistic or cautions in his approach, he can choose that decision act which maximizes the minimum pay-off, which is called as MaxiMin criterion. If a manufacturer is optimistic he may choose that decision act which maximizes the maximum pay-off. This is called as max-max criterion. A manager using minimax regrets criterion look at the decision problem neither as pessimistic nor as optimistic. As the name implies the minimax regret criterion is the one by which the decision maker minimizes the maximum regret can occur, no matter what the outcome.

Learning activity 2.4: List at least two decisions that you have made under complete certainty, risk and complete uncertainty.

CHAPTER SUMMARY

Planning is the first and foremost function of management Planning is deciding in advance what to do, when to do, how to do and who is to do it. It is in essence the exercise of foresight. The nature of planning may be understood in terms of it being a rational approach, open system, flexibility and pervasiveness. Planning can be classified on the basis of coverage of activities, importance of contents in planning, approach adopted in planning process, time dimension and degree of formalization and so on.

Plans are classified into standing plans and single use plans. Single use plans (programmes, projects, budgets) are for non-repetitive activities and standing plans (mission, objectives, strategies, policies and procedures) are for repetitive activities. The steps involved in planning process are establishing goals/objectives, establishing planning premises, deciding the planning period, identifying alternatives, evaluation and selection of alternative, developing derivative/supportive plans, and measuring and controlling process. Decision making is selecting the best among alternative courses of action. Decisions may be classified as programmed and non-programmed decisions, major and minor decisions, simple and complex decisions, strategic and operational (tactical) decisions. The environment of decision may be of three types; certainty, risk and uncertainty.

QUESTIONS

(1) Briefly discuss the nature of planning.
(2) Explain in brief the importance of planning.
(3) Discuss the strategic and tactical planning.
(4) Write a note on hierarchy of plan.
(5) Discuss the steps in planning.
(6) Explain in brief planning premises.
(7) Enumerate requirements of sound objectives.
(8) Write a note on characteristics of objectives.
(9) Explain in brief standing and single use plans.
(10) Discuss different types of decisions.
(11) Explain in brief the steps involved in rational decision making.
(12) Write a note on decision making environment.

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CHAPTER 3

ORGANIZING AND STAFFING

Learning Objectives:

- To introduce the meaning of organizing.
- Present the characteristics of organizing.
- Discuss the nature and purpose of organizing.
- Present the principles of organization.
- Understand departmentation.
- Discuss types of organization.
- Understand span of control.
- Present delegation of authority.
- Introduce MBO.
- Discuss the meaning of staffing.
- Understand the meaning of recruitment and selection.

3.1 MEANING AND DEFINITIONS OF ORGANIZING

Organization is the foundation upon which the whole organization is built. Without efficient organization, no management can perform its function smoothly. Sound organization contributes greatly to the continuity and the success of organization. A poor organization structure makes good performance impossible, no matter how good the individuals are.

The term organization connotes different things to different people. For example to the sociologists, organization means a study of interactions of people, classes or hierarchy of an enterprise. To the psychologists organization means an attempt to explain, predict and influence the behaviour of individuals in an enterprise. The word 'organization' is also used widely to connote a group of people and the structure of relationships. In order to understand the meaning and characteristics of organization, we shall study it under the following heads:

(1) Organization as a group of persons.
(2) Organization as a structure of relationship.
(3) Organization as a function of management.
(4) Organization as a process.

(1) ***Organization as a group of persons*:** Organization is viewed as a group of people contributing their efforts towards certain goal. The concept of organizing began at the early stages of human civilization when two or more persons began to cooperate and combine together for fulfilling their basic needs of food, clothing, shelter and protection of life. Organization begins when people combine efforts for some common purpose. Chester I Barnard defined organization "as an identifiable group of people contributing their efforts. An organization comes into existence when there are a number of persons in communication and relationship to each other and are willing to contribute towards a common Endeavour. The group of people lay down rules and regulations and the formal structure or relationship among themselves".

(2) ***Organization as a structure of relationships*:** Some people view organization as a structure of relationship. Organization sets up the scope of activities of the enterprise by laying down the structure of relationships. If organization is merely recognized as 'structure', it will be viewed as a static thing used to explain formal relationships. But an organization is a 'dynamic' entity consisting of individuals, means, objectives and relationships among the individuals. However, the use of the term structure to denote organization is not used independently, but is combined with the term organization either in the form of organization structure or structure of organization.

(3) ***Organization as a function of management*:** Organization is one of the basic functions of management. It involves determination and provision of various resources for the achievement of predetermined goal. Thus, organization is defined as a process of integrating and coordinating the efforts of human, financial and other resources for the accomplishment of certain objectives. Like 'planning', organizing is also applied in every aspect of management, For example organization is necessary for planning, development, for formulation of plans and policies.

(4) ***Organization as a process*:** Organization is the process of establishing relationship among the members of the organization. Using this process organization structure is crated. The relationships are created in terms of authority and responsibility. Each person in the organization is assigned specific responsibility or duty to perform and is granted the corresponding authority to perform his duty.

According to Louise A Allen, "Organization involves identification and grouping of activities to be performed and dividing them among the individuals and creating authority and responsibility relationship among them for the accomplishment of

organizational objectives. Organizing being process, consists of departmentalization, linking of departments, defining authority and responsibility and prescribing authority relationships. The organization structure is the result of this process.

3.2 STEPS IN ORGANIZING

While organizing, a manager differentiates and integrates the activities of his organization. By differentiation is meant the process of departmentalization or segmentation of activities on the basis of some homogeneity. Integration is the process of achieving unity of effort among various departments, segments or subsystems.

Organization involves the following interrelated steps:

(1) ***Consideration of objectives*:** The first step in organizing is to know the objectives of the enterprise. Objectives determine resources and the various activities which need to be performed and the type of organization which needs to be built for this purpose. Objectives also serve as guidelines for the management and workers. They bring about unity of direction in the organization.

(2) ***Identification and grouping of activities*:** If the members of the group are to pool their efforts effectively, there must be proper division of the major activities. Each job should be properly classified and grouped. This will enable the people to know what is expected of them as members of the group and will help in avoiding duplication of efforts. For example, the total activities of an enterprise may be divided into major functions like production, purchasing, marketing, finance etc., and such function is further subdivided into various jobs. For example, in production department separate sections may be created for research, industrial engineering etc. The jobs then can be classified and grouped to ensure the effective implementation of other steps.

(3) ***Assignment of duties*:** After classifying and grouping the activities into various jobs, they should be allotted to the individuals for ensuring certainty of work performance. Each individual should be given a specific job to do according to his ability and made responsible for that.

(4) ***Delegation of authority*:** Authority without responsibility is dangerous and responsibility without authority is an empty vessel. Hence, corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance.

3.3 NATURE OF ORGANIZATION

The nature of organization can be highlighted by studying the following features:

(1) Organization is always related to certain objectives: Whether it is organization of the entire enterprise or part of it, organization is influenced by objectives. The operations are divided; authority and responsibility are determined to achieve predetermined objectives.

(2) ***An organization connotes a group of people*:** Mc Farland has defined organization as "an identifiable group of people contributing their efforts towards the attainment of goals. People form groups or organizations to accomplish common objectives and pool their efforts by defining and dividing various activities, responsibility and authority".

(3) ***Communication is the nervous system of organization*:** The organizational members are able to communicate with each other and may coordinate their activities. No organization can survive without an efficient system of communication.

(4) ***Organizing is a basic function of management*:** Organizing is done in relation to all other functions of management, namely planning, staffing, directing and controlling and in all the areas of business namely production, marketing, purchasing, personnel. The organizing function is performed by all managers.

(5) ***Organization is a continuous process*:** It is not a one step function. Managers are continuously engaged in organizing and reorganizing.

(6) ***Organization connotes a structure of relationship*:** The structure of relationship deliberately created by the management is referred to as formal organization. An organization may also have a network of social relationships that arise between people working together. Such relationships are known as informal organization. In formal organization people are able to communicate with each other, are willing to act and share a purpose. In informal organization, people work together because of their likes and dislikes.

(7) ***Organization involves a network of authority and responsibility relationship*:** Various positions are created; specific tasks are assigned to them. To perform the task, each position is delegated adequate authority. Authority and responsibility relationships throughout the organization must be clearly defined to achieve coordination and to avoid conflicts between individuals and departments.

3.4 ORGANIZATION STRUCTURE

An organization structure shows the authority and responsibility relationship between the various positions of the organization by showing who reports to whom. It is a set of planned relationships between groups of related functions and between physical factors and personnel required for the achievement of organizational goal. The structure of an organization is generally shown on the organization chart or a job task pyramid. It shows the authority and responsibility relationship between various positions in the organization. A good organization structure should not be static but dynamic. It should be subject to change from time to time in the light of changes in the business environment.

3.5 PURPOSE OF ORGANIZATION

Organization means a form of human association for the attainment of common objectives. An industrial organization denotes a type of associationship of persons in relationship to some economic activities. Obviously, the better the organization the fuller would be the achievement of common objectives. Similarly, a loose organization implies an unhappy and dangerous state of affairs. Organization is essential for the following purposes:

(1) ***To facilitate pattern of communication*:** Organization structure provide pattern of communication and coordination. By grouping activities and people, structure facilitates communication between people centered on their job activities. People who have joint problem often need to share information to solve the problem.

(2) ***To allocate authority and responsibility*:** Organization structure allocates authority and responsibility. It specifies who is to direct whom and who is accountable for what results. The structure helps the organization members to know what his role is and how it relates to others role.

(3) ***To locate decision centers*:** Organization structure determines the location of decision making in the organization. For example, a departmental store may leave pricing decision to the lower level manager while in oil refinery pricing decision is at top level.

(4) ***To create proper balance*:** Organization structure creates the proper balance and emphasis of activities. Those more critical to the enterprises success might be placed higher in the organization. For example R&D in pharmaceutical company might be singled out for reporting to the managing director. Activity of comparable importance might be placed at the lower level.

(5) ***To stimulate creativity*:** Sound organization stimulates independent, creative thinking and initiative by providing well-defined areas of work with broad attitude of the development of new and improved ways of doing things.

(6) ***To encourage growth*:** The organization structure provide framework within which an enterprise functions. If the organization structure is flexible, it will help in meeting challenges and creating opportunities for growth.

(7) ***To make use of technological improvements*:** A sound organization structure which is adoptable to changes can make the best possible use of latest technology. It can modify the existing pattern of authority-responsibility relationships in the wake of technological improvements.

3.6 PRINCIPLES OF ORGANIZATION

In order to facilitate the achievement of objectives, management thinkers have laid down certain principles of organization. The principles are guidelines for planning organization

structure. Therefore, thorough understanding of the principles of organization is essential for good organization. The principles of organization are discussed below:

(1) ***Objectives*:** The objectives of the enterprise influence the organization structure. Every part of the organization and organization as a whole should be geared to the basic objective determined by the enterprise.

(2) ***Specialization*:** Effective organization must promote specialization. The activities of the enterprise should be divided according to functions and assigned to persons according to their specialization.

(3) ***Span of control*:** A manager can directly supervise only a limited number of executives. Hence, it is necessary to have a proper number of subordinates answerable to a manager. A maximum of six may be prescribed for this purpose.

(4) ***Exception*:** This principle requires that organization structure should be so designed that managers are required to go through the exceptional matters only. All the routine decisions should be taken by subordinates, where as problems involving unusual matters and policy decision should be referred to higher levels.

(5) ***Scalar principle*:** This is also known as chain of command. There must be clear lines of authority running from the top to the bottom. Authority is the right to decide, direct and coordinate. Every subordinate must know who his superior is and to whom policy matters beyond his own authority must be referred for decision.

(6) ***Unity of command*:** Each subordinate should have only one supervisor whose command he has to obey. Dual subordination must be avoided, for it causes uneasiness, disorder, and indiscipline and undermine of authority.

(7) ***Delegation*:** Proper authority should be delegated at the lower levels of the organization also. The authority delegated must be equal to responsibility i.e., the manager should have enough authority to accomplish the task assigned to him.

(8) ***Responsibility*:** A superior should be held responsible for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.

(9) ***Authority*:** The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined. The authority and responsibility must be co-extensive in the organization.

(10) ***Efficiency*:** The organization should be able to attain the mission and objectives at the minimum cost.

(11) ***Simplicity*:** The organization structure should be as simple as possible with minimum number of levels. A large number of levels of organization means difficulty of effective communication and coordination.

(12) ***Flexibility:*** The organization should be flexible, should be adaptable to changing circumstances. It should permit expansion and replacement without dislocation and disruption of the basic design. A sound organization must avoid complicated procedures, red-tape and excessive complication of control so that it may adapt itself easily and economically to business and technical changes.

(13) ***Balance:*** There should be reasonable balance in the size of various departments, between centralization and decentralization. There must be balance in the formal structure as regards to factors having conflicting claims.

(14) ***Unity of direction:*** There must be one objective and one plan for a group of activities having the same objective. Unity of direction facilitates unification and coordination of activities at various levels.

(15) ***Personal abilities:*** As organization is a formal group of people there is need for proper selection, placement and training. Organization structure must ensure optimum use of human resources.

3.7 DEPARTMENTATION

The horizontal differentiation of tasks or activities into discrete segments is called as departmentalization or departmentation. Departmentation involves grouping of operating tasks into jobs, combining of jobs into effective work group and combining of groups into divisions often termed as 'departments'. The aim is to take advantages of division of labour and specialization up to a certain limit. There are several ways of Departmentation, each of which is suitable for particular corporate sizes, strategies and purposes. The important methods of grouping activities may be summarized as below:

***Departmentation by functions*:** This is the simplest and most commonly used base for Departmentation. Each major function of the enterprise is grouped into a department. For example there may be production, finance, marketing and personnel department in an organization as shown in fig.3.1. All functions related to production are grouped together to form production department, similarly other departments are formed on the basis of function.

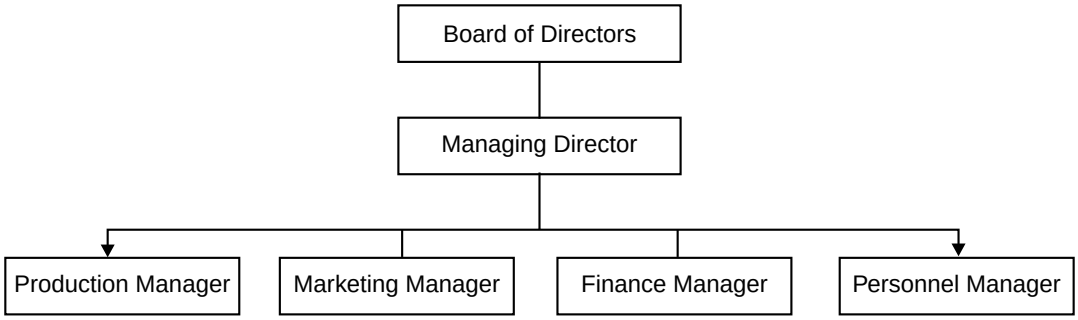

Fig. 3.1: Departmentation by functions

Advantages

(1) It is simple and suitable for small organization which manufactures limited number of products.
(2) It promotes specialization.
(3) It leads to improve planning and control.
(4) Manpower and other resources of the company are effectively used.

Drawbacks

(1) It fosters sub-goal loyalty. Department goal becomes important than organizational goal resulting into interdepartmental conflicts.
(2) Difficult to set up specific accountability and profit centers within functional departments with the result that performance cannot be accurately measured.

Departmentation by product: The grouping of activity on the basis of product or product lines is followed in multi-lines large scale organizations. All activities related to a particular product line may be grouped together under the direction of a semi-autonomous division manager as shown in fig 3.2.

Advantages

(1) It focuses individual attention on each product line.
(2) It leads to specialization of physical facilities on the basis of product which results in economy.
(3) It is easier to evaluate and compare the performance of various product division.
(4) It keeps problems of production isolated from others.

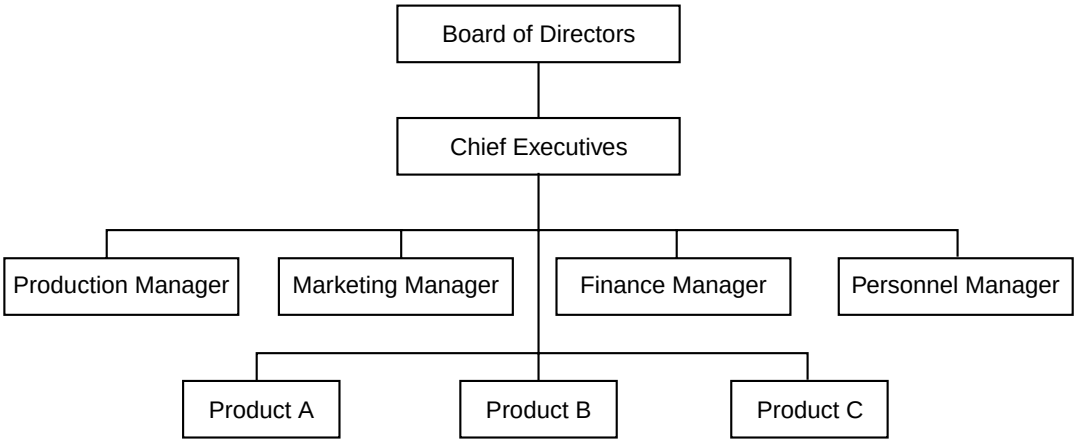

Fig. 3.2: Departmentation by product

Departmentation by customers: This is used in the enterprises engaged in providing specialized services to different classes of customers. Management groups the activities

on the basis of customers to cater to the requirements of clearly defined customer groups. For example, an automobile service company may organize its departments as heavy vehicles servicing division, car servicing division and scooter servicing division. Similarly an educational institute may have departments for regular courses, evening and corresponding courses etc.

Departmentation by territory: Under this classification, the market area is broken up into sales territories and a responsible executive is put in-charge of each territory. The territory may be known as district, division or region. The field salesmen under respective regions report to their corresponding sales supervisors, if any, who are reporting to their respective regional managers. The fig. 3.3 is quite illuminating in this connection.

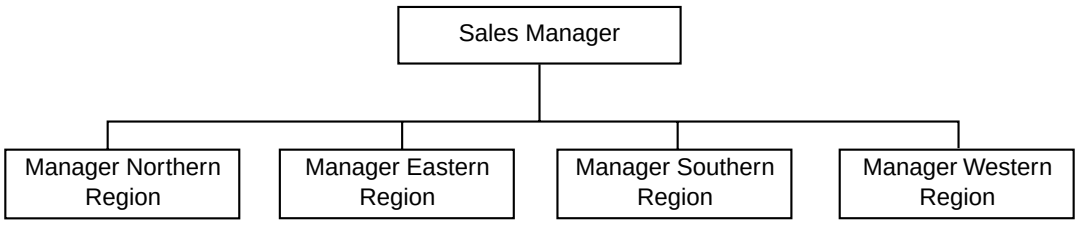

Fig. 3.3: Departmentation by territory

Departmentation by Process: Departmentation here, is done on the basis of several discrete process or technologies involved in the manufacture of a product. For example, a vegetable oil company may have separate departments for crushing, refining and finishing. A textile mill may have departments for ginning, spinning, weaving and dyeing. A work that would otherwise be done in several different locations in an enterprise is done in one place because of special equipments used.

Learning activity 3.1: Identify various departments of your institute and find on what basis the departments are created.

3.8 TYPES OF ORGANIZATION

According to Kimball and Kimball "The problem of an organization is to select and combine the efforts of men of proper characteristics so as to produce the desired results". Nature, scale and size of the business are the normal factors which determine forms of internal organization. The following common types of organization find a place in the structure of internal organization.

Line, Military or Scaler Organization

Line organization is the simple and oldest type of organization and is also known of scalar or military organization. The line organization represents the structure in a direct

vertical relationship through which authority flows. The line of authority (see fig 3.4) flows vertically downward from top to bottom throughout the organization. The quantum of authority is highest at the top and reduces at each successive level. Under line organization, each department is generally a complete self-contained unit. A separate person will look after the activity of the department and has full control over the department. The superior communicates his decision and orders to his subordinates. The subordinates, in turn, can communicate them to those who are immediately under them. This type of organization is followed in military.

The advantages of line organization are

(1) Simplicity
(2) Quick decision and speed of action.
(3) Unity of control.
(4) Clear division of authority and responsibility.
(5) Discipline and better coordination
(6) Direct communication.

Disadvantages

(1) The organization is rigid and inflexible
(2) Being an autocratic system, managers may become dictators and not leaders.
(3) There is scope of favor-ism and nepotism.
(4) Red-tape and bureaucracy.
(5) Lack of specialization.

General Manager

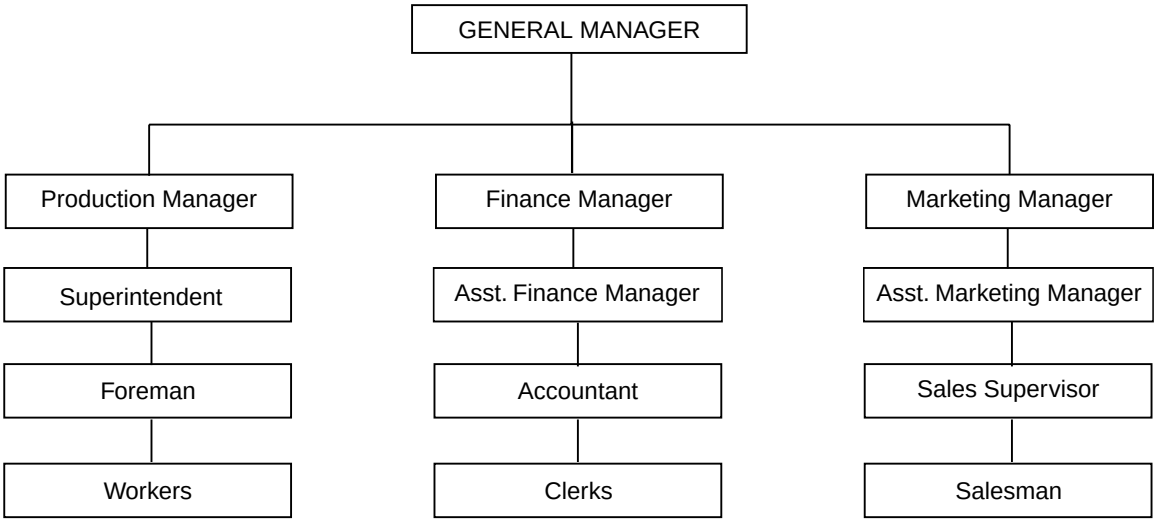

Fig. 3.4: Line organization

Functional Organization

The line organization does not provide specialists in the structure. Many jobs require specialized knowledge to perform them. In functional organization the specialists are made available in the top positions throughout the enterprise. It confers upon the holder of a functional position, a limited power of command over the people of various departments concerning their function. Functional authority remains confined to functional guidance of different department.

Under functional organization, various activities of the enterprise are classified according to certain functions like production, marketing, finance, personnel etc., and are put under the charge of functional specialists as show in fig.3.5. A functional incharge directs the subordinates throughout the organization in his particular area of business operation. That means that subordinates receives orders and instructions not from one superior but from several functional specialists.

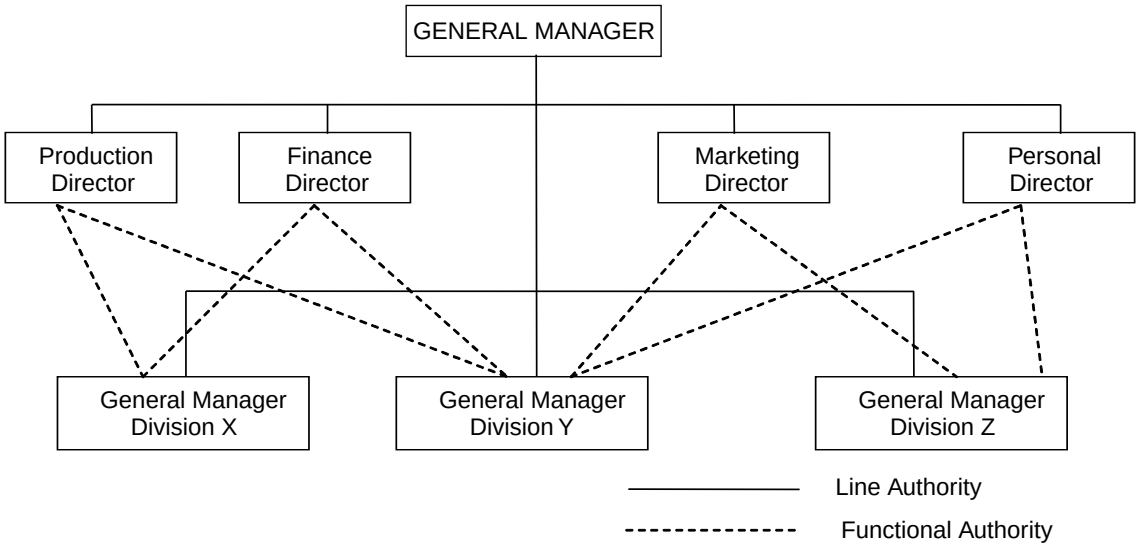

Fig. 3.5: Functional organization

The advantages of functional organization

(1) Specialization.
(2) Reduces the burden on the top executives.
(3) Offers greater scope for expansion.
(4) A functional manager is required to have expertise in one function only. This makes it easy for executive development.

Disadvantages

(1) Violates principles of unity of command.
(2) The operation of functional organization is too complicated.

(3) It develops specialists rather than generalists.
(4) Lack of coordination among functional executives which delays decision making.

Line and Staff Organization

In order to reap the advantages of both line organization and functional organization, a new type of organization is developed i.e., line and staff organization. In line and staff organization, the line authority remains the same as it does in the line organization. Authority flows from top to bottom. In addition, the specialists are attached to line managers to advice them on important matters. These specialists stand ready with their speciality to serve line men as and when their services are called for to collect information and to give help which will enable the line officials to carryout their activity better. The staff officials do not have any power of command in the organization as they are employed to provide expert advice to the line manager. In most of the organization, staff investigates and supplies information and recommendations to managers who takes decision. Specialized staff positions are created to give counsel and assistance in each specialized field of effort as show in fig 3.6.

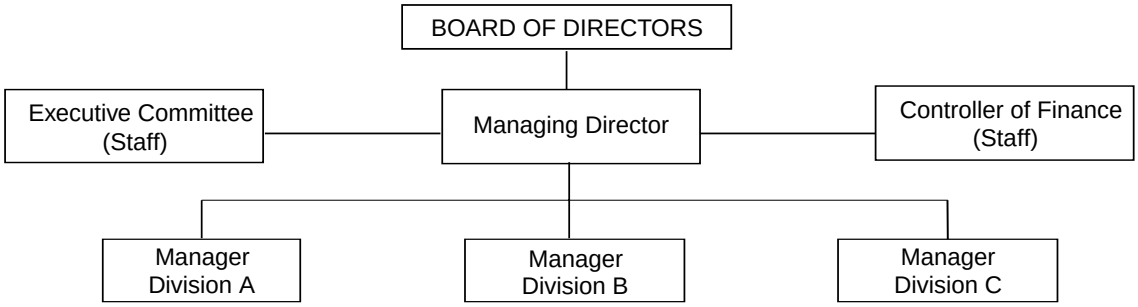

Fig. 3.6: Line and staff organization

Advantages

(1) Specialized knowledge
(2) Reduction of burden on line managers.
(3) Better decisions, as staff specialists help the line managers
(4) Unity of command
(5) Flexible when compared to functional organization.

Disadvantages

(1) Allocation of duties between line and staff is not clear.
(2) There is generally conflict between line and staff executives.

(3) Since staff is not accountable, they may not be performing well.
(4) Difference between orientations of line and staff. Line executive's deals with in problem in a more practical manner while staff, tend to be more theoretical.

Committee Organization

A committee is a body of persons appointed or elected to meet on an organized basis for the consideration of matters brought before it. "A committee is a group of persons performing a group task with the object of solving certain problems". The area of operation of a committee is determined by its constitution. A committee may formulate plans, review the performance of certain units or may only have the power to make recommendation. Committees help in taking corrective decision, coordinating the affairs of different departments and meeting communication requirements in the organization. Committees can be broadly classified into advisory committees and executive committees. Advisory committees have only a recommender's role and cannot enforce implementation of their advice or recommendation. The examples of advisory committees are works committees, finance committees etc., Whenever committees are vested with line authority, they are called as executive committees. Unlike advisory committee, executive committees not only take decisions but also enforce decisions and thus perform a double role of taking decision and ordering its executive. The board of directors of a company is an example of an executive committee.

Advantages of Committees

(1) Committees provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds.
(2) Committees are excellent means of transmitting information and ideas both upward and downward.
(3) Committees are impersonal in action and hence their decisions are generally unbiased and are based on facts.
(4) When departmental heads are members of committee, people get an opportunity to understand each others problems and hence improve coordination.

Weaknesses of Committees

(1) In case a wrong decision is taken by committee, no one is held responsible which may results in irresponsibility among members.
(2) Committees delay action
(3) Committees are expensive form of organization.
(4) Decisions are generally arrived at on the basis of compromise and hence they are not best decision.
(5) As committee consists of large number of persons, it is difficult to maintain secrecy.

3.9 SPAN OF CONTROL

The span of control indicates the number of subordinates who can be successfully directed by a supervisor. It is often referred to as span of management, span of supervision, span of authority. Span of management is important because of two reasons. First is span of management affects the efficient utilization of managers and the effective performance of the subordinates. If the span is too wide, managers are overburdened and subordinates receive little guidance. If the span of management is too narrow, the managers are under utilized and subordinates are over controlled. The second reason is there is relationship between span of management and organization structure. A narrow span results in tall organization with many levels of supervision between top management and lowest organizational levels which creates more communication and cost problems. On the other hand, a wide span for the same number of employees results in flat organization with fewer management levels between top and bottom. Suppose a sales manager has 12 salesmen reporting to him, his span of management is 12. If he feels that he is not able to work closely enough with each salesman and decides to reduce the span by adding three assistant managers – each to supervise four salesmen then his span of management is three as shown in fig 3.7. In doing so, he has added a level of management through which communication between him and salesmen must pass and he has added the cost of three additional managers.

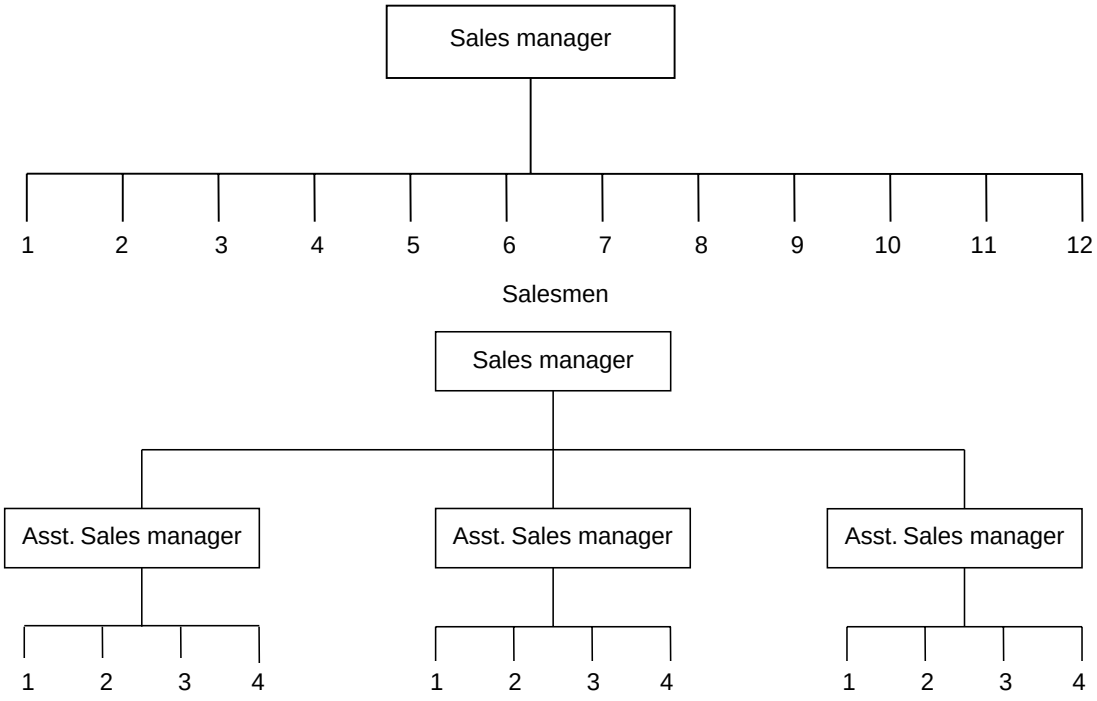

Fig. 3.7: Decrease in span of control increases the number of levels

Management experts suggest that the ideal number of subordinates is four in case of higher level management and eight to twelve in case of lower level management.

Factors Affecting the Span of Management

The following are some of the factors which influence the span of management:

(1) ***Ability of the manager*:** Some managers are more capable than others and hence can handle a large number of subordinates.

(2) ***Ability of the employees*:** If employees are more competent, less attention from the managers is required and a larger span of management can be used.

(3) ***Type of work*:** If employees are doing similar jobs, the span of management can be large. If their jobs are quite different, a small span may be necessary.

(4) ***Geographic location*:** If all subordinates are located at the same place span of management can be large. If subordinates are geographically distributed, a lower span is essential.

(5) ***Well-defined authority and responsibility*:** Clear-cut authority and responsibility helps a manager to supervise large number of subordinates.

(6) ***Level of management*:** The span of management is narrow at higher level of management, and span can be wider at lower levels.

(7) ***Economic considerations*:** Narrow the span, taller is the structure is more is the cost. On the other hand, wider span reduces the number of levels and cost.

Learning activity 3.2: Visit a government department and find the span of control at each level of the organization.

3.10 AUTHORITY, POWER AND RESPONSIBILITY

In all organized efforts, managers actually do not perform the jobs; they simply get the things done by others. It means that the managers should have some right by which they get the things done. This 'right' is technically known as what we call 'Authority', which every manager must have to perform his function effectively. Without authority a manager cannot function. Authority is a legal or rightful power, a right to command or to act. According to Henry Fayol "Authority is the right to order or command and is delegated from the superior to the subordinate to discharge his responsibilities. The authority may be exercised through persuasions or sanctions. If the subordinates does not obey, the superior has right to take disciplinary action.

The power may be defined as the capacity or ability to influence the behaviour of other individuals. If a person has a power, it means that he is able to influence the behaviour of others. The essence of power is control over the behavior of others. The difference between authority and power are given in table 3.1.

Table 3.1: Difference between authority and power

Authority	Power
(1) It is the institutionalized right of a superior to command and compel his subordinates to perform a certain act.	It is ability of a person to influence others.
(2) It rests in the position	It rests in the individual.
(3) It is delegated to an individual by his superior.	It is earned by individual
(4) It is well defined	It is undefined and infinite.
(5) It is what exists in the eye of law.	It is what exists in fact. It is a de facto concept.

Just an authority is the right of a superior to issue commands; responsibility is the obligation of a subordinate to obey those commands. Responsibility is defined as the obligation of a subordinate, to whom a duty has been assigned, to perform the duty. The essence of responsibility is then obligation. Responsibility arises from a superior-subordinate relationship, from the fact that some one has the authority to require specified service from another person.

Responsibility may be specific or continuing. It is specific when on being discharged by a subordinate, it does not arise again. Thus, a consultant's responsibility is specific, which ceases when the assignment is completed. The responsibility of a foreman is however continuing nature.

Responsibility cannot be delegated or transferred. The superior can delegate to a subordinate the authority to perform and accomplish a specific job. But he cannot delegate responsibility. Responsibility is divided into two parts namely operating responsibility and ultimate responsibility. The subordinates assumes only operating responsibility and superior retains ultimate responsibility. If the subordinate fails to perform the job (operating responsibilities) the superior is held responsible for this failure (Ultimate responsibility)

3.11 DELEGATION OF AUTHORITY

A manager in an enterprise cannot do all the tasks necessary for the accomplishment of group goals. His capacity to do the work and to take decisions is limited. He therefore assigns same part of his work to his subordinates and grants them necessary authority to make decisions within the area of their assigned duties. This downward pushing of authority to make decisions is known as delegation of authority. According to Louis Allen "If the manager requires his subordinate to perform the work, he must entrust him with part of the rights and powers which he otherwise would have to exercise himself to get that work done". By delegating authority, a manager does not surrender his authority or give this authority away. The delegating manager always retains the

overall authority which was assigned to him to perform his functions. It is something like imparting knowledge. Teacher shares knowledge with student who then possess the knowledge, but still the teacher retains the knowledge. The following are the advantages of delegation of authority.

(1) It relieves the manager of his heavy work load.

(2) It leads to better decision. This is because, the subordinates are closest to the situation and have the best view of the facts, are in better positions to make decision.

(3) It speeds up decision-making.

(4) It helps to train the subordinates and builds moral.

(5) It helps to create formal organization structure.

3.12 CENTRALIZATION AND DECENTRALIZATION

Centralization refers to systematic reservation of authority at central points within the organization. Centralization means retention or concentration of managerial authority in few key managerial positions at the nerve centre of an organization i.e., at the top level. Everything that goes to reduce the subordinate's role in decision making is centralization.

Decentralization means dispersal of decision-making power to lower levels of the organization. In decentralized setup, ultimate authority to command and ultimate responsibility for the results is localized as far down in the organization. According to Allen "Decentralization refers to the systematic effort to delegate to the lower levels all authority except that which can only be exercised at central points". In decentralized setup large number of decision, important decisions in large number of areas are made consulting few people.

In the words of Henry Fayol, "Everything that goes to increase the importance of subordinates role is decentralization and everything that reduces it is centralization".

The following are the advantages in decentralization:

(1) It eases the burden of top level managers.

(2) Decentralization permits quicker and better decision making.

(3) With decentralization capable managers can be developed

(4) Promotes participation in decision making and improves morale and motivation.

(5) Decentralization facilitates diversification of products.

Disadvantages of decentralization:

(1) It increases administrative expenses.

(2) It may create problems in bringing coordination among various units.

(3) It may bring about inconsistencies in the company, because uniform procedures may not be followed for the same type of work in various divisions.

Learning activity 3.3: Visit the state road transportation corporation office of your city and find the degree of decentralization.

3.13 DELEGATION VS DECENTRALIZATION

Delegation and Decentralization are not same; the differences between them are given below:

(1) Delegation is a process while decentralization is the end result of a deliberate policy of making delegation widespread in the organization.

(2) Delegation takes place between a superior and a subordinate while decentralization is company wide delegation as between top management and the departments or division of the organization.

(3) In delegation, delegator exercises supervision and control over the delegate, while in decentralization, top management exercises broad minimum control.

3.14 MANAGEMENT BY OBJECTIVES [MBO]

Management by objectives or results is an important practice for accomplishing the objectives of an enterprise in an effective way. The concept of MBO was introduced by Peter Drucker and later developed by various experts like John Humble, Dale and George Ordiome. In recent years MBO has become philosophy of managing in many enterprises and is recognized as most dynamic and exciting in the area of management.

John Humble defined managing by objectives as a dynamic system which integrates the company's need to achieve it's goals for profit and growth with manager's need to contribute and develop himself. In the words of George S. Ordiome the system of MBO can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members. He also stressed that MBO is not a set of rules, a series of procedures or methods, but it is a way of thinking about management.

Management by objectives calls for regulating the process of managing in terms of meaningful, specific and variable objectives at different levels of management hierarchy. MBO moulds planning, directing and controlling in a number of ways. It stimulates meaningful action of better performance and higher accomplishment. It is closely associated with the concept of decentralization because decentralization cannot work without the support of management by objectives.

Features of MBO

(1) An attempt is made by the management to integrate the goals of an organization and individuals. This will lead to effective management.

(2) MBO emphasize not only on goals but also on effective performance.
(3) It pays constant attention to refining, modifying and improving the goals and changing the approaches to achieve the goals on the basis of experience.
(4) It increases organizational capability of achieving goals at all levels.
(5) A high degree of motivation and satisfaction is available to employees through MBO.
(6) Recognizes the participation of employees in goal setting process.
(7) Aims at replacing the exercise of authority with consultation.
(8) Encourages a climate of trust, goodwill and a will to perform.

Steps in Management by Objectives

The following steps are involved in MBO—

(1) ***Setting of organizational objectives*:** The first step in MBO is defining organizational objectives. The definition of organizational objectives states why the business is started and exists. Long-term objectives followed by short-term objectives are framed taking into account the feasibility of achieving them. The objectives are framed on the basis of availability of resources.
(2) ***Setting departmental objectives*:** Objectives for each department, division and section are framed on the basis of overall objectives of the organization. Period within which these objectives should be achieved is also fixed. Goals or objectives are expressed in a meaningful manner.
(3) ***Fixing key result areas*:** Key result areas are fixed on the basis of organizational objectives premises. Key result areas are arranged on the basis of priority. Key result areas indicate the strength of an organization. The examples of key result areas are profitability, market standing, innovation etc.
(4) ***Setting subordinate objectives or targets*:** Departmental objectives are then set by departmental managers, and get them approved by the top management. This process of setting the objectives is repeated at the lower levels of management. At each level, objectives are set in verifiable unit so that performance of every department and individual may be reviewed after the end of a particular period.
(5) ***Appraisal of activities*:** In this step, superiors periodically review the progress and the subordinate's performance is evaluated against the specified standards and initiates corrective action. The superior should identify the reasons for failure of achieving objectives and should tackle such problems.
(6) ***Reappraisal of objectives*:** An organization has to operate in a dynamic world. So the top management should review the organizations objectives to frame the objectives according to the changing condition.

Benefits of MBO

The following are the benefits of MBO—

(1) Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.

(2) MBO process helps the managers to understand their role in the total organization.

(3) MBO provides a foundation for participative management. Subordinates are also involved in goal setting.

(4) A department does not work at cross purpose with another department. In other words, each department's objectives are consistent with the objectives of the whole organization.

(5) Systematic evaluation of performance is made with the help of MBO.

(6) MBO gives the criteria of performance. It helps to take corrective action.

(7) MBO motivates the workers by job enrichment and makes the jobs meaningful.

(8) The responsibility of a worker is fixed through MBO.

3.15 MEANING OF STAFFING

Earlier staffing was considered to be a part of organization function of management. It is now recognized as a separate management function. The reason for separating the staffing from organizing is to give proper emphasis to the actual meaning of managerial roles. Today the staffing function has assumed greater importance because of rapid advancement of technology, increasing the size of the organization and complex behaviour of human beings. The enterprise has to give due importance to human resource planning.

It is the tendency in modern enterprises to create a separate department. It is for this purpose medium and large organizations have separate department known as personnel department or human resource department to perform staffing function.

The organization structure spells out various positions of the organization. Filling and keeping these positions with right people is the staffing phase of the management function. Staffing involves the determination of manpower requirements of the enterprise and providing it with adequate competent people at all levels. The staffing function performs the following sub functions:

(1) Manpower planning.

(2) Recruitment

(3) Selection of the best qualified from those who seeks job,

(4) Training and Development.

(5) Performance appraisal and compensation.

3.16 NATURE AND IMPORTANCE OF STAFFING

The staffing function has assumed greater significance these days because of various factors. Staffing is also a pervasive function. Through separate department exist for this yet every manager is engaged in performing the staffing function, when they participate in selection, training and evaluating their subordinates. The various reasons which have increased the significance of staffing functions are discussed below:

(1) ***Increasing size of organization*:** Advancement in science and technology has given rise to large scale companies employing thousands of employees. The performance of the company depends on the quality and character of the people. This has increased the importance of staffing.

(2) ***Advancement of technology*:** In order to make use of latest technology, the appointment of right type of persons is necessary.

(3) ***Long-range needs of manpower*:** In some industries, labour turn-over is high. The management is required to determine the manpower requirement well in advance. Management has also to develop the existing personal for future promotion. The role of staffing has also increased because of shortage of good managerial talents.

(4) ***Recognition of human relations*:** The behaviour of individuals has become very complicated and hence human aspect of organization has become very important. Employees are to be motivated by financial and non-financial incentives. Right kind of atmosphere should also be created to contribute to the achievement of organizational objectives. By performing the staffing function, management can show the significance it attaches to the man power working in the enterprise.

3.17 RECRUITMENT

Recruitment is the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs. It is a linking activity that brings together those offering jobs and those seeking jobs. Recruitment refers to the attempt of getting interested applicants and providing a pool of prospective employees so that the management can select the right person for the right job from this pool.

The various sources of recruitment are divided into two categories:

(1) Internal Sources.

(2) External Sources.

Internal sources involve transfer and promotion. Transfer involves the shifting of an employee from one job to another. Many companies follow the practice of filling higher jobs by promoting employees who are considered fit for such positions. Filling higher positions by promotion motivates employees, boots employee's morale.

External Sources

(1) ***Direct recruitment*:** An important source of recruitment is direct recruitment by placing a notice on the notice board of the enterprise by specifying the details of the jobs available. This is also known as recruitment at factory gate.

(2) ***Unsolicited applications*:** Many qualified persons apply for employment to reputed companies on their own initiative. Such applications are known as unsolicited applications.

(3) ***Advertising*:** Large enterprises particularly when the vacancy is for higher post or there are large number of applications use this source where advertisements are made in local and national level newspapers. This helps in informing the candidates spread over different parts of the country. The advertisement contains information about the company, job description, and job specialization etc.

(4) ***Employment agencies*:** This is the good source of recruitment for unskilled and semiskilled jobs. In some cases, compulsory notification of vacancies of employment exchange is required by the law. The employment exchanges bring job givers in contact with job seekers.

(5) ***Educational institutions*:** Many jobs in business and industries have become increasingly varied and complex which need a degree in that particular area. That is why many big organizations maintain a close liaison with the colleges, vocational institutes and management institutions for recruitment of various jobs.

(6) ***Labour contractor*:** Often unskilled and semiskilled workers are recruited through labour contractors.

(7) ***Recommendations*:** Applicants introduced by friends, relatives and employees of the organization may prove to be a good source of recruitment. Many employers prefer to take such persons because something about their background is known.

3.18 SELECTION

The process of selection leads to employment of persons having the ability and qualifications to perform the jobs which have fallen vacant in an organization. It divides the candidates into two categories; those will be offered employment and those who will not be. The basic purpose of the selection process is choosing right type of candidates to man various positions in the organization. In order to achieve this purpose, a well, organized selection procedure involves many steps and at each step more and more information is obtained about the candidates. The steps involved in selection procedure are discussed below.

(1) ***Receipt of applications*:** Whenever there is vacancy, it is advertised or enquires are made from suitable sources and applications in standard form are received from the candidates. The applications give preliminary idea of the candidates like age, qualifi- cations, experience etc., Standard forms make the application processing very easy.

(2) ***Screening of applications*:** Applications received from the candidates are screened by the screening committee and a list of candidates to be interviewed is prepared. Applicants can be called for interviews on some specific criterion like sex, desired age group experience and qualification. The number of candidates to be called for interview is five to seven times the number of vacant positions to be filled.

(3) ***Employment tests*:** Employment tests help in matching the characteristics of individuals with the vacant jobs so as to employ the right kind of people. Intelligent tests, Aptitude tests, proficiency tests, personality tests, interest tests etc. may be used for this purpose.

(4) ***Interviews*:** The employment tests do not provide the complete set of information about the candidate. Interview may be used to secure more information about the candidate. The main purpose of interview is to find out the suitability of the candidate, to seek more information about the candidate, to give an accurate picture of the job with details of terms and conditions. In addition, interview help to check the information given by the applicant in the application and to assess the capability and personality of the applicant. For senior positions, interviews may be in several stages. The preliminary interview is conducted by head of the department and the final interview is conducted by the selection committee consisting of chairman of the organization, head of the department, personal manager and outside experts. After all the candidates have been interviewed, a panel is proposed. The number of persons in the panel is generally about two to three times the number of vacancies to be filled up.

Background investigation and medical examination: Prior to final selection, the prospective employer normally makes an investigation about applicants past employment, education, personal reputation, police record etc., Medical and physical examination has three objectives:

(1) It serves to ascertain applicant's capabilities to meet the job requirement.

(2) It serves to protect organization against the unwarranted claims under worksman compensation.

(3) It helps to prevent communicable deceases entering the organization.

A proper medical examination will ensure standards of health and physical fitness of the employees and reduce the rates of accidents, labour turnover and absenteeism

***Final selection*:** After a candidate has cleared all the hurdles in the selection procedure, he is formally appointed by issuing him an appointment letter or by

concluding with him a service agreement. The appointment letter contains the terms and conditions of employment, pay scale and other benefits associated with the job.

Learning activity 3.4: Identify the steps involved in selection process of your institution.

CHAPTER SUMMARY

Organization involves identification and grouping of activities to be performed and dividing them among individuals and creating authority and responsibility relationship among them for the accomplishment of organizational objectives. An organization structure shows the authority and responsibility relationship between the various positions in the organization. In order to facilitate the achievement of objectives, management thinkers have laid down certain principles of organization which provide guidelines for planning organization structure. The horizontal differentiation of tasks into discrete segments is known as Departmentation. There are various methods of Departmentation namely Departmentation by functions, Departmentation by products, Departmentation by process, Departmentation by customers and Departmentation by territory. Deferent types of organization are Line organization, Functional organization and Line, Staff organization and Committee organization. The span of control indicates the number of subordinates who can be successfully directed by a superior. The ability of manager, ability of employee, type of work, geographical location and level of management affects the span of control.

The authority is the institutionalized right of a superior to command and compel the subordinates to perform a certain act. The power is defined as the capacity or the ability of an individual to influence the behaviour others. The downward pushing of authority to subordinates to make decisions is known as delegation of authority. Centralization refers to systematic reservation of authority at few key managerial positions. Decentralization means the disposal of decision making power to the lower level of organization.

MBO is defined as dynamic system which integrates the company's need to achieve its goals for profit and growth with which managers need to contribute and develop him self. Filling and keeping various positions of organization with right people is known as staffing. The staffing function performs many sub functions namely manpower planning, recruitment, selection, training and development, performance appraisal and compensation. Recruitment is the process of identifying the sources of prospective candidates and to stimulate them to apply for the jobs. The sources of recruitment are divided into internal and external sources. The basic purpose of selection process is choosing right type of candidates to man various positions in the organization.

QUESTIONS

(1) Explain in brief the meaning of organizing.
(2) Discuss the steps involved in organizing.
(3) Explain in brief the nature of organization.
(4) Discuss the purpose of organization.
(5) Write a note on principles of organization.
(6) Explain in brief the various types of departmentation.
(7) Explain the following with it's merits and demerits
    (a) Line organization.
    (b) Functional organization.
    (c) Line and staff organization.
    (d) Committee organization.
(8) What do you mean by span of control? Explain the factors affecting span of it.
(9) Distinguish between
    (a) Authority and responsibility.
    (b) Delegation and decentralization.
(10) Authority can be delegated but not responsibility. Comment on this statement.
(11) Explain in brief the centralization and decentralization.
(12) Write a note on Management by objectives.
(13) Explain the features of MBO.
(14) Explain in brief the steps involved in MBO.
(15) Write a note on benefits of MBO.
(16) Explain in brief the nature and importance of staffing.
(17) Explain various sources of recruitment.
(18) Explain the steps involved in selection process.

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CHAPTER 4

DIRECTING AND CONTROLLING

Learning Objectives:

- ❒ To understand the meaning and nature of direction.
- ❒ Present leadership styles.
- ❒ Present motivation theories.
- ❒ Discuss the meaning and importance of communication.
- ❒ Understand the types and forms of communication.
- ❒ Understand the meaning, importance and techniques of coordination.
- ❒ Present the meaning of controlling.
- ❒ Discuss the essentials of sound control system.
- ❒ Present methods of establishing control.

4.1 MEANING AND NATURE OF DIRECTION

Direction is a vital managerial function, performed by every manager. Whenever decision is taken, it must be converted into action by proper implementation. Otherwise, it is of no use. Effective implementation of a decision is made possible by directions. Planning, organizing and staffing are concerned only with the preparation for work performance and it is the direction which stimulates the organization and it's staff to execute the plans. Hence, it is also called 'management-in-action'. Every manager gives direction to his subordinates as superior and receives directions as subordinate from his superior.

Direction may be defined as a function of management which is related with instructing, guiding and inspiring human factor in the organization to achieve organizational mission and objectives. There are three elements of direction, namely communication leadership and motivation. According to Koonz and O'Donnel, "**Direction is a complex function that includes all those activities which are designed to encourage subordinates to work effectively and efficiently in both the short and long term**".

In the words of Theo Haimann, "Directing consists of the process and techniques utilized in issuing instructions and making certain that operations carried on of originally planned".

The functions of direction involve two major activities:

(1) Giving orders to employees

(2) Leading and motivating them

The order is a device employed by a line manager in directing his immediate subordinates to start an activity, stop it or to modify it. A staff executive does not issue orders. The orders should be clear and complete, compatible with the purpose of organization and with the personal interest of the organization. Motivation arises interest in the subordinates and leading channelise the efforts of the subordinates in the right direction.

4.2 PRINCIPLES OF DIRECTING

While directing a manager should understand the needs, motives and attitudes of his subordinates. The following principles of directing may be useful to a manager.

(1) ***Harmony of objectives*:** Individuals and organization have their own objectives. The management should coordinate the individual objectives with the organizational objectives. Directions can integrate their objectives with organizational objectives.

(2) ***Unity of direction or command*:** An employee should receive orders and instructions only from one superior. If not so, there may be indiscipline and confusion among subordinates and disorder will ensue.

(3) ***Direct supervision*:** Managers should have direct relationship with their subordinates. Face to face communication and personal touch with the subordinates will ensure successful direction.

(4) ***Effective communication*:** The superior must ensure that plans, policies, responsibilities and orders are fully understood by the subordinates in the right direction.

(5) ***Follow through*:** Direction is a continuous process. Mere issuing orders or instructions are not an end itself. Follow is necessary, so the management should watch whether subordinates follow the orders and whether they face difficulties in carrying out the orders or instructions.

4.3 LEADERSHIP AND LEADERSHIP STYLES

The success of a business concern depends upon the ability of its leadership. For example Microsoft, Reliance, Mittal Steels would not have attained their present success but for the able leadership of Bill Gates, Dheerubai Ambani and Lakshmi Mittal. Every enterprise may have will to do, but this will to do is triggered by leadership. According

to Koontz and O'Donnel, "**leadership is generally defined as influence, the art of process of influencing people so that they will strive willingly towards the achievement of group goals**". A leader is one who guides and directs other people. In the words of Alford and Beatty, "**Leadership is the ability to secure desirable actions from a group or followers voluntarily without the use of coercion**". A clear distinction can be made between a leader and a manager. A leader emerges out from situations where as a manager is put into his position by appointment. A leader has informal power and a manager has formal power. A leader seeks those very objectives which are the objectives of his subordinates where as a manger seeks those objectives which his subordinates do not regard their own.

The leaders while influencing the subordinates perform the following functions:

(1) ***Taking initiative*:** A leader has to take all initiative to lead the business activities. He himself should come in the field and take all steps to achieve predetermined targets. Hence a leader is initiator.

(2) ***Guide*:** A leader has the primary duty of guiding others by communicating instructions and orders.

(3) ***Representation*:** A leader is a representative of the organization.

(4) ***Encouraging others*:** A leader is the captain of the team. Encouragement is necessary to build team work. The leader must win the confidence of his colleagues.

(5) ***Arbitrator and mediator*:** A leader has to create a smooth relationship among employees. In addition, he has to settle disputes arising among employees.

(6) ***Planner*:** A leader makes decisions concerning the ways and means by which the organizational goals can be achieved.

(7) ***Administrator of rewards and punishments*:** Leaders encourage, upgrade, promote deserving people and reprove, transfer and fine inefficient workers.

Learning activity 4.1: Visit a bank and find what functions the bank manager performs as a leader.

Leadership Styles

Leadership styles are the patterns of behavior which a leader adopts in influencing the behavior of his followers (subordinates in the organizational context). These patterns emerge in the leader as he begins to respond in the same fashion under similar conditions: he develops habits of actions that become some what predictable to those who work with him. Various researchers have proposed different leadership styles. These styles are either based on either behavioural approach or situational approach as follows.

Based on behavioural approach

(1) Power generation

(2) Leadership as a continuum

(3) Employee-production orientation
(4) Likert's management system
(5) Managerial grid
(6) Tri-dimensional grid

Based on situational approach

(1) Fiedler's contingency model
(2) Hursey and Blanchard's situational model
(3) Path-goal model

Leadership styles are also broadly classified based on three points of view: Motivation, Authority and supervision. On the basis of motivation leadership style can be positive or negative style. In positive style a leader motivates his followers to work hard by offering them rewards, for example, higher bonus. In negative styles, a leader forces his followers to work hard and punishes them for lower productivity.

On the basis of Authority, leadership styles are divided into three types namely autocratic, democratic and free-rein.

Autocratic leadership: An autocratic leader is one who dominates and drives his subordinates through coercion, command and the instilling of fear in his followers. An autocratic leader alone determines policies, plans and makes decisions. He demands strict obedience. Such leaders love power and love to use it for promoting their own ends. They never like to delegate their power for they fear that they may loose their authority.

The merits of this type of leadership is that, it can increase efficiency, save time, and get quick results under emergency conditions, chain of command and division of work are clear.

The demerits are people are treated machine-like cogs without human dignity, one way communication without feedback and the leader receives little or no input from his sub-ordinates for his decision-making which is dangerous in the current dynamic environment.

Democratic leadership: This style of leadership is also known as participative leadership. As the name itself indicates, in this style, the entire group is involved in goal setting and achieving it. A democratic leader follows the majority opinion as expressed by his group. Subordinates have considerable freedom of action. The leader shows greater concern for his people's interest, is friendly and helpful to them. He is always ready to defend their subordinates individually and collectively. This type of leadership encourages people to develop and grow, receives information and ideas from his subordinates to make decisions, and boosts the morale of employees. The demerits of this type of leadership are (1) Some leaders may use this style as a way of avoiding responsibility, (2) Can take enormous amount of time for making decisions.

Free-rein: In this type of leadership, the leaders exercise absolutely no control. He only provides information, materials and facilities to his subordinates. This type of

leadership is employee centered and the subordinates are free to establish their own goals and chart out the course of action. This type of leadership can be disaster if the leader does not know well the competence and integrity of his people and their ability to handle this kind of freedom.

Fig 4.1 shows the spectrum of leadership styles where at one end there is no freedom for people and full freedom at the other.

Autocratic	Democratic	Free-rein
(Leader centered method)	(Participative method)	(Employee centered method)

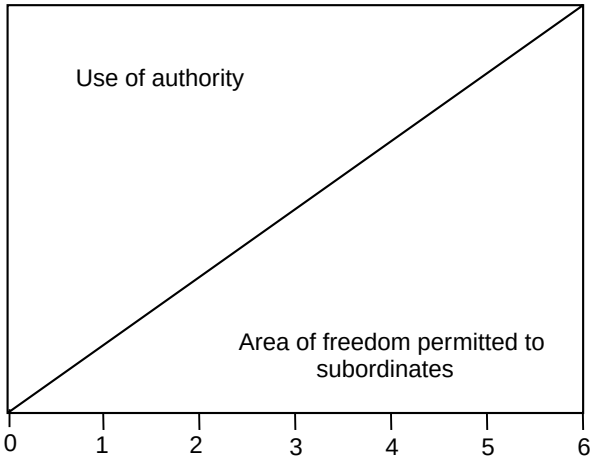

Fig 4.1: Spectrum of leadership styles

Learning activity 4.2: Classify the leadership styles of head of your department /Principal of your institution and classify them on the basis of motivation and authority.

4.4 MOTIVATION

A manager gets work done through others. Getting the work done depends mainly on whether a person has been motivated to do it. Motivating an employee is to create a need and a desire on the part of employee to better his performance. This can be done by creating in him a sense of responsibility and feeling of special interest in his work. Motivation concern itself with 'will to work'. It is a behavioural concept by which a manager tries to understand why people behave as they do. **Motivation is inspiring the subordinates to contribute with zeal and enthusiasm towards organizational goals**. Performance of an employee depends on two factors, ability to work and willingness to work. Mathematically

$$\text{Performance} = \text{Ability} \times \text{willingness}$$

Motivation is enhancing the willingness to work which improves the performance.

Motivational Theories

What can enhance the willingness to work are explained by a number of motivational theories as discussed below.

Maslow's Need Hierarchy Theory

Every person has a variety of needs, some of these needs are satisfied and others are unsatisfied. An unsatisfied need is the starting point in the motivation process. When a person has an unsatisfied need, he attempts to identify something that will satisfy the need. This is called as goal. Once a goal has been identified, he takes action to reach that goal and thereby satisfy the need. A.H. Maslow has identified five categories of need which are arranged in hierarchy as shown in fig. 4.2.

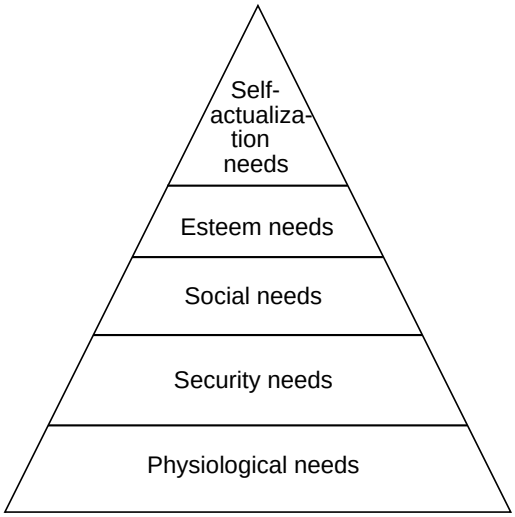

Figure 4.2: Hierarchies of needs

(1) ***Physiological needs*:** These are the basic needs for sustaining human life itself, such as food, water, shelter and sleep. Maslow took the position that until these needs are satisfied to the reasonable degree necessary to maintain life, other needs will not motivate people.

(2) ***Security or safety needs*:** People want to be free of physical danger and of the fear of losing job, property or shelter.

(3) ***Social needs*:** Since people are social being, they need to belong, to be accepted by others.

(4) ***Esteem needs*:** Once people begin to satisfy their need to belonging, they tend to want to be held in esteem both by themselves and by others. This kind of need produces such satisfaction as power, prestige and status.

(5) ***Self-actualization needs*:** It is desire to become what one is capable of becoming-to maximize one's potential and to accomplish something.

According to Maslow, people attempt to satisfy their physical need first. As long as the needs are unsatisfied, they dominate behavior. As they become reasonably satisfied, they loose their motivational power and the next level i.e., security needs becomes the dominant motivational force. This process continues up the need hierarchy.

Hertzberg's Two Factors Theory

Fredrick Hertzberg and his associates have proposed a two factors theory of motivation. In one group of needs are such things as company policy and administration, supervision, working conditions, interpersonal relations, salary, job security and personal life. These are called as dis-satisfiers and not motivators. If they exist in a work environment, they yield no dissatisfaction. Their existence does not motivate but their absence result dis-satisfaction. Hertzberg called these factors as **hygiene or maintenance factors**. The second group he listed certain satisfiers and therefore **motivators**, which are related to job content. They include achievement, recognition, challenging work, advancement and growth in the job.

The first group of factors (the dissatisfiers) will not motivate in the organization, yet they must be present otherwise dissatisfaction will arise. The second group or the job content factors are real motivators because they have the potential of yielding a sense of satisfaction. It means managers must give considerable attention to upgrading job content.

Table 4.1: Hygiene factors and motivators

Hygiene factors	Motivators
Status	Challenging work
Interpersonal relations	Achievement
Quality of supervision	Responsibility
Company policy and administration	Growth in the job.
Working conditions	Advancement
Job security	Recognition
Salary	

Vroom's Expectancy Theory

According to Victor H. Vroom, people's motivation towards doing anything will be determined by the value they place on the outcome of their effort multiplied by the confidence they have that their efforts will materially aid in achieving a goal. Motivation is a product of anticipated worth that an individual places on a goal and the chances he or she sees of achieving that goal. Using his own terms Vroom's theory may be stated as

$$\text{Force} = \text{Valence} \times \text{Expectancy}$$

Where force is the strength of a person's motivation, valance is the strength of an individual performance for an outcome and expectancy is the probability that a particular action will lead to a desired outcome. When a person is indifferent about achieving a certain goal, valance is zero. Valance is negative when the person do not achieve goal. In either case there is no motivation. Similarly, there is no motivation to achieve a goal if expectancy is zero or negative. The force exerted to do something depends on both valance and expectancy. A motive to accomplish some action is determined by the desire to accomplish something else. For example, a person may be willing to work hard to get out a product for a valance in the form of pay valance.

Adam's Equity Theory

This theory points out that people are motivated to maintain fair relationship between their performance and reward in comparison to others. For the comparison of his performance and reward with others people use equity. Equity refers to individual's subjective judgements about the fairness of the reward he or she gets. In this theory equity is defined of as a ratio between the individuals job inputs (such as effort, skill, experience, education and skill) compared to the rewards others are receiving for similar job inputs.

$$\frac{\text{Person's Reward}}{\text{Person Input}} = \frac{\text{Others Reward}}{\text{Others Input}}$$

If people feel that many are inequitably rewarded, they may be dissatisfied, reduce the quantity and quality of work or leave the organization. They also can ask for a greater reward. If people perceive the reward as equitable, they probably will continue at the same level of output. If people think the rewards are greater than what is considered equitable, they may work harder. These three situations are illustrated in fig 4.3.

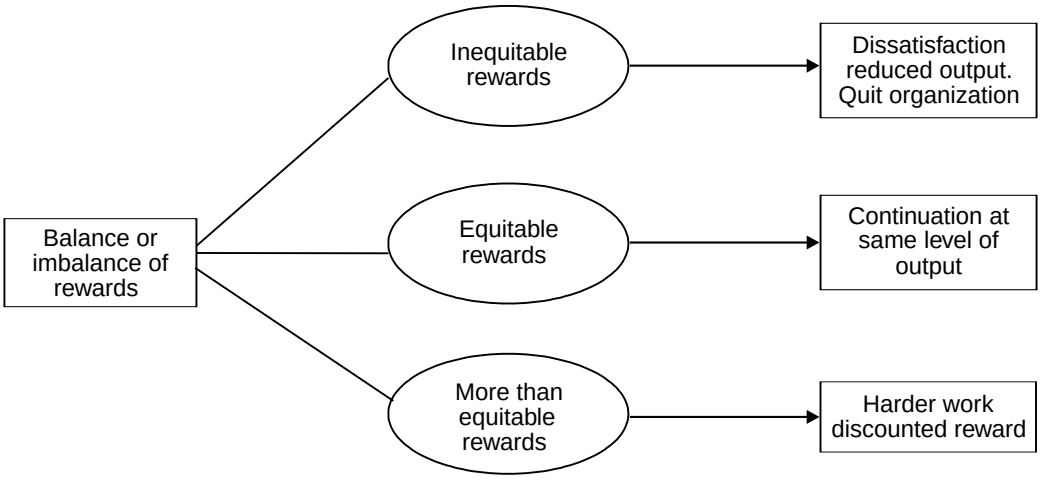

Fig. 4.3: Equity theory

In practice many overestimate their own contributions and the rewards other receive. Certain inequalities may be tolerated for some time by employees. But prolonged feelings of inequity may result in strong reactions.

McClelland's Need Theory

According to McClelland, the three important needs are; the need for achievement, the need for affiliation and the need for power. The need for affiliation reflects a desire to interact socially with people. A person with high need for affiliation is concerned about the quality of an important personal relationship. A person, who has a high need for power, concentrates on obtaining and exercising power and authority. The person is concerned with influencing other and winning arguments. A person with need for achievement is concerned with setting moderately difficult but potentially achievable goals. He does most of the things himself rather than getting them done by others.

If the needs of the employees can be accurately measured, organizations can improve the selection and placement process. For example, an employee with high need for affiliation could be placed in a position that would enable the person to achieve. Thus, it is important to identify the behaviours required to perform a set of tasks effectively, and then to determine what individual characteristics are most associated with these behaviours.

Carrot and Stick Approach

Carrot and Stick approach of motivation comes from the old story that the best way to make a donkey move is to put a carrot out in front of him or job him with a stick from behind. The carrot is the reward for moving and the stick is the punishment for not moving. The carrot and stick approach of motivation takes the same view. In motivating people for behaviour that is desirable, some carrots, rewards are used such as money, promotion and other financial and non-financial factors; some sticks, punishments are used to push the people for desired behaviour.

Though in various theories of motivation, the terms carrot and sticks are avoided, these still form the basis of motivation if administered properly. The role of carrots has been adequately explained in various theories of motivation when these analyze what people want to get from their performance that is the positive aspect of behavior and its rewards. Such rewards may be financial or non-financial. The stick also pushes people to engage in positive behaviour or overcoming negative behaviour. The mixture of both carrot and stick should be used judiciously so that both have positive affects on the motivational profile of the people in the organization.

Skinner's Reinforcement Theory

Psychologist B.F. Skinner has developed another approach for motivation called as positive reinforcement or behaviour modification theory. According to his theory individuals can be motivated by proper design of their work environment and praise for their performance and that punishment for poor performance produces negative

results. They analyze work situations to determine what causes workers to act the way they do and then they initiate changes to eliminate troublesome areas and obstructions to performance. Specific goals are then set with workers participation and assistance, prompt and regular feedback is made available, and performance improvements are rewarded with recognition and praise. Even when performance does not equal goals, way are found to help people and praise them for good things they do. It has also been found highly useful and motivating to give people full information on a company's problems, especially those in which they are involved.

This theory emphasizes removal of obstructions to performance, careful planning and organizing, control through feedback, and the expansion of communication.

Learning activity 4.3: If you are managing a department or section of a company, among carrot and stick, which one you prefer to use and under what circumstances.

4.5 COMMUNICATION

The process of communication is as old as man himself. It is hard to name human activity in which communication does not play an important role. This is truer in formal reorganizations in which people assemble to achieve their common objectives through their coordinated efforts. Individuals placed in various departments may perform different activities but they are functionally interrelated. The working and maintenance of these relationships is possible only through communication. In addition, communication establishes connections of the organization with external community.

Communication means the process of passing information and understanding from one person to another. It is defined as "**the process of exchange of information, ideas and opinions which bring about integration of interests aims and efforts among the members of a group organized for achievement of predetermined goals**.

Communication Process

Communication process involves the sender, the transmission of a message through a selected channel and the receiver as show in fig. 4.4.

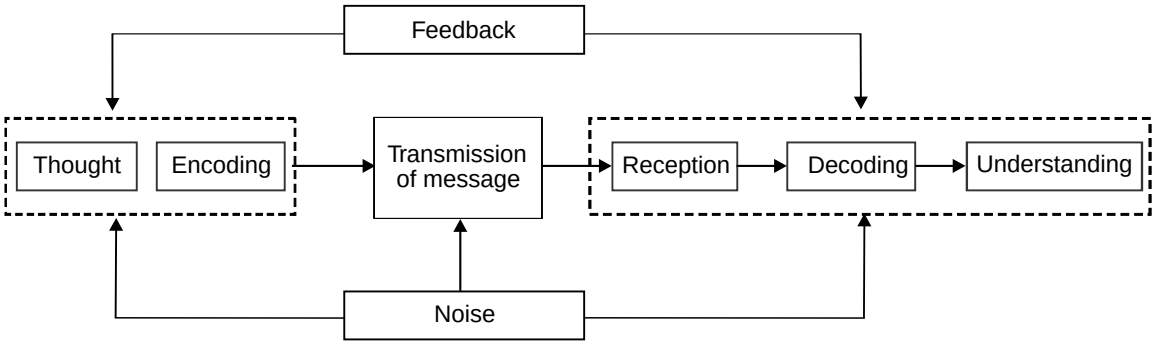

Figure 4.4: A communication process model

The sender of the message: Communication begins with a sender, who has a thought or idea which is then encoded in a way that can be understood by both the sender and the receiver. It is usual to think of encoding a message into the English language but there are many other ways of encoding such as translating thought into computer language.

Use of channel to transmit the message: The information is transmitted over a channel that links the sender and receiver. The message may be oral or written and it may be transmitted through a memorandum, a computer, telephone, telegram or television. Television of course also facilitates the transmission of gestures and visual clues. At times, two or more channels are used. In a telephone conversation, for instance, two persons may reach a basic agreement that they later confirm by a letter. Since many choices are available, each with advantages and disadvantages, the proper selection of the channel is vital for effective communication.

The receiver of the message: The receiver has to be ready for the message so that it can be decoded into thought. The next step in the process is decoding in which the receiver converts the message into thought. Accurate communication can occur only when both the sender and the receiver attach the same or at least similar meanings to the symbols that compose the message. Thus, it is obvious that a message encoded into French required the receiver who understands French. Similarly, a message in technical or professional jargon requires a recipient who understands such language. So communication is not complete unless it is understood. Understanding is in both the sender and the receiver.

4.6 NOISE AND FEEDBACK IN COMMUNICATION

Unfortunately, communication is affected by 'noise' which is any thing-whether in the sender, the transmission or the receiver that hinders communication. For example, encoding may be faulty because of ambiguous symbols, inaccurate retention because of inattention of the receiver, decoding may be faulty because of wrong meaning attached to the words and symbols by the receiver or transmission may be interrupted which may be experienced in a poor telephone connection.

To check the effectiveness of communication, a person must have feedback. One never is sure whether or not a message has been effectively encoded, transmitted and decoded or understood until it is confirmed by feedback. Similarly, feedback indicates whether individual or organizational change has taken place as a result of communi- cation.

4.7 IMPORTANCE OF COMMUNICATION

The purpose of communication is to effect change, to influence action towards the welfare of the enterprise. Communication is essential because, it integrates the managerial function. Fig 4.5 graphically shows not only communication facilities the managerial functions but also that communication relates an enterprise to its external

environment. It is through information exchange that manager become aware of the needs of the customer, the availability of suppliers, the claims of stakeholders etc. The communication is important because of the following:

(1) Every aspect of manager's job may it be planning, organizing, staffing, directing and controlling involves communication. Researches have shown that about 75 per cent of the manager's time is spent in communication.

(2) Nothing contributes so much to managerial effectiveness as effective communication. Managers do not deal with 'things' but with 'information about things'.

(3) However, the decision at the top are, they will serve no purpose unless the manager successfully communicate the implications of these decisions to the subordinates who are to implement them.

(4) Communication is the essence of organized activity. It is the basis of direction and leadership. The managers have to communicates to give instructions, orders, to assign jobs and to fix responsibility.

(5) Communication renders the complexity of business intelligible and workable.

(6) The better the communication, the more efficient the work performance. Good communication not only obtains manager's effectiveness but organizational effectiveness too.

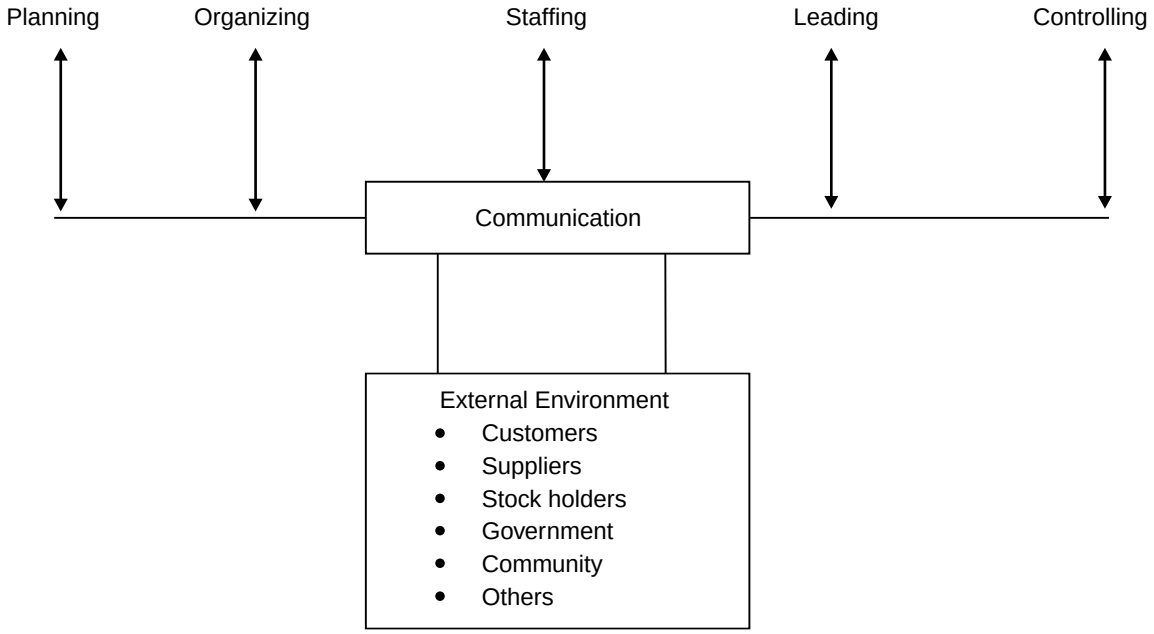

Fig. 4.5: The purpose of communication

4.8 CHANNELS OF COMMUNICATION

A channel of communication is a path through which information flows throughout the organization. The numerous channels used in the organization constitute its

'communication network'. The channels of communications are divided into formal and informal channels. Accordingly, a communication may be formal or informal communication.

The paths of communication which are deliberately created and officially recognized connecting various positions in the organization hierarchy are called as formal channels. In formal communication information flows in formally established channels and is concerned with work related matters. All orders, instructions etc., are communicated to the subordinates through this channel.

The path of communication which is not officially created is known as informal channel. People who know each other talk together informally about the happenings in the organization. People want to know what is going on in the organization. When they are not kept informed through formal channels, they seek information through informal channel (grapevine). The grapevine carries the type of personal information not generally communicated through formal channels. Grapevine operates like a cluster chain.

4.9 TYPES OF COMMUNICATION

Based on the direction of flow of information communications are classified as upward, downward and horizontal communication.

***Downward communication*:** Downward communication flows from people at higher level to those at the lower levels in the organizational hierarchy. The purpose of downward communication is to communicate policies, procedures, programs and objectives and to issue orders and instructions to subordinates.

***Upward communication*:** Upward communication travels from subordinates to superiors. Upward communication is generally nondirective. Typical means of upward communications are suggestion systems, appeal and grievance procedures, complaint systems etc.

***Horizontal communication*:** It refers to transmission of information among positions of the same level. Horizontal communication helps to coordinate the activities of different departments. The production foreman and the maintenance foreman communicate directly without going through their managers. In this way horizontal communication avoids the much slower procedure of directing communication through a common superior.

4.10 FORMS OF COMMUNICATION

Broadly speaking there are three forms of communications: Oral, written and non-verbal.

***Oral communication**:* In oral or verbal communication, information is given directly, either face to face or through a telephone or intercom system. Generally in meeting,

lecturers, interviews, conferences etc., the communication is oral. The oral communication saves time and money, involves personal touch, doubt can be clarified immediately. The demerits of oral communications are there is no permanent record of communication and is not suitable for lengthy communication.

Written communication: Written communication is always in black and white and may be in the form of a report, statement, circular, manual, handbook, letter or memo. The merits of written communication are

(a) It is a permanent record.

(b) It is suitable for lengthy communication.

(c) If the parties are far away beyond telephonic range, written communication is the only way.

The demerits of written communications are it is not flexible and secrecy cannot be maintained and time consuming.

Non-verbal communication: Non-verbal communication is expressed through the body – the facial expression, posture, gestures etc.

Learning activity 4.4: Prepare organization chart of your institute and indicate on it the horizontal, upward and downward communication.

4.11 COORDINATION

The basic function of coordination in an enterprise is the same as that of an orchestra conductor who directs the activities of the orchestra party in such a manner that it produces harmony in music. Likewise the coordinator of an enterprise also directs the activities of the group in such a manner that it brings harmonious and unified actions to achieve common purpose. Like the orchestra conductor, a manager also performs the function of securing and maintaining unity of direction throughout the organization. The management of a modern enterprise is based on the principles of division of labour and specialization. Jobs are broken down into single repetitive tasks and are entrusted to individuals either working in the same department or in different department of the enterprise. Mere application of specialization is not enough. With the jobs specialized and jobs divided among units, coordination becomes necessary. Coordination is the management of interdependence in work situations. It is an orderly synchronization of the interdependent efforts of individuals. According to Terry, "**Coordination deals with the task of blending efforts in order to ensure successful attainment of an objective. It is accomplished by means of planning, organizing directing and controlling**". Terry considers coordination as a permeating function of management passing through the managerial functions of planning, organizing, directing and controlling. In the words of Mooney and Raley, "Coordination is the orderly

arrangement of group efforts to provide unity of action in pursuit of a common purpose". Some experts consider coordination as a separate management function. However, coordination might best be considered not as a separate function, but as an essential part of all managerial functions of planning, organizing, directing and controlling. If a manager performs these functions efficiently and expertly, coordination is generated automatically and there remains no need for special coordination as such.

4.12 COORDINATION AND COOPERATION

The terms 'coordination' and 'cooperation' cannot be used interchangeably because they have got different meanings. Coordination is an orderly arrangement of group efforts to provide unity of action in the pursuit of common objectives. It is a process of deliberately bringing together the efforts of various components of an enterprise in order to give them unity of purpose. Cooperation denotes the collective efforts by the persons working in the enterprise voluntarily for accomplishing a particular purpose. It is the willingness of the individuals to help each other. Thus, it is obvious that the concept of coordination is broader in scope than that of cooperation. The differences between cooperation and coordination are given in table 4.2.

Table 4.2: Distinction between coordination and cooperation

Basis	Coordination	Cooperation
1. Definition	It is a deliberate effort by a manager	It is voluntary attitude of organization members
2. Purpose	It is an orderly arrangement of group efforts to provide unity of action in the pursuit of common objectives.	It denotes collective efforts of the group contributed voluntarily to accomplish a particular objective.
3. Relations	It is achieved through both formal and informal relations.	Cooperation arises out of informal relations.
4. Result	Coordination seeks whole hearted support of employees and departments	Cooperation without coordination is fruitless.

4.13 IMPORTANCE OF COORDINATION

An organization is a consciously coordinated system of cooperative human endeavor focused towards achievement of certain goals. The need of cooperation arises because 'what one can do, two can, what one can do, two can do better'. The need for coordination arises due to differential perceptions, orientation, interests and attitudes of individual members of the organization. In the absence of coordination, members are likely to pull in different directions; there may also be destructive conflict of interests

and goals. Coordination is intended to channelize cooperative efforts and behaviour of people along organizationally determined lines and to contain the possibilities of conflict within tolerable limits.

An organization represents a pooling of diverse resources and facilities, adopted of diverse skills, techniques, processes and practices determination and achievement of diverse goals and initiation of diverse activities. Diversity demands unity. To manage diversity means to bring about unity or unification. Otherwise diversity is likely to lead to disintegration. The managerial function of coordinator, strives for desired degree of unity, without destroying diversity.

Apart from differentiation of activities and authority, organization goals are differentiated into sub goals among various units and levels of organization. Organizational goals are also operationalised into strategies, policies, plans and programmes. There is a means-end chain in the organization. At every level goals are operationalised into means of achieving them. Means of higher level units become the goals of next lower unit. There is need for consistency and compatibility among the various elements in the means-ends chain. Sub-goals are to contribute to the overall goals. Means are to match ends. Short term goals are to mesh in with long-term goals. The coordination is important to achieve correlation between means and ends.

4.14 TECHNIQUES OF COORDINATION

Managers can use a number of techniques to enlist coordination. Some of the techniques of coordination are discussed below:

1. Clearly Defined Objectives

Each and every organization has its own objectives. These objectives would be clearly defined. Then the employees of all the organization should understand the objectives of the organization well. Unity of purpose is a must for achieving proper coordination.

2. Effective Chain of Command

There is a line of authority in every enterprise which indicates as to who is accountable to whom. The line of authority and responsibility should be clearly defined to achieve coordination. Clear cut authority relationship help in reducing conflicts among different positions, particularly line and staff which is essential for sound coordination.

3. Precise and Comprehensive Programmes and Policies

Laying down well defined programmes and policies is another measure for achieving effective coordination. This brings uniformity of actions because everybody understands the programmes and policies in the same sense.

4. Planning

Planning ensures coordinated efforts. Under planning, target of each department dovetail with the targets of all other departments. For example fixing the target of 50,000 units

of additional production and sale for production and sales department respectively, the head of the organization can be fairly sure that the work of the two departments would be coordinated since their targets so demand.

5. Cooperation

Cooperation is the result of better relations among employees of the organization. Cooperation can be brought about by keeping harmonious relations among the people in the organization by encouraging informal contacts to supplement formal communication and using committees for exchange of ideas and views at the top level.

6. Liaison of Officers/Departments

A person who acts as a link between two persons is called a liaison officer. The external coordination is obtained through him. Many large organizations depend on this officer to maintain cordial relations with government and outsiders. In some cases, where there is a large volume of contact between two departments, a liaison department evolves to handle the transactions. This typically occurs between sales and production departments. For example, a packaging company that is processing a large order of containers might have a liaison department to make sure that the production department is meeting the clients specifications and that the delivery will take place on time.

7. Induction

Inducting the new employee into the new social setting of his work is also a coordinating mechanism. This device familiarizes the new employee with the organization's rules and regulations, its dominant norms of behavior, values and beliefs and integrates his personnel goals with the organizational goals.

8. Incentives

Incentives may be in the form of increments in the scale of pay, bonus, profit sharing etc. These schemes of incentives promote better team spirit which subsequently ensures better coordination. In particular, profit sharing promotes team spirit and better cooperation between superiors and subordinates, between employees and employers. Mutuality of interest reduces stride and ensures better coordination.

9. Workflow

A workflow is the sequence of steps by which the organization acquires inputs and transforms them into outputs and exports these to the environment. It is largely shaped by technological, economic and social considerations and helps in coordination.

4.15 MANAGERIAL CONTROL

'Control' is an important concept and process in management. In the past managers believed that the necessity of control arose only when something went wrong. Then,

the object of control was to find out the person responsible for these events and take actions against him. This is only negative view of control. In modern management, the primary object of control is to bring to light the mistakes or variations as soon as they appear between performance and standard laid down and then to take steps to prevent such variations in future. The control is aimed at results and not people as such. It's purpose is to assure that intended results occur and not that particular workers are reprimanded. Only a continuous control (and not occasional and emergency control) can achieve the objective.

According to E F L Brech, "**Control is checking current performance against predetermined standards contained in the plans, with the view to ensuring adequate progress and satisfactory performance**". In the words of George R. Terry, "**Controlling is determining what is being accomplished, that is, evaluating the performance and if necessary applying corrective measures so that the performance takes place according to plans**". To draw an analogy, it is like a thermostat in an air conditioning system which ensures that predetermined temperature is maintained.

The concept of control is often confused with lack of freedom. The opposite of control is not freedom but chaos or anarchy. Control is fully consistent with freedom. In fact they are interdependent. Without control freedom cannot be sustained for long. Without freedom control becomes ineffective. Both autonomy (freedom) and accountability are embedded in the concept of control.

4.16 STEPS IN A CONTROL PROCESS

There are three basic steps in a control process namely establishment of standards, measurement of performance and comparing the performance with the standards and taking corrective action.

1. ***Establishment of standards*****:** The first step in control process is the setting up of standards of performance. A standard acts as a reference line or a basis of actual performance. Standards should be set precisely and in quantitative terms. Standards expressed in vague or general terms such as "Costs should be reduced" or "rejections should be reduced" are not specific as "cost should be reduced by 10 percent" or "rejections should be reduced to 0.5 percent". Standards are used as the criteria or benchmarks by which performance is measured in the control process. Since standards cannot be set for entire operations, each organization must first develop its own list of key result areas for the purpose of control. Different standards of performance are set up for various operations at the planning stage. As a matter of fact, planning is the basis of control.

Standards are to be flexible in order to adopt changing conditions. For example, a new salesman who seems to be an above average performer should have his sales standard adjusted accordingly. Every objective, goal, policy, procedure and budget

becomes a standard against which actual performance might be measured. However, in practice different types of standards used are:

(1) Physical standards such as units of production per hour.

(2) Cost standards, such as direct and indirect cost per unit.

(3) Revenue standards such as sales per customer.

(4) Capital standards such as rate of return of capital invested.

(5) Intangible standards such as competency of managers and employees.

2. *Measuring and comparing actual performance with standards*: The second step in the control process is measuring the actual performance of individuals, group or units and comparing it with the standards. The quantitative measurement should be done in cases where standards have been set in numerical terms. This will make evaluation easy and simple. In all other cases, the performance should be measured in terms of qualitative factors as in the case of performance of industrial relations manager. His performance should be measured in terms of attitude of workers, frequency of strikes and morale of workers. In general, measurement of performance can be done by personal observation as in the case of the subordinates being observed while they are engaged in work or by a study of various summaries of figures, reports, charts and statements.

Once the performance is measured, it should be compared with the standards to detect deviations. Some deviations are desirable such as the output above the standard. But some other variations are undesirable such as a variation in the delivery schedule agreed upon with the customer. The measurement and comparison are to be made at various stages in the total process and not at the end.

3. *Taking corrective action*: The final step in the control process is taking corrective action so that deviations may not occur again and the objectives of the organization are achieved. This will involve taking certain decisions by the management like re-planning or redrawing of goals or standards, reassignment or classification of duties. It may also necessitate reforming the process of selection and training of workers. This control function may require change in all other managerial functions. If the standards are found to be defective, they will be set up again in the light of observations. Joseph Massie has pointed out that a manager may commit two types of mistakes at this stage. The first is, he may take action when no action is needed. The second is he may fail to take action when some corrective action is needed. A good control system should provide some basis for helping the manager estimate the risks of making either of these types of errors. Of course, the final test of a control system is whether correct action is taken at the correct time.

4.17 ESSENTIALS OF A SOUND CONTROL SYSTEM

The essentials of a sound control system are as follows:

(1) ***Suitable*:** The control system should be appropriate to the nature and needs of the activity. For example, a machine based method of production requires control system which is different from the system that is used in labour intensive methods of production. Thus every enterprise should develop such a control system it would serve its purpose.

(2) ***Timely and forward looking*:** The control system should be directed towards future. It should report all the deviations from the standards quickly in order to safeguard the future. The feedback system should be as short and as quick as possible. If the control reports are not directed at future, they are of no use as they will not be able to suggest the types of measures to be taken to rectify the past deviations.

(3) ***Objective and comprehensible*:** The control system should be both objective and understandable. Objective controls specify the expected results in clear and definite terms and leave little room for the argument by the employees. They provide employees with direct access to any additional information which they may need to perform their task. Employees are not made to go up and down the hierarchy to get the information.

(4) ***Flexible*:** Control system should be flexible so that it can be adjusted to suit the needs of any change in the environment. It should be adoptable to new developments including the failure of the control system itself.

(5) ***Economical*:** Another requirement of a good control system is economy. The benefits derived from the control system should be more than the cost involved in implementing it.

(6) ***Control by exceptions*:** This is also known as "management by exception" according to this principle, only significant deviations from standards, whether positive or negative requirement management as they constitute exceptions. An attempt to go through all deviations tends to increase unnecessary work and decrease attention on important problems.

(7) ***Prescriptive and operational*:** A control system in order to be effective and adequate, must not only detect deviations, but should also provide solutions to the problems that cause deviations. In other words, the system should be prescriptive and operational. It must disclose where failures are occurring, who is responsible for them and what should be done about them. It must focus more on action than on information.

(8) ***Acceptable to organization members*:** The system should be acceptable to organization members. When standards are set unilaterally by upper level managers, there is a danger that employees will regard those standards of unreasonable or unrealistic. They may then refuse to meet them.

(9) ***Motivation*:** A good control system should be employee centered. The control system is designed to secure positive reactions from employees. If large

deviations are found, the employees will be properly directed and guided instead of being punished. The very purpose of a control is prevention and not punishing.

4.18 CONTROL METHODS

Control methods are broadly classified into two types namely past-oriented controls and future oriented controls.

***Past-oriented controls*:** Past-oriented control measure results after the process. These are also known as post action controls. They examine what has happened in the past for a particular period. Examples of past-oriented controls are accounting records, school grade reports etc. These controls are used to plan future behaviour in the light of post errors or successes. They can also be used for rewarding, disciplining, training or promoting individuals.

***Future-oriented controls*:** These are also known as feed-forward controls or steering controls. These controls are designed to measure results during the process, so that action can be taken before the job is done or the period is over. Feed-forward control serve as warning-posts principally to direct attention rather than to evaluate examples of such controls are cash flow and funds flow analysis, network planning etc which help managers to see that they will have problems in such areas of cash or on time delivery unless they take prior action.

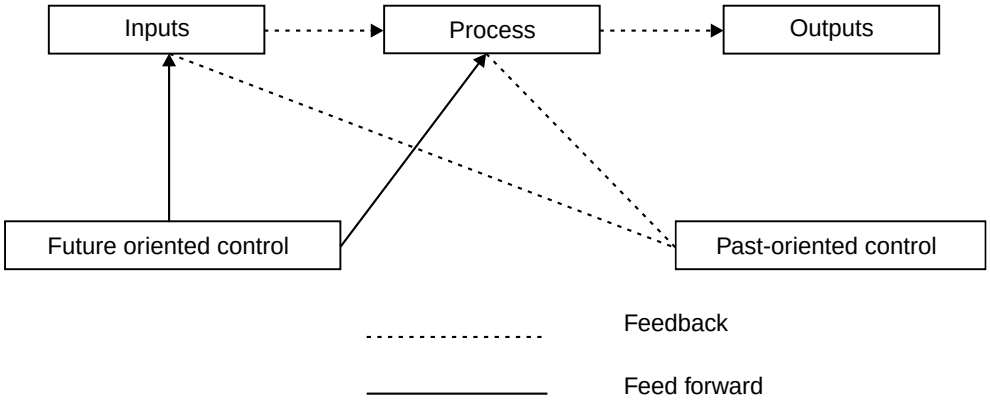

Fig. 4.6: Comparison of past-oriented and future-oriented controls

These two types of controls are not alternatives to each other. Organizations use both these types. Future-oriented controls are important because the information feed-back in them is at the input side of the system, so that correction can be made before the system output is affected as shown in figure 4.6 even with the use of past-oriented controls, a manager would still want to measure final system output since nothing can be expected to work perfectly enough to give the confidence that the final output will always be exactly as is desired.

CHAPTER SUMMARY

According to Koontz, direction is a complex function that includes all those activities which are designed to encourage subordinates to work effectively and efficiently in both short and long term. The function of direction involves two major activities namely giving orders to employees, leading and motivates them. Leadership is generally defined as influence, the art of process of influencing people so that they will strive willingly towards achievement of group goals. A leader is one who guides and directs other people. A leader is a guide, planner, arbitrator and administrator. On the basis of authority, leadership styles are divided into three categories namely autocratic, democratic and free-rein. Motivating is inspiring the subordinates to contribute with zeal and enthusiasm towards organizational goals. What can motivate people is explained by a number of motivational theories. The important among them are Maslow's need hierarchy theory, Hertberg's two factors theory, Adam's equity theory, Mc Cleland's need theory, Skinner's reinforcement theory and so on.

Communication is the process of exchange of information, ideas and opinions which bring about integration of interests, aims and efforts among members of a group organized for achievement of predetermined goals. Communication process involves the sender, the transmission of a message through a selected channel and the receiver. The communication may be formal or informal. Based on the direction of flow of information, communication may be classified as upward, downward and horizontal. Different forms of communication are oral, written and non-verbal.

Coordination deals with the task of blending efforts in order to ensure successful attainment of an objective. Control is checking current performance against predetermined standards contained in the plans with view to ensuring adequate progress and satisfactory performance. Control involves three steps namely establishing standards, measuring and comparing actual performance with standards and taking corrective action.

QUESTIONS

(1) Explain in brief the meaning and nature of direction.

(2) What do you mean by leadership? Explain various styles of leadership.

(3) What do you understand by motivation? Why people are to be motivated?

(4) Explain in brief the following motivation theories.

- (a) Maslow's need hierarchy theory.
- (b) Hertzberg's two factors theory.
- (c) Adam's equity theory.
- (d) Mc Cleland needs theory.
- (e) Skinner's reinforcement theory.

(5) With block diagram explain the communication process.
(6) Explain the importance of feedback in communication.
(7) 'Without communication organization cannot function". Justify the statement.
(8) Explain in brief formal and informal communication.
(9) Write a note on the followings
    (a) Types of communication.
    (b) Forms of communication.
(10) Define coordination. Distinguish it from cooperation.
(11) Write a note on the followings
    (a) Importance of coordination.
    (b) Techniques of coordination.
(12) Explain the steps involved in managerial control.
(13) Explain the techniques of control.
(14) Explain in brief the essentials of good control system.

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CHAPTER 5

ENTREPRENEURSHIP

Learning Objectives:

- To introduce the concept of entrepreneur and entrepreneurship.
- Discuss characteristics and functions of entrepreneur.
- Present the classifications of entrepreneurs.
- Introduce the concepts of intrapreneur, ultrapreneur and technical entrepreneur.
- Trace the evolution of entrepreneurship.
- Present the role of entrepreneurship in economic development.
- Discuss the stages in entrepreneurial growth.
- Present the barriers to entrepreneurship.

5.1 EVOLUTION OF CONCEPT OF ENTREPRENEUR

The word 'entrepreneur' is derived from French word 'Entreprendre' which was used to designate an organizer of musical or other entertainments. Later in 16th century it was used for army leaders. It was extended to cover civil engineering activities such as construction in 17th century. But it was Richard Cantillon, an Irishman living in France who first used the term entrepreneur to refer to economic activities. According to Cantillon "An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices". Entrepreneur, according to Cantillon, an entrepreneur is a bearer of risk, which is non-insurable. SchumPeter gave a central position to the entrepreneur who believed that an entrepreneur was a dynamic agent of change; that an entrepreneur was a catalyst who transformed increasingly physical, natural and human resources into correspondingly production possibilities. Since then the term entrepreneur is used in various ways and various views.

5.2 CONCEPT OF ENTREPRENEUR

As said above entrepreneur is used in various ways and various views. These views are broadly classified into three groups, namely risk bearer, organizer and innovator.

***Entrepreneur as risk bearer*:** Richard Cantilon defined entrepreneur as an agent who buys factors as production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. He illustrated a former who pays contractual incomes, which are certain to land owners and laborers, and sells at prices that are 'uncertain'. He includes merchants also who make certain payments in expectation of uncertain receipts. Hence both of them are risk-bearing agents of production.

P.H. Knight described entrepreneur to be a specialized group of persons who bear uncertainty. Uncertainty is defined as risk, which cannot be insured against and is incalculable. He made distinction between certainty and risk. A risk can be reduced through the insurance principle, where the distribution of outcome in a group of instance is known, whereas uncertainty cannot be calculated.

***Entrepreneur as an organizer*:** According to J Baptist Say "an entrepreneur is one who combines the land of one, the labor of another and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to laborers and what remains is his/her profit". Say made distinction between the role of capitalist as a financer and the entrepreneur as an organizer. This concept of entrepreneur is associated with the functions of co-ordination, organisation and supervision.

***Entrepreneur as an innovator*:** Joseph A SchumPeter in 1934 assigned a crucial role of 'innovation' to the entrepreneur. He considered economic development as a dynamic change brought by entrepreneur by instituting new combinations of factors of production, i.e. innovations. The introduction of new combination according to him, may occur in any of the following forms.

(a) Introduction of new product in the market.

(b) Use of new method of production, which is not yet tested.

(c) Opening of new market.

(d) Discovery of new source of raw materials.

(e) Bringing out of new form of organisation.

SchumPeter also made distinction between inventor and innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discovers in order to make new combinations.

Hence the concept of entrepreneur is associated with three elements risk-bearing, organizing and innovating. Hence **an entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise**.

Some more important definitions of entrepreneur

1. ***According to F.A.Walker*:** "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".

2. ***Marx*** regarded entrepreneur as social parasite.

3. ***According to Gilbraith*****:** "An entrepreneur must accept the challenge and should be willing hard to achieve something".

4. ***Peter F. Drucker*** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

5. ***According to E.E.Hagen*****:** "An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems".

6. ***According to Mark Casson*****:** "An entrepreneur is a person who specializes in taking judgmental decision about the coordination of scarce resources".

7. ***Frank Young*** defined entrepreneur as a change agent.

8. ***According to Max Weber*****:** "Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs".

9. ***International Labour Organization (ILO)*** defines entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success.

10. ***Akhouri*** describes entrepreneur as a character who combines innovativeness, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concern for excellence, and who is persistent in achieving the goal.

5.3 CHARACTERISTICS OF ENTREPRENEUR

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneur activities. Table 5.1 gives core competencies.

Table 5.1: Personal entrepreneurial characteristics

	Core competencies	Entrepreneurial activities
1.	Initiative	Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.
2.	Perceiving opportunities	Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
3.	Persistence	Takes repeated or different actions to overcome obstacles.
4.	Information gathering	Consults experts for business and technical advice. Seeks information of client or supplier's needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.

Contd...

5.	Concern for quality work	States desire to produce or sell a better quality product or service. Compares his performance favorably with that of others.
6.	Commitment to contractual obligations	Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in with workers or work in their place to get the job done and shows utmost concern to satisfy the customer.
7.	Efficiency orientation	Finds ways and means to do things faster, better and economically.
8.	Planning	Various inter-related jobs are synchronized according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	Experience	Possesses technical expertise in areas of business, finance, marketing, etc.
12.	Self-critical	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.
13.	Persuasion	Persuades customers and financiers to patronize his business.
14.	Use of influence strategies.	Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.
15.	Assertiveness	Instructs, reprimands or disciplines for failing to perform.
16.	Monitoring	Develops a reporting system to ensure that work is completed and quality norms.
17.	Credibility	Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
18.	Concern for employee welfare	Expresses concern for employees by responding promptly to their grievances.
19.	Impersonal relationship	Places long-term goodwill over short-term gain in a business relationship.
20.	Expansion of capital base	Reinvests a greater portion of profits to expand capital of the firm.
21.	Building product image	Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

5.4 DISTINCTION BETWEEN ENTREPRENEUR AND MANAGER

Often the two terms namely entrepreneur and manager are considered as synonym. However the two give different meaning. The major points of distinction between the two are presented in table 5.2.

Table 5.2: Distinction between entrepreneur and manager

Points	Entrepreneur	Manager
1. Motive	The main motive of an entrepreneur is to start a venture for his personal gratification.	Main motive of a manager is to render services in an enterprise already set by someone else.
2. Status	Owner	Servant
3. Risk	Assumes risk and uncertainty	Manager does not bear any risk involved in enterprise.
4. Rewards	Profits, which are highly uncertain and not fixed.	Salary which is certain and fixed.
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing needs of the customers. Hence he acts as innovator / change agent.	A manager simply executes plans prepared by the entrepreneur.
6. Qualification	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk-bearing ability etc.	A manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

5.5 TECHNICAL ENTREPRENEUR

There are large number of technical institutions at the degree and diploma level producing large number of technical personnel. The standard of our technical education is comparable with international standards. India has the third largest pool of technical and scientific personnel in the world. However, we are not able to utilize its full potential and on the other hand there is surplus technical manpower that are unemployed. This large pool of technical manpower can be best utilized for developing small-scale industries in the hi-tech areas using improved technologies and scientific methods of production. They can be trained to use latest management techniques to manage the projects they set up.

A technically qualified and experienced person can make a more competent entrepreneur as he acquires special knowledge of science, engineering materials and machines, production planning and control, manufacturing technologies and management techniques for successful launching and smooth running of an industrial unit. Also through training, he develops an aptitude for objective considerations and evaluation of issues involved in the process of an enterprise.

A technical entrepreneur develops characteristics of quality consciousness, adoption of modern technology and management technique and realization of the importance of research and innovation for productivity improvement, the absence of which can lead to industrial sickness.

In this regard many technical universities made it mandatory for technical institute to have Entrepreneurship Development Cell (EDC). Moreover a core subject on 'Entrepreneurship Development' is introduced for all disciplines of engineering and technology.

5.6 CHARMS OF BEING AN ENTREPRENEUR

The most exiting part of Entrepreneurship is that you are your own master. When you are an employee, you work for others according to their plans, whims and finances. In an Entrepreneurship, it is you who set the goal, plan the action and reap the satisfaction and rewards of having achieved the goal.

Why should you become an Entrepreneur?

- You will be your own boss and boss to other people and make decisions that are crucial to the business success or failure.
- You will make money for yourself rather than for someone else.
- You may participate in every aspect of running a business and learn and gain experience in a variety of disciplines.
- You will have the chance to work directly with your customers.
- You will have the personal satisfaction of creating and running a successful business.
- You will be able to work in a field of area that you really enjoy.
- You will have the chance to build retirement value.

Rewards for an Entrepreneur

1. Freedom to work.
2. Satisfaction of being own boss.
3. Power to do things as he likes.
4. Rewards of ownership and retirement assurance.
5. Respect of family and friends.

Penalties for an Entrepreneur

1. Constraints of financiers, laborers, customers, suppliers, and debtors curtail his freedom.
2. Frustration due to availability of limited capital and other resources.
3. Social and family life is affected due to hard long hours of working.
4. Frustration due to non-achievement of full objectives.
5. Risk of failure.

5.7 FUNCTIONS OF AN ENTREPRENEUR

An Entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur.

1. ***Idea generation*:** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.
2. ***Determination of business objectives*:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The Entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.
3. ***Rising of funds*:** All the activities of the business depend upon the finance and hence fund rising is an important function of an Entrepreneur. An Entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.
4. ***Procurement of machines and materials*:** Another important function of an Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.
5. ***Market research*:** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.
6. ***Determining form of enterprise*:** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship, partnership, Joint Stock

Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

7. ***Recruitment of manpower*:** To carry out this function an Entrepreneur has to perform the following activities.
   (a) Estimating man power requirement for short term and long term.
   (b) Laying down the selection procedure.
   (c) Designing scheme of compensation.
   (d) Laying down the service rules.
   (e) Designing mechanism for training and development.
8. ***Implementation of the project*:** Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur.

All the above functions of the Entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

5.8 TYPES OF ENTREPRENEUR

Today various types of Entrepreneurs are found engaged in different types of activities, not only in industrial activities but also in agriculture and commercial activities. Today we can recognize Entrepreneur in industry, service and business sectors which are technically called as ISB sectors. Entrepreneurs are classified in a number of ways as discussed below.

Clearance Danhof's Classifications

Danhof classifies Entrepreneur into four types.

1. ***Innovative entrepreneur*:** This category of Entrepreneur is characterized by smell of innovativeness. This type of Entrepreneur, sense the opportunities for introduction of new ideas, new technology, discovering of new markets and creating new organizations. Such Entrepreneur can work only when certain level of development is already achieved and people look forward to change and improve. Such Entrepreneur are very much helpful for their country because they bring about a transformation in life style.
2. ***Adoptive or imitative entrepreneur*:** Such entrepreneurs imitate the existing entrepreneur and set their enterprise in the same manner. Instead of innovation, may just adopt the technology and methods innovated by others.

Such types of entrepreneur are particularly suitable for under-developed countries for imitating the new combination of production already available in developed countries.

3. ***Fabian entrepreneurs***: Fabian entrepreneurs are characterized by great caution and skepticism, in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprises.
4. ***Drone entrepreneurs***: Such entrepreneurs are conservative or orthodox in outlook. They always feel comfortable with their old fashioned technology of production even though technologies have changed. They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

Arthur H Cole Classification

Arthur H Cole classifies entrepreneurs as empirical, rational and cognitive entrepreneur.

***Empirical*:** He is entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb.

***Rational*:** The rational entrepreneur is well informed about the general economic conditions and introduces changes, which look more revolutionary.

***Cognitive*:** Cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of enterprise.

Classification Based on the Scale of Enterprise

***Small scale*:** These entrepreneurs do not posses the necessary talents and resources to initiate large-scale production and to introduce revolutionary technological changes.

***Large scale*:** They possess the necessary financial and other resources to initiate and introduce new technological changes. They possess talent and research and development facilities.

Other Classification

Following are some more types of entrepreneurs listed by behavior scientists.

***Solo operators*:** These are the entrepreneurs who essentially work alone, introduce their own capital and if essential employ very few employees. In the beginning most of the entrepreneurs start their enterprises like them.

***Active partners*:** Such entrepreneurs jointly put their efforts and resources. They actively participate in managing the daily routine of the business concern. Entrepreneurs who only contribute their funds but not actively participate in the business are called simply 'Partners'.

***Inventors*:** Such entrepreneurs are creative in character and feel happy in inventing new products, technologies and methods of production. Their basic interest lies in research and innovative activities.

***Challenge*:** According to such entrepreneurs, if there is no challenge in life, there is no charm in life. Such entrepreneurs plunge into industry/business because of the challenge it presents. When one challenge seems to be met, they begin to look for new challenges. They convert odds and adversities into opportunities and make profit.

***Buyers*:** These are the entrepreneurs who do not like to face the hassles of building infrastructure and other facilities. They simply purchase the existing one and by using their experience and expertise try to run the enterprise successfully.

***Life timers*:** Such entrepreneurs take business as an integral point of their life. Family enterprises, which mainly depend on exercise of personal skill, fall in this category.

***Industrial entrepreneurs*:** Such entrepreneurs engage in manufacturing and selling products.

***Service entrepreneurs*:** Such entrepreneurs engage in service activities like repair, consultancy, beauty parlor etc where entrepreneurs provide service to people.

***Business entrepreneurs*:** They are also called as trading entrepreneurs which buy and sell goods.

***Agricultural entrepreneurs*:** They engage themselves in agricultural activities like horticulture, floriculture, animal husbandry, poultry etc.

***Corporate entrepreneurs*:** Corporate entrepreneurs undertake their business activities under legally registered company or trust.

***Rural entrepreneurs*:** Entrepreneur's selecting rural-based industrial opportunity in either khadi or village industries sector or in farm entrepreneurship are regarded as rural entrepreneurs. According to khadi and village industry commission (KVIC) Village or rural industry means any industry located in rural area, population of which do not exceed 10,000 which produces any goods or services in which fixed investment of an artisan or a worker does not exceed one thousand rupees.

***Women entrepreneurs*:** According to government of India an entrepreneurs is defined as an enterprise owned and controlled by 16 a woman and having minimum financial interests of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women. Women entrepreneurs play an important role in economy especially in rural areas.

Learning activity 5.1: Visit industrial estate of your city/district, survey the industries and classify them.

5.9 INTRAPRENEURS

A new breed of entrepreneurs is coming to the fore in large industrial organizations. They are called as 'Intrapreneurs'. In large organizations, the top executives are encouraged to catch hold of new ideas and then convert them into products through R and D activities within the framework of organizations. It is found in developed countries that such Intrapreneurs in large number are leaving the organization and started their own enterprises. Many of such Intrapreneurs have become exceedingly successful in their ventures. The difference between entrepreneurs and Intrapreneurs is given in table 5.3.

5.10 ULTRAPRENEURS

Through the entrepreneurship has been there for a long time, its performance and execution evolve with the prevalent economic conditions of the day. The entrepreneurs of the 90s are a different breed in relation to their immediate predecessors from the 80s. Thus, the path of successful entrepreneurship is ever changing as the art and science of entrepreneurship, is taking a new colors. Now-a-days new products and services are conceived, created, tested, produced and marketed very quickly and with great speed. Therefore today's entrepreneurs need to have different mindset about establishing and operating a company. This mindset is what is called ultrapreneuring.

Table 5.3: Difference between entrepreneurs and intrapreneurs

	Entrepreneurs	**Intrapreneurs**
1. Dependency	He is independent in his operation.	He is dependent on the entrepreneurs i.e. owner.
2. Raising of funds	He himself raises funds required for the organization.	He does not raise funds for the organization.
3. Risk	Entrepreneurs bears the risk involved in the business.	He does not fully bear the risk involved in the organization.
4. Operation	An entrepreneur operates from outside.	An intrapreneur operates from inside.
	Entrepreneurs converts the ideas into viable opportunities.	Intrapreneurs takes the responsibility of creating innovation.
	Entrepreneurs takes the profit of the business.	He is provided with a variety of perquisite for his innovation.

According to James B Arkebaur, the concept of ultrapreneuring is to identify business opportunity, determine its viability and form a company. It requires assembling a super competent management team who then develop, produce and market the product or service. They then sell the majority interest of the company, all of this with maximum resource leverage of both talent and money in the shortest optimum time period. Ultra growth companies are not made to pass on to the next generation.

Ultrapreneurs create them and then sell out, merge or combine. Their life long challenge is to do it again and over again.

Learning activity 5.2: with respect to industries surveyed for previous activity find out whether technology used is an imported one or indigenous. Describe the reasons for the use of imported /indigenous technology.

5.11 CONCEPT OF ENTREPRENEURSHIP

Entrepreneurship is an elusive concept. The concept of entrepreneurship has been a subject of much debate and is defined differently by different authors. Some of them view it as 'risk-bearing'; others call it as 'innovations', yet others consider it as 'thrill-seeking'. In a conference of entrepreneurship held in USA, it is defined, as "**Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition**".

A.H. Cole has defined entrepreneurship as "the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods and services".

According to Heggins "Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials and selecting top manager's of day-to-day operations.

According to Joseph A Schempeter entrepreneurship is essentially a creative activity. It consists of doing such things as are not generally done in ordinary course of business. An entrepreneur is one who innovates i.e., carries out new business.

According Mc Clelland, there are two characteristics of entrepreneur: first is doing a thing in a new and better way, second is decision making under uncertainty.

The various definitions of entrepreneurship identify two basic elements of entrepreneurship namely innovation and risk bearing.

Innovation: Innovation is doing something new or something different. Entrepreneurs constantly look out to do something different and unique to meet the changing requirements of the customers. Entrepreneurs need not be inventors of new products or new methods of production or service, but may possess the ability of making use of the inventions for their enterprises. For example, in order to satisfy the changing needs of the customers, now-a-days fruit juice (mango, fruits etc.) in being served in tins, instead of bottles so that customers can carry it and throw away the containers after drinking the juice. Ratan Tata did not invent automobile. Foreseeing the peoples desire

to have small cars at lower price, he applied new methods of mass manufacturing, made use of new, lights and relatively cheaper materials. Hence entrepreneurship needs to apply inventions on a continuous basis to meet customers changing demands for products.

***Risk bearing*:** Giving birth to a new enterprise involves risk. Doing something new and different is also risky. The enterprise may earn profit or incur loss, which depends on various factors like changing customer preferences, increased competition, shortage or raw materials etc. An entrepreneur needs to be bold enough to assume the risk involved and hence an entrepreneur is a risk-bearer not risk-avoider. This risk-bearing ability keeps him to try on and on which ultimately makes him to succeed. The Japanese proverb "Fall seven times, stand up eight" applied to entrepreneur.

Though the terms entrepreneur and entrepreneurship are used interchangeable, yet they are conceptually different. The relationship between the two is indicated in fig. 5.1 and table–5.4.

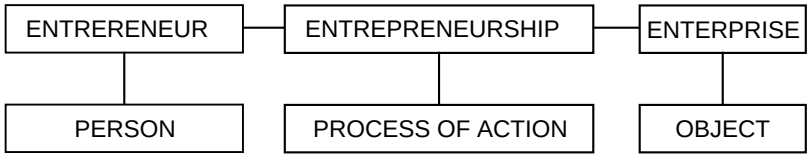

Fig. 5.1: Concept of entrepreneurship

Table 5.4: Relationships between entrepreneur and entrepreneurship

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualizes	Vision
Leader	Leading
Imitator	Imitation

Learning activity 5.3: Meet two to four entrepreneurs and list their competencies which helped their enterprises.

5.12 EVOLUTION OF ENTREPRENEURSHIP

Emergence of entrepreneurial class is as old as our ancient history itself. It dates back to the Pre-Vedic period when Harappan culture flourished in India. History of

entrepreneurship and emergence of entrepreneurial class in India may be presented in two sections viz. entrepreneurship during pre-independence and post-independence.

***Entrepreneurship during pre-independence*:** In the excavation in Harappan and Mohanjodaro the handcraft items and metal molded items were found. It is also found that the craftsmen of the time made, handicraft items as part of their contribution to the society in which they lived. The entrepreneurship to make handicraft items existed in India around 2500 B.C. People developed their own social system and village economy in India. India also developed cast-based divisions of work, which helped in the development of skills of artisans.

The artisans in different parts of India grouped together and developed their own artifacts and were well known for their quality. The cities like Banaras, Gaya, Puri, Allahabad and Mirzapur, which were on the banks of Ganga River, established their own type of handicrafts work. The royal patronage by the local kings of that period helped artisan industries to flourish. The handicrafts industry of the time was basically skill based and started as tiny sector.

The population in India grew in the middle age and spread to the full geographical area. The local kings gave patronage to the handicrafts, silk, cotton-ware and development of other cottage based industries for consumption of higher section of the society. The development of agriculture products like spices, Ayurvedic medicines also flourished in some parts of the country and started export them. Spices from kerala, Corah from Bengal, Shawls from Kashmir and Banaras, brass and Bidriware, Silk from Nagpur and Mysore enjoyed prestigious status in international market till earlier years of 18th century. The craftsmen gathered together in halls, which were called 'Karkhanas'.

Unfortunately the prestigious Indian handicrafts industries which were basically a cottage and tiny sector declined at the end of 18th century, because of the following reasons.

1. Disappearance of royal patronage to the handicrafts
2. Lukewarm attitude of British colonial towards Indian crafts
3. Imposition of heavy duty on imports of Indian crafts
4. Low priced British made goods
5. Changes in the tastes and habits of developing Indian citizens etc.

In other words East India Company handicapped Indian cottage and tiny sectors. The company injected various changes in the Indian economy by exporting raw materials and import of finished goods in India. 'Parsis' established good report with company. The company established the first shipbuilding industry in Surath and from 1673 Parsis started manufacturing vessels for the company. In 1677 Manjee Dhanjee was given the contract of building large gun-powder-mill in Bombay. In 1852 a Parsi foreman who was working in the gun factory started steel industry in Bombay. That

is to say East India Company made some contribution toward entrepreneurial growth in India.

The actual emergence of manufacturing enterprise can be noticed in the second half of nineteenth century. In 1854 Cowasjee Nanabhoy started textile mill at Bombay, R. Chotelal started textile mill in 1861 in Ahamdabad, and in 1880 Nawrojee Wadia opened a mill in Bombay. Jamshadjee Tata established first steel industry in 1911. Though late, other commercial community namely jains, vaishyas changed their attitude from commercial entrepreneurship to industrial entrepreneurship.

The 'swadeshi' campaign provided a seed bed for inculcating and developing nationalism in the country. Jamshadjee Tata was influenced by this and named his first mill 'swadeshi mill' and Krishna in its advertisement made the appeal "our concern is financed by native capital and is under native management throughout".

After the first world war the Indians agreed to 'discriminating' protection to certain industries and made companies should be registered in India with rupees capital and have a proportion their directors as Indians. These measures helped in establishing and extending the factory manufacturing in India during the first four decades of 20th century during which the relative importance of Parsis declined and Gujarati's, Marawaris, and Vaishyas gained their importance in India's entrepreneurial scene.

The emergence of managing agency system triggered Indian entrepreneurship. In 1936 Carr, Tagore & Co assumed the management of Calcutta steam tug association. Dwarakanath Tagore encouraged others to form joint-stock companies in which management remains in the hands of 'firm' rather than 'individual'. The European management agency houses, after East India Company loosing its monopoly entered business, trade and banking. It is stated that the managing agency houses were the real entrepreneurs and these agency houses emerged to overcome the limitations imposed by shortage of venture capital and entrepreneurial acumen.

***Entrepreneurship during post-independence*:** In 1948 Indian government came forward with the first Industrial policy, which was revised from time to time. The government identified the responsibility of the state to promote, assist and develop industries in the national interest and recognized the role of private sector in accelerating industrial development.

The government took three important measures namely:

1. To maintain a proper distribution of economic power between private and public sector.
2. To encourage industrialization from existing centers to other cities, towns and villages.
3. To disseminate the entrepreneurship acumen concentrated in a few dominant communities to a large number of industrially potential people of varied social state.

To achieve this, government accorded emphasis on development of small scale industries in the country by providing various incentives and concessions in the form of capital, technical know-how markets and land to the entrepreneurs in the potential areas to remove the regional imbalances in development. To facilitate the new entrepreneurs in settings up their enterprises, Government established several institutions like Directorate of Industries, Financial Corporations, small scale industries corporations, small industry service institutes etc. Because of this small-scale units emerged very rapidly and their number increased from 1,21,619 in 1966 to 1,90,727 in 1970. There are also examples that some entrepreneurs grew from small to medium-scale and from medium to large scale manufacturing units during the period.

With the invention of digital computer, information technology era started in 1970. IBM was one of the pioneers in this field. The software developments created new opportunities and the service industries started growing faster than manufacturing industry after 1980. The high growth of new industries also had high risks. The new top rated entrepreneurship opportunities arose such as communication, food services, entertainment, merchandising, cosmetics, and apparel with the electronic communication reducing the distances to a Global Village. The market size is growing and the entrepreneur has to benchmark himself with the global standards.

5.13 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Economic development essentially means a process of upward change whereby the real per capita income of a country increases for a long period of time. The economic history of the presently developed countries, for example, USA and Japan tends to support the facts that the economy is an effect for which the entrepreneurship is the cause. The crucial role played by the entrepreneurs in the western countries has made the people of underdeveloped countries conscious of the significance of entrepreneurship in economic development. After the Independence, India has realized that, for achieving the goal of economic development, it is necessary to increase the entrepreneurship both qualitatively and quantitatively in the country. Parson and Smelter described entrepreneurship as one of the two necessary conditions for economic development, the other being increased output of capital. Y.A. Say high describes entrepreneurship as a necessary dynamic force for economic development. The important role that an entrepreneurship plays in the economic development of an economy can be put in a more systematic manner as follows.

1. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
2. It provides immediate large-scale employment. Thus it helps to reduce unemployment in the country.
3. It provides balanced regional development.
4. It helps reduce the concentration of economic power.

5. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
6. It encourages effective resources mobilization of capital and skill which might otherwise remain unutilized and idle.
7. It also induces backward and forward linkages which stimulated the process of economic development in the country.
8. It promotes country's export trade i.e. an important ingredient for economic development.

Learning activity 5.4: Visit a technical entrepreneur and find the benefits/advantages of technical entrepreneur over others.

5.14 STAGES IN THE ENTREPRENEURIAL PROCESS

Entrepreneurship is a process of comprising several distinct stages. The first stage in the entrepreneurial process is some change in the real world. For example, a war may destroy country's manufacturing facilities but spare its trained work force that has happened in West Germany during Second World War. Such a change leads to changes in every aspect of life in the country. It creates needs for new goods and services. The distraction of Japan's industry during the Second World War allowed the country to rebuild its industry from scratch.

The second stage in the entrepreneurial development is the 'idea'. For example, microprocessor, the brain of personnel computer had been in the American market since the early 1970s. A company called 'Altair' had put out a computer that was so personal that one had to put it together oneself. But it was Apple Computer, which perceived that computer market was potentially very big.

One may become an entrepreneur in various ways. He may start a new enterprise. Alternatively he may acquire a franchise. Franchising is an entrepreneurial system whereby an individual runs a business based on the right to make a product or service granted by a manufacturer or other organization. Intrapreneuring is another strategy. It is the process of extending the firms domain of competence by exploiting new opportunities through new combinations of its existing resources.

5.15 BARRIERS TO ENTREPRENEURSHIP

A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers. The greatest barrier to entrepreneurship is the failure of success. Karl. H. Vesper has identified the following entrepreneurship barriers:

1. Lack of a viable concept
2. Lack of market knowledge

3. Lack of technical skills
4. Lack of seed capital
5. Lack of business know how
6. Complacency—lack of motivation
7. Social stigma
8. Time presence and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents

CHAPTER SUMMARY

An entrepreneur is a person who buys factor services at certain prices with a view to selling its products at uncertain prices. Entrepreneur is a dynamic agent of change. An entrepreneur is a person of telescopic faculty, drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess some core competencies like innovative, perceiving opportunities, persistence, information gathering, concern for quality, planning, problem solving etc. a clear distinction can be made between an entrepreneur and a manager. An entrepreneur has to perform various functions like idea generation, determination of business objectives, raising of funds, procurement of machines and materials, market research, deciding forms of ownership, recruitment of man power etc. entrepreneurs can be classified based on various factors. Intrapreneurs take the responsibility of innovation.

Entrepreneurship is purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods or services. It is an act of starting and running an enterprise. Entrepreneurship is as old as ancient history itself and dates back to pre-Vedic period when Harappan culture flourished in India. The artisans and royal patronage of Indian kings have contributed for the entrepreneurship in the early ages of Indian history. East India Company handicapped the Indian tiny and cottage industries. Later Parsi's, Jain's and Vaishya's have contributed for the growth of entrepreneurship. The managing agency system and the Swadeshi movement have contributed for the growth of entrepreneurship in India.

After independence, the Government of India has taken measures for growth of industries through her Industry Policy Resolutions. There are many barriers to the entrepreneurship. They may be lack of viable concept, lack of market knowledge, lack of skills, lack of seed capital etc.

QUESTIONS

1. Explain in brief the concept of entrepreneur.
2. Give various definitions of entrepreneur.
3. Enumerate the characteristics of entrepreneur.
4. Distinguish between entrepreneur and manager.
5. Write a note on technical entrepreneur.
6. What are the rewards and penalties for entrepreneurs?
7. Explain in brief the functions of entrepreneur.
8. Explain in brief classification of entrepreneurs.
9. Distinguish between entrepreneur and Intrapreneur.
10. Write a note on ultrapreneur.
11. Explain in brief the concept of entrepreneurship.
12. Explain in brief the evolution of concept of entrepreneurship in India.
13. Explain in brief the role of entrepreneurship in economic development.
14. Explain in brief the stages in entrepreneurial process.
15. Write a note on barriers of entrepreneurship.

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CHAPTER 6

SMALL SCALE INDUSTRY

Learning Objectives:

- ❒ To introduce the meaning and concept of Small-scale industry.
- ❒ Present the characteristics of SSI.
- ❒ Discuss the rationale of SSI.
- ❒ Understand the objectives and advantages of SSI.
- ❒ Present the role of SSI in economic development.
- ❒ Present steps involved in starting an SSI.
- ❒ Present Government policy towards SSI.
- ❒ Trace Government support to SSI during five year plan.
- ❒ Present impact of Globalization/Liberalization, WTO and GATT on SSI.
- ❒ Present meaning, need, nature and types of support and agencies of Government for SSI.

6.1 MEANING AND DEFINITION OF SMALL SCALE INDUSTRY

The definition of small scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country. There are at least 50 different definitions of SSI's found and used in 75 countries. In some of the countries of the world the criterion for defining small enterprise is related to the size of employment. For example in USA a small enterprise is one which has employment of 500 people. In UK it is less than 20 skilled labours, in Germany, less than 300 and in Italy less than 50 people. However, in most of the countries the definitions of SSI are related to either investment or size of employment or both.

The definition of small scale industry is an important aspect of government policy as it identity the target groups. The first official criterion for small scale industry in India dates back to second five year plan when it was in terms of gross investment in land, building, plant, machinery and the strength of the labour force. On the recommendation of the Federal association of small industries of India (FASI), only

the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or hire purchase, is considered instead of fixing the limit on overall investment in plant and machinery. The evolution of legal concept of SSI is given in the table 6.1. An ancillary unit is one which sells not less than 50% of its manufacturers to one or more industrial units.

However for small scale industries, the planning commission of India uses the terms village and cottage industries. These include modern small-scale industries and the traditional cottage and house-hold industries as shown in fig 6.1.

Table 6.1

1950	The fiscal commission for the first time defined an SSI as one which is operated mainly with hired labour usually 10 to 50 hands.
1954-55	The Government of India set up Central Small Scale Industries Organization (CSSIO) and Small Scale Industries Board (SSIB) to promote small scale industries.
1960	Employment criterion to define SSI was dropped and under investment criterion an industry having gross value of fixed asset up to Rs. 5 Lakhs was called as SSI.
1975	The investment limit was rise to Rs. 10 Lakhs (15 Lakhs for ancillary units).
1980	The investment limit was rise to Rs. 20 Lakhs (25 Lakhs for ancillary units).
1985	The investment limit was rise to Rs. 35 Lakhs (45 Lakhs for ancillary units).
1995	The investment limit was rise to Rs. 60 Lakhs (75 Lakhs for ancillary units).
March 1997	The investment limit was raised to Rs. 3 Crore.
1999-2000	The investment limit was reduced to 1 Crore.
2007	Limit is 1 Crore only.

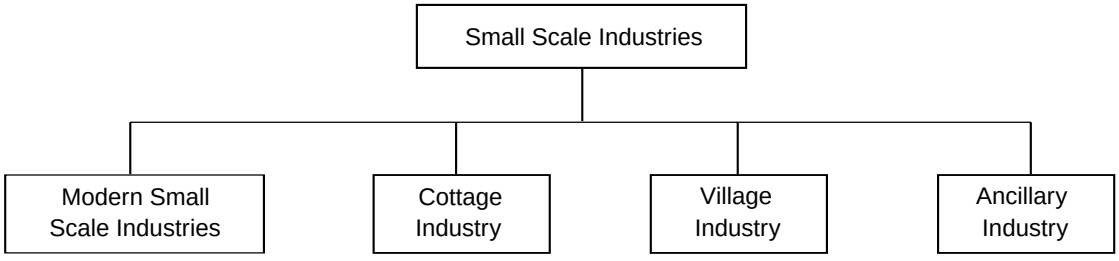

Fig. 6.1: Types of small-scale industries

6.2 CHARACTERISTICS OF SSI

The following are the characteristics of SSI

(1) A small unit is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors; the others are as sleeping partners.

(2) In case of SSI, the owner himself or herself is a manager also and hence an SSI is managed in a personalized fashion. The owner takes effective participation in all matters of business decision making.

(3) The scope of operation of SSI is generally localized, catering to the local and regional demands.

(4) The gestation period i.e., the period after which return on investment starts is relatively lower when compared to large units.

(5) SSI's are fairly labour intensive with comparatively smaller capital investment.

(6) Small units use indigenous resources and therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.

(7) Using local resources Small Units are decentralized and dispersed to rural areas. Thus small units promote balanced regional development and prevent the influx of job seekers from rural areas to cities.

(8) Small scale units are more change susceptible and highly reactive and receptive to socio-economic conditions. They are more flexible to adopt changes like introduction of new products, new method of production, new materials, new markets and new form of organization etc.

6.3 RATIONALE

Emphasizing the very rationale of Small-scale industry in the Indian economy, the Industrial Policy Resolution (IPR) 1956 stated:

"They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of industrial production all over the country".

The rationale of small scale industries so established can broadly be classified into four arguments as discussed below.

1. Employment Argument

In view of abundant labour and scarce capital resources, the most important argument in favor of the SSI's that have a potential to create immediate large scale employment opportunities. There are many research findings available which will establish that small-scale units are more labour intensive than large units. Small units use more of labour per unit than investment. Studies have shown that the output-employment ratio is the lowest in small sector, employment generating capacity of small sector is eight to ten times that of large scale sectors.

Some scholars oppose this argument. They are of the opinion that employment should not be created for the sake of employment. According to them it is not how to

absorb surplus resources but how to make the best use of scarce resources. Then employment argument becomes output argument.

2. Equality Argument

An important argument in favor of small-scale industries is that they ensure a more equitable distribution of national income and wealth. This is based on two major considerations:

(i) Compared to ownership of large scale units, the ownership of small-scale units is wide spread.

(ii) Their more labour-intensive nature and decentralization and dispersal to rural and backward areas provide more employment opportunities to the unemployed. Most of these small-scale units are proprietary or partnership concerns, the relations between workers and employers are more harmonious in small-scale units than in large-scale units.

Dhar and Lydall do not agree this argument and give statistical evidence that wages paid to workers in small-units are much lower when compared to the workers in large industries. Workers in small enterprises due to non-existence of trade unions are unorganized and therefore are easily exploited by the employers. But in an under-developed country like India, even if small-scale units provide low paid jobs, they would be of virtual importance in our economy where millions are already in search employment to eke-out their livelihood.

3. Decentralization Argument

Big industries are concentrated every where in urban areas, but small industries can be located in rural or semi-urban areas to use local resources and to cater to the local demands. Hence it promotes balanced regional development in the country. Though it is not possible to start small-scale industry in every village, but it is quite possible to start small units in a group of villages. Decentralization will help tap local resources, idle savings, and local talents and improves the standard of living even in erstwhile backward areas. The good example of this phenomenon is the economy of Punjab which has more small-scale units than even the industrially developed state of Maharashtra.

4. Latent Resource Argument

According to this argument, small enterprises are capable of mapping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability etc. Dhar and Lydall feel that the real source of latent resources argument lies in the existence of entrepreneurial skill. According to them there is no evidence of an overall shortage of small entrepreneurs in India. Hence they doubt the force of this latent resource argument. Their assertion does not appear to be very sound simply because of the fact that if small entrepreneurs were present in abundance, then what obstructed the growth of small enterprises?

The emergence of entrepreneurial class requires a conducive environment. The impressive growth in the number of small enterprises in the post independent period highlights the fact that, providing the necessary conditions such as power and credit facilities, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.

6.4 OBJECTIVES

The various objectives of developing small-scale industries are in fact, implied in one way or other, in its rationale itself, just discussed in the section 6.3. However, an attempt has been made in this section to enumerate the main objectives of developing small enterprises in India.

1. To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too, in the main stream of national development.
5. To promote balanced regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the standard of living of people in the country.

6.5 SCOPE

The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and require less sophisticated technology. The activities which are found particularly amenable can be successfully operated in small scale are too many to mention. Among them the important ones are:

Manufacturing activities
Servicing/repairing activities
Retailing activities
Financial activities
Whole-sale business
Construction activities
Infrastructural activities like transportation, communication etc.

In order to strengthen the scope for small-scale industries, the Government of India has announced reservation policy for small sector in the country. In 1967 only 47 items were reserved for exclusive manufacture in small scale sector. In 1983 the reserved

list included 836 items. Later Abid Hussain committee dereserved 12 items and thus there are 824 items in the reserved list. The objective of this reservation policy is to insulate the small sector from unequal competition of large industrial establishments, so that the small firms can grow through expansion of existing units and the entry of new firms. Some of the important items reserved for exclusive development in the small sector are food and allied industries, textile products, leather and leather products, foot wares, plastic and rubber products, chemical and chemical products, glass and ceramics, pressure stove, electrical appliances, boats and truck body building, auto parts components, bicycle parts, tricycles, survey instruments, sports goods, stationery items, clocks and watches etc.

It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries. J.C. Sandesara, has found that the easy entry into SSI sector has intensified competition within the sector, and resulted in excess supply, and thus, a fall in profitability. He also adds that the reservation policy is calculated to keep 'infant' industry in a permanent state of infancy. However the main objective of reservation policy has been insulated small sector from unequal competition of powerful large scale units, so that the small sector can grow through expansion on one hand, and by the entry of new firms on the other hand seems to be achieved. Examples are many to support this view.

6.6 ROLE OF SSI IN ECONOMIC DEVELOPMENT

Economic development is defined in a number of ways; the commonest definition could be 'an increase in real per capita income of a person resulting in improvement in the levels of living'. The developments of small-scale industries contribute to the increase in per capita income. The role of SSI in economic development is given below.

1. Employment

SSI use labour intensive techniques and therefore provide employment on a large scale, SSI accounts for 75% of the total employment in the industrial sector. SSI provides self-employment to artisans, technically qualified persons and professionals. These industries also offer employment to farmers when they are idle.

2. Optimization of Capital

SSI requires less capital per unit of output and provides quick returns on investment due to shorter gestation period. Small scale units help to molatise small and scattered savings and channelise them into industrial activities.

3. Balanced Regional Development

SSI promotes decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas. They also help to improve the standard of living in suburban and rural areas.

4. Mobilization of Local Resources

SSI helps to mobilize and utilize local resources like small saving, entrepreneurial talent etc. which might otherwise remain idle and unutilized. These industries facilitate the growth of local entrepreneurs and self-employed professionals in small towns and villages.

5. Export Promotion

SSI helps in reducing pressure on the country's balance of payments in two ways. First they do not require imports of sophisticated machinery or raw materials. Secondly, SSI can earn valuable foreign exchange through exports. There has been a substantial increase in exports from the small scale sector.

6. Consumer Surplus

SSI now produces a wide range of mass conception items. Over 5000 products are being manufactured in small scale sector. About one-half of the output of manufacturing sector in India comes from small scale industries.

7. Feeder to Large Scale Industries

SSI plays a complementary role to large scale sector. They provide parts, components, accessories etc. to large scale industries. They serve as ancillary units.

8. Social Advantage

Small scale sector contributes towards the development of a socialistic pattern of society by reducing concentration of income and wealth. They provide an honorable and independent living to people with limited resources. They facilitate wide participation of public in the process of development.

9. Share in Industrial Production

SSI contributes more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector.

10. Development of Entrepreneurship

Small scale units have helped to develop a class of entrepreneur. These units facilitate self-employment and spirit of self-reliance in the society.

6.7 ADVANTAGES OF SMALL SCALE INDUSTRIES

- Small scale enterprises can be started as per convenience of the owner in terms of space, finance, product and manpower.
- The setting up of the unit and starting of production requires a small gestation period of only 2 to 6 months and layout can be made as per convenience.
- Locally available skilled and semi-skilled people can be appointed at short notice and at a much lower wages compared to the medium and large industries.

- Wherever high technology involved the parent company executives will help. Alternatively, consultants can be hired to sort out technology related problems.
- It is one of the best forms of self-employment as well as giving employment opportunities to own kith and kin, friends and relatives etc.
- In case of rural sector the SSI units will be able to have cheaper labour especially in off seasons.
- In developing countries the SSI units are a necessity to assist bigger industries and new projects. Thus they not only contribute to the economy of the nation but also create employment opportunities to people around the project sites.
- In case of SSI units started by experienced and talented executives, there is abundant scope to develop high technology components for MNCs and also to organize exports.
- Due to increase in population there has been increase in production of consumer goods and Fast Moving Consumer Goods (FMCG). In view of this there is a bigger role for small industries to take up components production and even manufacture the product itself.
- The small units are exempted from excise duty up to 75 lakhs per annum turnover. In case of industries in the backward districts, waiver or concession is given for various statutory taxes. Thus lot of paper work and formalities are avoided.
- Since employees are recruited based on contacts or relations there will be loyalty to the owner and hence there will be no trade union activity.

6.8 STEPS TO START AN SSIS

Starting an SSI is a complex job. The potential entrepreneur has to pass through a number of steps in a step-by-step approach to achieve his goal of setting up an SSI. In fact, deciding and motivating the self is the first bedrock upon which the establishment concept of an enterprise is entirely posited. Similarly, the identification of a viable project ensures the proposition that "well begun is half done". Hence the various steps involved in establishment of an enterprise through which the entrepreneur may pass are the following:

1. ***Decision to be self-employed*:** This is the most crucial decision a youth has to take, shunning wage employment and opting for self-employment or entrepreneurship.
2. ***Analyzing strengths, weaknesses, opportunities and threats (SWOT analysis)*:** The potential entrepreneur has to analyze his strengths, weaknesses, opportunities and threats, while deciding to go for entrepreneur career. This analysis enables him to know what type and size of business would be the most suitable. This will vary from person to person.

3. ***Scanning of business environment*:** It is always essential on the part of the entrepreneur to study and understand the prevailing business environment. In order to ensure success of his enterprise, entrepreneur should scan the business opportunities and threats in the environment. He should study the administrative framework, procedures, policies, rules and regulations and other formalities implemented by the government.
4. ***Training*:** Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies which he can compensate through training. He can avail the facilities of various training institutes like EDI, NIESBUD, IEDs existing in our country. These institutes are providing tailor-made Entrepreneurship Development Programmes (EDPs) and skill up gradation training programmes for the benefit of the new entrepreneurs, existing entrepreneurs and for the employees of the small scale industries.
5. ***Product selection*:** The most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity. The level of activity will help in determining the size of business and thus form of ownership. One could generate as many project ideas as one can through environment scanning and short list a few of them as discussed in the last chapter. Closely examine with the help of opportunity analysis each one of them and zero on the final product or products.
6. ***Market survey*:** It is always convenient to manufacture an item but difficult to sell. So it is rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production. Market survey implies systematic collection of data by the entrepreneur about the product for manufacture, demand-supply lag, extent of competition, frequency of demand, pattern and design of demand, its potential share in the market pricing, distribution policy, etc. The principle is to produce what actually people demand. The entrepreneur can contact the concerned authorities for this, and will be discussed later.
7. ***Form of organization*:** A firm can be constituted as proprietorship, partnership, limited company (public/private), cooperative society, etc. This will depend upon the type, purpose and size of entrepreneur's business. One may also decide on the form of ownership on the basis of resources at hand or from the point of view of investment.
8. ***Location*:** The next step will be to decide the location where the unit is to be established. Will it be hired or owned? The size of plot, covered and open area and the exact site will have to be decided.
9. ***Technology*:** To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most

suitable one to be identified. This will also be useful to determine the type of machinery and equipment to be installed. The entrepreneur can contact DIC, TCO etc.

10. ***Machinery and equipment*:** Having chosen the technology, the machinery and equipment required for manufacturing the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country.
11. ***Project report preparation*:** After deciding the form of the ownership, location, technology, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study. The economic viability and the technical feasibility of the product selected have to be established through a project report. A project report that may now be prepared will be helpful in formulating the production, marketing, financial and management plans. It will also be useful in obtaining finance, shed, power connection, water connection, raw material quotas, etc. The entrepreneur has to consider the guidelines given by the Planning Commission in preparing the report (see chapter 8).
12. ***Project appraisal*:** Ordinarily, project appraisal implies the assessment of a project. It is a technique for ex-ante analysis of a scheme or project. While preparing to set up an enterprise, the entrepreneur has to carefully appraise the project from the standpoint of economic, financial, technical, market, managerial and social aspects to arrive at the most socially-feasible enterprise. To avail the finance from the financial institutions and banks, a comprehensive appraisal of projects carrying techno-economic feasibility aspects should be undertaken by the entrepreneur. Thus, a project which is selected should be technically feasible and economically viable, and then only it will be bankable. For this, the following appraisals can be performed at the preliminary level:
    (a) Economical appraisal
    (b) Financial appraisal
    (c) Technical appraisal
    (d) Management appraisal
    (e) Organizational appraisal
    (f) Operational appraisal
    (g) Market appraisal
13. ***Finance*:** Finance is the lifeblood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain it. A number of financial agencies provide capital assistance and venture capital for starting an enterprise. There are some agencies which

provide financial assistance on concession rates. Under PMRY and REGP schemes financial assistance and subsidies are being provided to the persons who want to set up their own enterprise. Details of it are discussed in chapter 7.

14. ***Provisional registration*:** It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form for provisional registration from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries. This will enable the entrepreneur to avail various government facilities, incentives and assistances schemes including financial assistance from NSIC/SFCs/KVIC. The table 6.2 and table 6.3 gives the details.
15. ***Technical know-how*:** In some cases, technical know-how may be arranged for setting up enterprise. This can be arranged through TCOs, NSIC, SSIDC, DIC, private consultants, SISI, ED-institutes, foreign collaborators, India Investment Centre, and Industry, etc. Facilities are also available to SSI for making technical know-how arrangements including turn-key jobs.
16. ***Power and water connection*:** The sites, where the enterprise will be located, should either have adequate power connections or this should be arranged. Entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise as it can materially affect the installation cost. Similarly, the water connection will have to be obtained or provision should be made for adequate water supply to the firm.
17. ***Installation of machinery:*** Having completed the above formalities, the next step is to procure the machinery for installation. Machinery should preferably be installed as per the plan layout.
18. ***Recruitment of manpower*:** Once machines are installed, the need for man-power arises to run them. So the quantum and type of manpower is to be decided. This presupposes the skilled, unskilled and semiskilled labour, administrative staff etc. Further, sources of getting desired labour and staff members be indented and recruited. Possibly, the labour force has to be trained either at the entrepreneur's premises or in a training establishment.
19. ***Procurement of raw materials*:** Raw materials are the important ingredients for running an enterprise. The labour will require raw materials to work upon the installed machinery. These materials may be procured indigenously or may have to be imported by the entrepreneur. Entrepreneur has to identify the cheap an assured sources of supply of raw materials for running his own enterprise. Government agencies. (See table 6.2) can assist in case the raw materials are scarce or imported.

20. ***Production*:** The unit established should have an organizational set-up. To operate optimally, the organization should employ its manpower, machinery and methods effectively. There should not be any wastage of manpower, machinery and materials. If items are exported, then the product and its packaging must be attractive. Production of the proposed item should be taken up in two stages:
    (i) Trial production
    (ii) Commercial production

Trial production will help tackling problems confronted in production and test marketing of the product. This will reduce the chances of loss is the eventuality of mistakes in project conception. Commercial production should be commenced after the test-marketing of the product.

21. ***Marketing*:** Marketing is the most important activity as far as the entrepreneurial development is concerned. Various aspects like how to reach the customer, distribution channels, commission structure, pricing, advertising, publicity, etc. have to be decided by the entrepreneur. Like production, marketing should also be attempted cautiously, that is, in two stages namely:
    (i) Test stage
    (ii) Commercial marketing stage

Test marketing is necessary to save the enterprise from going into disrepute in case the product launched is not well accepted by the customers. It will also assist the entrepreneur in carrying out modifications or additions in designs and features of the product. Having successfully test marketed the product, commercial marketing can be undertaken. The entrepreneur can contact the Small industries marketing corporation.

22. ***Quality assurance*:** Before marketing, the product quality certification from BIS (Bureau of Indian Standards)/AGMARK/HALLMARK, etc., should be obtained depending upon the product. If there is no quality standards specified for the products, the entrepreneur should evolve his own quality control parameters. Quality, after all, ensures long term success.
23. ***Permanent registration*:** After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from DIC or Directorate of Industries.
24. ***Market research*:** Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, upgradation and growth. Market becomes waterloos for most SSI entrepreneurs as they ignore the vital day-to-day operation. Initial success should not lure the entrepreneur into a sense of complacency.

Table 6.2: Sources of information

Sl. No.	Area	State level agencies	National level agencies
1.	Project selection	SISI, DIC, IDC'S, IIC's, TCO's, SFCs, SIC, IC, IEB, PTC	CB, SIDO, CSIR, DEP, IIC, IFCI, IPB, NRDC, EDI
2.	Registration and licenses	CIF, DDCA, DIC, EB, GMD, SIC, WPCB, IC, LA, STC, TC	CECD, CCIE, ISI, IDC, MIC, NSIC, RC, RT, SC, DGTD
3.	Finance	DIC, Bank, SFC, SIC, IICs, IDCs	CB, CEC, ICICI, IDBI, IFCI, NISC, SBI, DIC
4.	Technical	DDCA, DIC, DJCII, TOCs, GMD	CIPET, CSIR, IIC, IIFT, MRDC, NSIC, RT, SBS, SISI, CITD, ICMR
5.	Training	EDPs, SISI, TCDs, DICs	SBI, CB, CIPET, IRL, NISIET, IITs, NISBUT, EDI
6.	Infrastructure facilities	DIC, EB, IDC, LA	-
7.	Raw materials	DIC, MID, MDC, SIC, IC, STC	CCIE, MMTC, MDC, SPC
8.	Plant and machinery	DIC, IIC, SFC, SEC, IC, IDB	CCIE, NSIC, SISI
9.	Marketing information	DIC, TCO's, SEC, SIC, RIMCO	DEP, DGSD, CCIE, IIFT, MID, SIC, ICMR, ICAR

Table 6.3: Application forms

S. No.	Subject	Agencies
(A)	**Planning Stage**	
1.	Provisional registration number	DIC
2.	Application for shed or plot	SIDC
3.	No objection certificate from local authorities	LA (Local Authority)
4.	No objection certificate from health department	District health officer
5.	No objection certificate from electricity department	Electricity department
6.	Loan application for term loan	SFC / NB / NSIC
7.	Subsidy registration	DIC
8.	Application for building plan and estimates	Approval of architect / contractor
9.	Application for bank account / cash credits / working capital loan	NB
10.	Application for air and water pollution no objection certificate	State pollution control authority
11.	Application for the approval of production programme for certain restricted items	DIC, SISI, Central Ministry

Contd...

12.	Registration of partnership deed	Registrar of firms
13.	Application for ancillary units	Parent companies
14.	Registration of firms	Register of firms
15.	Application for the boilers and plant layout of the unit	Inspector of Boilers
16.	Application for the production of petroleum based products	Ministry of Petroleum
17.	Application for Excise Registration Number	Excise Department
18.	Application for Latex in rubber based products	Rubber Board
19.	No objection certificate from Forest Department for wood based products	State conservation of forests
20.	Applications for essential commodity items as raw materials	District Civil Supply Department
21.	Application for imported raw materials	DIC / Export-Import Boards
22.	Application for imported of machines	DIC / Export-Import Boards
23.	Application for raw materials quota	D / C / Export – Import Boards.
(B)	**During Implementation of Project**	
24.	Application for power connection	Local Electricity Dept.
25.	Application for water	LA
26.	Application for C-Form (Sales Tax)	Sales Tax Department
27.	Application for state Sales Tax Registration	Sales Tax Department
28.	Application for central Sales Tax Registration	Sales Tax Department
29.	Application for exemptions from Sales Tax	DIC / Sales Tax Dept.
30.	Application for exemption from Octroi Duty	DIC / LA
31.	Application for storing of inflammable raw material	Director of Explosives.
(C)	**During Running of Enterprise**	
32.	Application for Permanent Registration Number	DIC / Directorate of Industries
33.	Application for subsidy claims	DIC
34.	Application for power subsidy	LA
35.	Application for food preservation ordinance license.	Food Controller
36.	Application for registration in case of more than 20 employees without power use or more than 10 employees with power use.	Labour Welfare Board / Employment Exchange / P.F. Commissioner
37.	Application for product marketing to the Central Government Department	DIC, DGSD

Learning activity 6.1: Meet an entrepreneur and discuss with him the steps he has taken while starting his enterprise. Also identify the difficulties has faced in starting his industry.

6.9 GOVERNMENT POLICY: INDUSTRIAL POLICY RESOLUTIONS

Major Environment

After attaining independence in 1947, India adopted economic planning as a method to achieve economic development. The pattern of planning that came to be accepted was of a mixed type meaning thereby that industrial units in the public and private sector will be operating in the economy. The mixed nature of the economy meant that on crucial areas the policy of the government was decisive and changes therein were in great relevance to industrial units. In the field of industry, government's objectives and intentions were announced through five Industrial Policy Resolutions (IPRs). These resolutions were announced in 1948, 1956, 1977, 1980 and 1990 (for a summary, see table 6.4). We shall briefly state what each of the IPRs had stated about growth and development of SSI sector. It must be added that it is only recently that government policy and activities of the different interface institutions have covered SSE in addition to SSI. The earlier thinking was mostly addressed to SSI.

IPR 1948

The industrial sector in 1948 was not different from the one existing in pre-1947 days and hence the SSI sector meant mainly rural industrial units, small job-cum-repair shops, units making agricultural implements, a few urban small units and handloom units weaving clothe. The greatest economic significance of these units to the Indian economy was their employment potential. It was this potential which called for protection through policy and the main thrust of IPR 1948 as far as the small scale sector was concerned was **protection**.

IPR 1956

The second IPR was announced against the background of a bolder Second Five Year Plan, with a long term strategy for industrial and economic development. As to the SSI sector, the resolution envisaged a dual role viz. (i) manufacture of consumer goods such as clothe and (ii) manufacture of components for the newly established industry as part of the programme for long term industrial development. Thus, to the earlier emphasis of protection was added development. Industrial Policy for SSI aimed at "**Protection plus development**". IPR 1956 in a manner initiated the modern SSI in India.

IPR 1977

The next IPR was announced after a lapse of two decades. During the preceding decades, two major problems had been witnessed. First was the lopsided industrial

development—large, medium and small scale industries had become more of an urban phenomena and the other was large scale unemployment—the issue of urban and rural, educated and uneducated unemployed had started becoming difficult.

This situation led to a renewed emphasis on promotion of typical employment generating small scale industry, located in rural areas and small towns. As a formula it was: scale of output should be small, location semi urban/rural and technology, labour intensive.

This was the IPR which assigned a positive role to SSI in terms of wage employment of worker and self-employment of the entrepreneur. This was the IPR which therefore, offered a wider perception to policies and programmes for SSI development. To the earlier thrust of protection (IPR 1948) development (IPR 1956) this resolution added promotion. The SSI sector was thus, to be **protected, developed and promoted.**

IPR 1980

This IPR re-emphasized the spirit of the IPR 1956 with its strategy of large scale, high technology and heavy investment based key or basic industry. Nevertheless, the SSI sector remained as perhaps the best sector for generating wage and self-employment based opportunities in India.

IPR 1990

This IPR was announced during June 1990. Its basic aim is to introduce measures of economic liberalization and simplified rules and procedures with a view to enhancing the technological base of industry and accomplishing higher levels of output. It gave a special emphasis on the SSI/SSE sector where employment opportunities are likely to be high. In order to enable the SSI units to update their technology the investment limit of SSI has been raised to Rs. 60 lakhs.

SSI Policy Framework—Latest Amendment

In line with new economic policies, a policy document for SSI was announced on 6th August 1991.

It continued priority sector lending to SSI by Banks/Financial Institution.

- Excise exemption scheme
- Reservation of items for exclusive production
- Price and purchase preference
- Uniform package of incentives of the entire sector

It introduced new measures like:

- Removal of location restrictions
- Enhancement of coverage, limits
- Shift towards infrastructural development support

- Inclusion of services in this sector
- Allowing equity investment in SSI (up to 24%)
- Shift from protection/regulation to promotion of equality, technology and efficiency
- Substantial de-regulation and simplification of rules and procedures.

Table 6.4: Industrial policy resolution: a summary

Year	Main objective	Principal measure	The SSI universe
IPR 1948	**Protection**	Raw material cheap power technical advice, marketing of products, Safe-guarding against excessive competition from large units.	Village-based small enterprises Repairs-cum-job shops Units using local market, raw materials, labour. Hence locally self-sufficient.
1956	**Protection plus development**	Protect artisan based non-tech. enterprise development. Modern SSI for Industrial and consumer goods. Provide capital and skill. Develop export based units. Achieve regional balance through SSI. Package of assistance and incentives infrastructure, technological upgradetion. Reservation of items for SSI.	Tiny/cottage rural units. Modern SSI units in urban areas. Units employing labour intensive technology. New entrants to SSI-new entrepreneurs. Ancillary units. Modern SSI.
1977	**Protection plus development plus promotion**	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production.	– do –
1980	**Protection plus development plus promotion**	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production, nuclear plant for SSI growth, reservation products for SSI.	– do –
1990	**Promotion of equality, technology and efficiency**	Promotion of SSI and agro-based industries reservation of products 836 and new lines to be identified. Central investment subsidy-rural and backward areas. Technology centers for modernization. Small industry Development Bank (SIDBI). Facilities of KVIC and KVI boards to be expanded to help artisans in marketing. Agro-processing industry to receive high priority.	– do –

Learning activity 6.2: Visit a small-scale industry and find what benefit the entrepreneur has availed from Industrial policy.

6.10 GOVERNMENT SUPPORT TO SSI DURING FIVE YEAR PLAN

Immediately after independence, government of India has given great importance to the development of small-scale sector in the successive five year plans. The expenditures for SSI during the eight Five Year Plans are given in table 6.5.

***First Plan*:** In the first Five Year Plan Rs. 48 crores (constituting 47.8% of total plan expenditure on industry) was spent on small-scale sector alone. During this plan six boards were constituted namely All India Handloom Board, All India Handicraft Board, All India Khadi and Village Industry Board, Small-Scale Industries Board, Coir Board and Central Silk Board. The Boards were established to cover the entire field of small-scale and cottage industries.

***Second Plan*:** As per the recommendations of Karve Committee, the second Five Year Plan focused on dispersal of industries. During this plan 60 industrial estates were established for providing basic facilities like water, power, transport etc. at one place. The total expenditure during this plan towards SSI was Rs. 187 crores. In addition some items were reserved for exclusive production in small-scale industries.

***Third Plan*:** The third Plan focused on extension of coverage of small scale industries. During this plan Rs. 248 crores were spent.

***Fourth Plan*:** The programmes adopted during the third plan were extended during fourth plan also. As a result, small-sector witnessed significant diversification and expansion during the fourth plan period, during which 346 industrial estates had been completed and small-scale sector provided employment to almost 82,700 persons.

***Fifth Plan*:** The main thrust of the fifth plan was to develop small-scale industries to remove poverty and inequality stacking the land. During this plan the expenditure incurved is Rs. 592 crores.

***Sixth Plan*:** Because of the massive development programmes initiated for the development of promising small-scale sector, the actual expenditure of Rs. 1945 crores surpassed the plan 836 items were reserved for manufacturing in small-scale industries and reserved 409 items for exclusive purchase from small scale industries. In addition, SIDO (Small-Industries Development Organization) was established to provide consultancy services in technical, managerial and marketing. In 1982 CART (Council for Advancement of Rural Technology) was established for providing necessary technical input to 23 rural industries. By the end of sixth plan, the production from small and cottage industries increased to Rs. 65,730 crores, exports touched Rs. 557 crores and employment in SSI sector reached 315 lakh persons. This accounts for 80% of the total industrial employment.

***Seventh Plan*:** The main thrust of this plan was upgradation of technology to increase competitiveness of small sector. The new watch word was "competition" and "not reservation".

The actual expenditure of Rs. 3,249 crores surpassed the plan outlay of Rs. 2,752 crores. The value of production increased from Rs. 57,100 crores to Rs. 91,681 crores.

***Eighth Plan*:** The main thrust of the eighth plan was the employment generation as the motive force for economic growth. To achieve this, small and village industries have been assigned an extremely important role. The proposals of this plan are

(i) The plan reiterated that timely and adequate availability of credit is more important than concessional credit. For this purpose SIDBI was established, certain new initiatives like sanction of composite loans under 'single window system', concessional loans to state corporations for infrastructural developments were introduced.

(ii) Eighth plan proposed to establish tool room and training institutes in order to upgrade technology.

(iii) Growth centre approach has been accepted and 70 growth centers were established. In addition establishment of functional industrial estates with agricultural and horticulture products was also proposed.

(iv) Proposed to establish integrated infrastructure development centers for tiny units. For this the centre, the state governments and industry associations were also involved.

Table 6.5: Expenditure towards SSI in Five Year Plans

Plan/period	Total expenditure towards SSI (in crores)
First (1951-56)	48.00
Second (1956-61)	187.00
Third (1961-66)	248.00
Fourth (1969-73)	242.00
Fifth (1974-78)	592.00
Sixth (1980-85)	1,945.00
Seventh(1985-90)	3,249.00
Eighth (1992-97)	6,334.00

NEW POLICY INITIATIVES IN 1999-2000 FOR SMALL SCALE SECTOR

The government of India has announced new policy initiatives for small-scale sector in 1999-2000. The features of new policy are listed below.

(1) A national programme for Rural Industrialization has been announced, with a mission to set up 100 rural clusters every year, to give a boost to rural industrialization.

(2) To coordinate the latest development with regard to the World Trade Organization (WTO), a cell has been set up in the office of DC (SSI) to disseminate information to SSI Associations and SME units, regarding recent developments, prepare policies for SSIs in tune with the WTO agreements and organizing WTO sensitization seminars, workshops.

(3) Cotton yarn has been included in the general excise exemption scheme for SSIs.

(4) Small job workers, engaged in printing of glazed tiles, have been exempted from excise duty.

(5) Announcement of a new credit insurance scheme in the Budget (1999-2000) for providing adequate security to banks and improving flow of investment credit to SSI units, particularly export oriented and tiny units.

(6) The working capital limit for SSI units is determined by the banks on the basis of 20 percent of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crore.

(7) To increase the reach of banks to the tiny sector, tending by banks of Non-Banking Financial Companies (NBFCs) or other financial intermediaries for purpose of on lending to the tiny sector, has been included within the definition of priority sector for bank lending.

(8) Exemption from excise duty, as given to SSI units, will be extended to goods bearing a brand name of other manufacturers in rural areas.

(9) The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crores to Rs. 1 crore.

Learning activity 6.3: Meet two entrepreneurs, one in manufacturing and one in service sector. Discuss with them the factors they have considered for product selection and location of the enterprise.

6.11 IMPACT OF GLOBALIZATION AND LIBERALIZATION ON SSI

Before the introduction of new economic reforms in 1991 following the inevitable globalization, the SSI sector was overprotected. The small scale industry never had a strong desire to grow to medium and large scale because of the benefits of protection given to it. Many of the policies also discouraged the growth of small scale units into large ones and had a stunting effect on manufacturing, employment and output growth. With the globalization, the SSIs are now exposed to sever competition both from large-scale sector, domestic and foreign and MNCs. The effect of globalization can be summarized as below.

(1) The new policies of the government towards liberalization and globalization without ensuring the interest or priority of small-scale sector resulted in poor

growth rate of SSI sector. The SSI sector has suffered because of the lending institutions and promotional agencies, whose main agenda is to serve big units and multinationals.

(2) The problems of SSI in liberalized environment have become multidimensional-delay in implementation of project, inadequate availability of finance and credit, marketing problems, cheap and low quality products, technological obsolescence, lack of infrastructural facilities, deficient managerial and technical skills, to name some.

(3) Globalization resulted in opening up of markets, leading to intense competition. For example, the World Trade Organization (WTO) regulates multilateral trade, requiring its member countries to remove its import quotas, restrictions and reduce import tariffs. India was also asked to remove quantitative restrictions on import by 2001 and all export subsidies by 2003. As a result every enterprise in India whether small-scale or large scale has to face competition. The process was initiated for small-scale units by placing 586 of its 812 reserved items on the open general license list of imports.

(4) With the removal of restrictions of foreign direct investment, multinational companies entered India which further intensified the competition in the domestic market. The 1990's witnessed the entry of multinational companies in areas such as automobiles, electronics and IT based sectors.

In the changed environment after globalization and liberalization, the policies and projects for the SSI sectors will have to be effective and growth oriented (not just protecting) so as to achieve competitiveness.

In order to protect, support and promote small enterprises, a number of protective and promotional measures have been undertaken by the central government.

The promotional measures cover the following:

- Industrial extension services
- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities
- Supply of machinery on hire purchase terms
- Assistance for domestic marketing as well as exports
- Special intensive for setting up enterprises in backward areas
- Technical consultancy and financial assistance for technological upgradation

6.12 IMPACT OF WTO/GATT ON SSI

The challenges to the small-scale sector are due to the impact of agreements under WTO. The setting up of the WTO in 1995 has altered the framework of international

trade towards non-distortive, market oriented policies. This is in keeping with the policy shift that occurred world wide in favour of the free market forces and tilt away from state regulation/intervention in economic activity. This is likely to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows. The main outcome of WTO stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.

There will also be tighter patent laws through regulation of intellectual property rights under Trade-Related Intellectual Property Rights (TRIPS) Agreements, which laid down what is to be patented, for what duration and on what terms.

Increased market access to imports will mean opening up the domestic market to large flows of imports. The removal of quantitative restrictions on imports of these items will soon be freed from all restrictions as announced in the recent import-export policy. Increased market access will also mean that our industries can compete for export markets in both developed and developing countries. But the expected surge in our exports can come about only if SSI sector is restructured to meet the demands of global competitiveness, which is the key to the future of small industries in present contest.

SSIs have to face threats and also avail opportunities owing to the WTO and its agreements. The main opportunities of the WTO are classified into three. Firstly, national treatment of exportable items across the countries all over the world, with better market access through the internet. Second, enlightened entrepreneurs have greater opportunities to benefit from their comparative advantages due to lowering of tariffs and dismantling of other restrictions. Finally, industries that are in constant touch with government, which in turn negotiates in their best interests in the on-going dialogue with the WTO, are going to benefit. India has real chance of becoming superpower in the service sector, particularly IT. It has already captured about 25 percent of world exports.

6.13 SUPPORT

Meaning and Need for Support

Finance is one of the essential requirements of any line of activity. Before actually setting up their units, small entrepreneurs need to know very clearly about the type and extent of their financial requirements. Integral to financial requirements is to know about the possible alternative sources from which finance can be availed of. Given the shortage of own funds, the Government of India as a part of its policy of promotion of small-scale sector in the country, has set up a host of institutions to meet the financial requirements of small entrepreneurs.

Starting an industrial unit require various resources and facilities. Small scale enterprises, given their small resources, find it difficult to have these own. Finance has been an important resource to start and run an enterprise because it facilitates the entrepreneur to procure land, labour, material, machine and so on from different parties to run his/her enterprise. Hence finance is considered as "life blood" for an enterprise. Recognizing it, the Government through her financial institutions and nationalized banks, has come forward to help small entrepreneurs provide them funds. Admittedly, finance is an important resource but not the only condition to run an enterprise. In order to start any economic activities, a minimum level of prior built up of infrastructural facilities is needed. Financial assistance and concessions cannot, in any case, adequately compensate for the deficiencies of infrastructure such as transport and communication. This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance and concessions given by the Government to the entrepreneurs to establish industries in backward areas. Creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. In view of this, various central and state government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities. Availability of institutional support helps make the economic environment more conducive to business or industry. The various kinds of support and facilities provided are discussed in the next section. The various central, state government institutions are discussed in detail in chapter 7.

6.14 AGENCIES OF GOVERNMENT FOR SSI

The ministry of small scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programmes for promotion and growth of small industries. The Department of small-scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. It initiates appropriate policy measures, programmes and schemes for promotion of SSI. The policy measures include setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities, and marketing assistance through the agencies created for the specified functions. These activities are supported by a host of other central/state government departments, promotional agencies, autonomous institutions, non-government organizations and so on.

The implementation of policies, programmes and schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industries Development Organization (SIDO), Khadi Village and Industry Commission (KVIC) and Coir Board, National Small Industry Corporation (NSIC) and

various training institutes. The institutional network can be broadly classified as under and is shown in fig. 6.2.

(1) Central level institutions/agencies
(2) State level institutions/agencies
(3) Other agencies

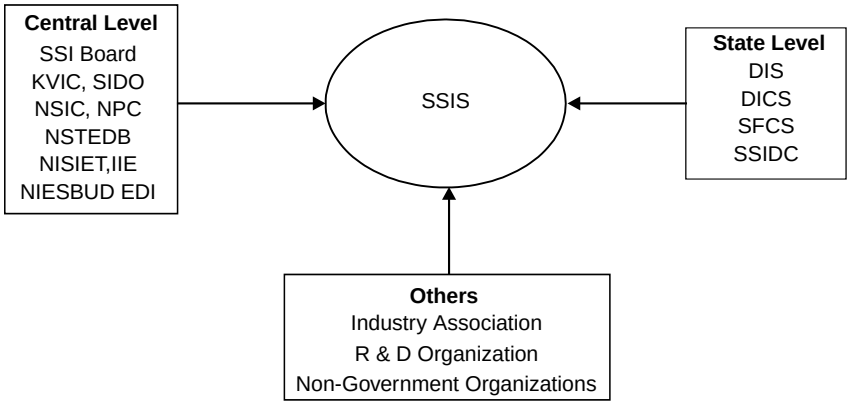

Fig 6.2: Institutions supporting small-scale industries

6.15 NATURE AND TYPES OF SUPPORTS

Policy Support

(1) The investment limit for the tiny sector will continue to be Rs. 25 lakh.
(2) The investment limit for the SSI sector will continue to be at Rs. 1 crore.
(3) The ministry of SSI and ARI will bring out a specific list of hi-tech and export-oriented industries which would require the investment limit to be raised upto Rs. 5 crore to admit suitable technology upgradation and to enable them to maintain their competitive edge.
(4) The Limited Partnership Act will be drafted quickly and enacted. Attempt will be made to bring the bill before the next session of parliament.

Fiscal Support

To improve the competitiveness of small-scale sector the exemption for excise duty Limit rose from Rs. 50 lakhs to Rs. 1 crore.

(1) The composite loans limit rose from Rs. 10 lakh to Rs. 25. lakh.
(2) The Small-Scale Service and Business (Industry Related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.
(3) In the National Equity Fund Scheme, the project cost limit will be raised from

Rs 25 lakh to Rs 50 lakh. The soft loan limit will be retained it 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum.

(4) The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.

(5) The Department of Economic Affairs will appoint a Task Force to suggest revitalization/restructuring of the State Finance Corporations.

(6) The Nayak Committee's recommendations regarding provision of 20 percent of the projected turnover as working capital is being recommended to the financial institutions and banks.

Infrastructure Support

(1) The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 percent reservation for rural areas.

(2) Regarding upgrading Industrial Estates which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.

(3) A plan scheme for cluster Development will be drawn up.

(4) The Funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centers, for cluster Development and for setting up of IIDs in the North-East including Sikkim.

Technological Support and Quality Improvement

(1) Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter-ministerial committee of Experts will be set up to define the scope of technology upgradation and sectorial priorities.

(2) To encourage Total Quality Management, the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e., till the end of the 10^{th} plan.

(3) Setting up of incubation centers in Sunrise Industries will be supported.

(4) The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET programme) and APCTT.

(5) SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology related information.

(6) Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.

(7) One-time capital grant of 50 percent will be given to Small-Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

Marketing Support

(1) SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.

(2) The vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

Informational Support

(1) General information.

(2) Technical/Marketing expertise in specific areas.

(3) Technical and financial expertise.

(4) Implementation assistance for turn-key projects.

Incentives and Subsidies

(1) Export-import subsidies.

(2) Interest free loans.

(3) Subsidy for R & D work.

(4) Capital investment subsidy.

(5) Transport subsidy.

(6) Interest subsidy.

(7) Subsidy for power generation.

(8) Exemption from property tax.

(9) Incentives for NRI.

(10) Exemption from income tax.

(11) Sales tax exemptions.

(12) Price preference to SSIs.

(13) Subsidy/assistance for technical consultancy.

(14) Exemptions from stamp duty.

(15) Provisional for seed capital.

(16) Allotment of controlled or subsidized raw materials.

(17) Subsidy for cost of market study/feasibility study or reports.

Other Types of Support

(1) Streamlining Rules and Regulations.
(2) Entrepreneurship development training.
(3) Rehabilitation of sick units.

Learning activity 6.4: Visit an entrepreneur and discuss with him about the agencies to be contacted for registration, marketing assistance and technical support.

6.16 ANCILLARY, TINY AND SERVICE INDUSTRIES

An ancillary unit is one, which sells not less than 50 % of its manufactures to one or more industrial units. The limit of investment is same for ancillary units and small-scale industries.

The investment limit for tiny industry is Rs. 25 lakh in plant and machinery. There is no restrictive condition of the location of the unit in small towns. These enterprises would be entitled to preference in land allocations, power connection, access to facilities or skill/technical upgradation. These would also have easy access to institutional finance, priority in Government purchases and relaxation in labor laws.

Service units provide services such as hotel and hospital services. The investment ceiling is fixed at Rs. 1.0 million (excluding land and buildings).

CHAPTER SUMMARY

In India a small-scale industry is defined as an industry having gross value of fixed asset in plant and equipment up to Rs. 1 crore. The characteristics of SSI are one-man-show, scope of operation is generally localized, low gestation period, fairly labour intensive and generally makes use of local resources. The rationale of SSI can be broadly classified into employment argument, equality argument, decentralization argument and latent resource argument. SSI plays a crucial role in economic development. An entrepreneur has to follow a step-by-step procedure to start an enterprise right from identification of opportunities. The Government's objectives and intensions towards SSI were announced through her five Industrial policy Resolutions (IPR). The main thrust of IPR 1948 was protection, in IPR 1956 it was protection plus development, in IPR 1977 the focus was on protection, development and promotion. The IPR 1990 focus was on promotion of equality, technology and efficiency. In 1991 new economic policies were announced.

The Government of India has given great importance for the development of small-scale sector in the successive five year plans. The total expenditure towards SSI in first five year plan was Rs. 48 Crore and in the eighth five year plan total expenditure towards SSI was Rs. 6334 Crore. Globalization, Liberalization, WTO and GATT have

impact on SSIs, both positive and negative. The agencies of the Government to be contracted are classified as State and central Government agencies. These agencies provide financial support, technical support and marketing support etc.

QUESTIONS

1. What do you mean by Small-Scale industry? List the characteristics of Small-scale industries.
2. Explain the rationale of SSI.
3. Enumerate the objectives of SSI.
4. Discuss the scope SSI.
5. Explain the role of SSI in economic development.
6. Discuss the advantages of SSI.
7. Explain in brief the steps involved in starting an SSI.
8. Explain the Government policy for SSI through five Industrial Policy Resolutions.
9. Discuss the Government's support to SSI during five year plans.
10. Explain the impact of Globalization and Liberalization on SSI.
11. Explain the impact of WTO and GATT on SSI.
12. Discuss agencies of Government for SSI.
13. Discuss the meaning and need of support.
14. Explain in brief the nature and types of support for SSI.

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CHAPTER 7

INSTITUTIONAL SUPPORT

Learning Objectives:

- To introduce the functions and activities of various Central and State Government agencies supporting small-scale industries.
- Discuss the functions of DIC.
- Present the activities and focused consultancy areas of TECSOK.
- Discuss the functions of KIADB.
- Present the activities and loan schemes of KSFC.

The list of various State and Central Government agencies supporting small-scale industries is given in previous chapter. Their activities and functions are discussed in the following sections.

7.1 NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote aid and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small–scale enterprises.

1. ***Single point registration*:** Registration under this scheme for participating in government and public sector undertaking tenders.
2. ***Information service*:** NSIC continuously gets updated with the latest specific information on business leads, technology and policy issues.
3. ***Raw material assistance*:** NSIC fulfils raw material requirements of small-scale industries and provides raw material on convenient and flexible terms.
4. ***Meeting credit needs of SSI*:** NSIC facilitate sanctions of term loan and working capital credit limit of small enterprise from banks.
5. ***Performance and credit rating*:** NSIC gives credit rating by international agencies subsidized for small enterprises up to 75% to get better credit terms from banks and export orders from foreign buyers.

6. ***Marketing assistance programme*:** NSIC participates in government tenders on behalf of small enterprises to procure orders for them.

7.2 SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries Service Institute) 31 extension centers of SISI and 7 centers related to production and process development.

The activities of SIDO are divided into three categories as follows:

(a) ***Coordination activities of SIDO*:**

(1) To coordinate various programmes and policies of various state governments pertaining to small industries.

(2) To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions.

(3) Implement and coordinate in the development of industrial estates.

(b) ***Industrial development activities of SIDO*:**

(1) Develop import substitutions for components and products based on the data available for various volumes-wise and value-wise imports.

(2) To give essential support and guidance for the development of ancillary units.

(3) To provide guidance to SSI units in terms of costing market competition and to encourage them to participate in the government stores and purchase tenders.

(4) To recommend the central government for reserving certain items to produce at SSI level only.

(c) ***Management activities of SIDO*:**

(1) To provide training, development and consultancy services to SSI to develop their competitive strength.

(2) To provide marketing assistance to various SSI units.

(3) To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.

(4) To help them get updated in various information related to the small-scale industries activities.

7.3 SMALL INDUSTRIES SERVICE INSTITUTES (SISI)

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective.

***The main functions of SISI include*:**

(1) To serve as interface between central and state government.
(2) To render technical support services.
(3) To conduct entrepreneurship development programmes.
(4) To initiate promotional programmes.

***The SISIs also render assistance in the following areas*:**

(1) Economic consultancy/information/EDP consultancy.
(2) Trade and market information.
(3) Project profiles.
(4) State industrial potential surveys.
(5) District industrial potential surveys.
(6) Modernization and in plant studies.
(7) Workshop facilities.
(8) Training in various trade/activities.

7.4 SMALL SCALE INDUSTRIES BOARD (SSIB)

The government of India constituted a board, namely, Small Scale Industries Board (SSIB) in 1954 to advice on development of small scale industries in the country. The SSIB is also known as central small industries board. The range of development work in small scale industries involves several departments/ministries and several organs of the central/state governments. Hence, to facilitate co-ordination and inter-institutional linkages, the small scale industries board has been constituted. It is an apex advisory body constituted to render advice to the government on all issues pertaining to the development of small-scale industries.

The industries minister of the government of India is the chairman of the SSIB. The SSIB comprises of 50 members including state industry minister, some members of parliament, and secretaries of various departments of government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

7.5 STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SSIDC)

(Karnataka State Small Industries Development Authority KSSIDC in Karnataka State)

The State Small Industries Development Corporations (SSIDC) were sets up in various states under the companies' act 1956, as state government undertakings to cater to the primary developmental needs of the small tiny and village industries in the state/ union territories under their jurisdiction. Incorporation under the companies act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefit of the small sector.

The important functions performed by the SSIDCs include:

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.
- To provide assistance for marketing of the products of small-scale industries.
- To construct industrial estates/sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned provide management assistance to production units.

7.6 DISTRICT INDUSTRIES CENTERS (DIC)

The District Industries Centers (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government.

The main functions of DIC are:

(1) To prepare and keep model project profiles for reference of the entrepreneurs.

(2) To prepare action plan to implement the schemes effectively already identified.

(3) To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e., industrial sector, service sector and business sector.

(4) To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of it supply and procedure for importing machineries.

(5) To provide guidance for appropriate loan amount and documentation.

(6) To assist entrepreneurs for availing land and shed equipment and tools, furniture and fixtures.

(7) To appraise the worthness of the project-proposals received from entrepreneurs.
(8) To help the entrepreneurs in obtaining required licenses/permits/clearance.
(9) To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.
(10) To conduct product development work appropriate to small industry.
(11) To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.
(12) To conduct artisan training programme.
(13) To act as the nodal agency for the district for implementing PMRY (Prime Minister Rojgar Yojana).
(14) To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.
(15) To help the specialized training organizations to conduct Entrepreneur development programmes.

In fine DIC's function as the torch-bearer to the beneficiaries/entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So the role of DIC's in enterprise building and developing small scale sector is of much significance.

7.7 TECHNICAL CONSULTANCY SERVICES ORGANIZATION OF KARNATAKA (TECSOK).

TECSOK is a professional industrial technical and management consultancy organization promoted by the government of Karnataka and other state level development institutions way back in 1976. It is a leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, mergers and acquisition, process reengineering studies, valuation of assets for takeovers, impact assessment of socio-economic schemes, critical infrastructure balancing; IT related studies, detailed feasibility studies and reports.

TECSOK with its pool of expertise in varied areas can work with new entrepreneur to identify a product or project. In addition to this TECSOK sharpens the project ideas through feasibility studies, project reports, market surveys, and sources of finance, selection of machinery, technology, costing and also providing turnkey assistance. To help entrepreneurs to face the global competition TECSOK facilitates global exposures, updated technology, market strategies, financial restructuring and growth to improve profitability of an industry.

TECSOK can identify sickness in existing industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions. In addition it offers expert professional services to various institutions and departments of the state and central government.

TECSOK undertake the assignment in the field of

- Technical and market appraisal of projects.
- Industrial potential surveys.
- Fact-finding and opinion reports.
- Corporate planning.
- Collection and collation of information.
- Impact assessment.
- Evaluation of schemes and programmes.
- Asset evaluation.
- Infrastructure development project proposal.
- Event management and publicity campaigns, and
- Organizing seminar and workshops.

TECSOK has over 25 well-experienced engineers in different disciplines, MBAs economists and finance professionals. It has business partnerships with reputed national and multinational consultants and out sources expertise for professional synergy. TECSOK has an exclusive women's cell which conducts training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs and offers escort services to women entrepreneur. TECSOK has many publications. "Kaigarika Varthe" a monthly is published by TECSOK. In addition it publishes "Guide to Entrepreneurs" "Directory of Industries" on a regular basis.

Focused Consultancy Areas of TECSOK

***Promotion of agro based industries*:** TECSOK is recognized nodal agency by the Ministry of Food Processing Industries, Government of India, for project proposal to avail grant and loan assistance under the special schemes.

***Energy management and audit*:** Thrust is given to use non-conventional energy sources for which both state and central governments are offering incentives. TECSOK has been recognized as a body to undertake energy audit and suggest energy conservation measures. TECSOK undertakes studies and project proposal for availing assistance from the Indian Renewable Energy Development Authority (IREDA).

Environment and ecology: TECSOK undertakes assignments relating to environment education, environment impact assessment, environment management plan and pollution control measures. TECSOK has joined hands with Karnataka cleaner production center (KCPC) to provide total consultancy support in the area of environment.

Human Resource Development: TECSOK designs and organizes business development programmes, management development workshops, skill development programmes and in-house training packages. It undertakes programmes of empowerment of women entrepreneurs, organization of self-help groups. In order to encourage local entrepreneurs TECKSOK organizes awareness campaigns and motivation programmes in taluks and districts throughout Karnataka.

Other TECSOK activities:

- Guidance in product selection and project identification.
- Market survey and market development advice.
- Consultancy for agro-based industries of a nodal agency of the government of India.
- Diagnostic studies and rehabilitation of sick industries.
- Environment impact assessment studies environment management plans and propagation of cleaner production techniques.
- Energy management and audit.
- Valuation of assets for mergers and takeovers.
- Infrastructure development project reports.
- Port tariff study and related areas.
- System study and software development.
- Management studies, company formation, corporate plan, enterprise restructuring etc.
- Designing and organizing training programme.

7.8 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

For ensuring larger flow of financial and non-financial assistance to the small scale sector, the government of India set up the Small Industries Development Bank of India (SIDBI) under Special Act of Parliament in 1989 as a wholly owned subsidiary of the IDBI. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small scale sector. The important functions of IDBI are as follows:

(1) To initiate steps for technological upgradation and modernization of existing units.

(2) To expand the channels for marketing the products of SSI sector in domestic and international markets.

(3) To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

The SIDBIs financial assistance to SSIs is channeled through existing credit delivery system comprising state financial corporations, state industrial development corporations,

commercial banks and regional rural banks. In 1992-93 it has introduced two new schemes. The first is equipment finance scheme for providing direct finance to existing well-run small-scale units taking up technology upgradation/modernization and refinance for resettlement of voluntarily retired workers of NTC. The other new scheme was venture capital fund exclusively for small-scale units, with an initial corpus of Rs 10 crore. SIDBI also provides financial support to national small industries corporation (NSIC) for providing leasing, hire-purchase and marketing support to the industrial units in the small scale sector.

7.9 KARNATAKA INDUSTRIAL AREAS DEVELOPMENT BOARD (KIADB)

The Karnataka industrial areas development board is statutory board constituted under the Karnataka industrial area development act of 1996. Since then it is in the business of apportioning land for industries and gearing up facilities to carryout operations. The KIADB now acquires and provides developed land suited for industrialization, by drawing up well laid-out plots of varying sizes to suit different industries with requisite infrastructure facilities. The facilities include roads, drainage, water supply etc. The amenities such as banks, post offices, fire stations, police outposts, ESI dispensaries etc are also provided. It also plans to initiate the provision of common effluent treatment plants wherever necessary.

KIADB has acquired a land of 39,297 acres out of which 21,987 acres had been developed till March 1996. Developed industrial plots had been allotted to 7882 units.

Application forms for the allotment of land may be obtained from the executive member, KIADB Bangalore or general manager DIC of concerned district or from the Zonal office of KIADB located at Mysore, Mangalore, Dharwad, Gulbarga, Bidar, Hassan and Belgaum. Applications duly filled must be accompanied by:

(a) A brief project report.
(b) Details of constitution of the company
(c) Provisional registration certificate
(d) EMD of Rs 500/- per acre, subject to a maximum of Rs 10,000/- along with 20%, 15% and 5% of the land cost for various districts.

On receipt of applications for all districts other than Bangalore, a discussion with the promoters regarding the project will be held in the concerned district headquarters. The district level allotment committee will take a decision on allotment of land to the SSI units.

In case of Bangalore, the screening committee comprising of executive member KIADB, director of SISI, chief advisor TECSOK with discuss the project and make necessary recommendation to a sub-committee. The sub-committee will in turn allot the land. Once land is allotted the remaining payment should be made within six months of the date of issue of allotment letter.

The industry should be started after obtaining the necessary license/clearance/approval from the concerned authorities. Plans for the proposed factory/building or other structure to be erected on the allotted sites are executed only after prior approval of the board. On being satisfied that the land is not being put to the prescribed use, the board reserves the right to re-enter and take procession of the whole or any part of the land. If necessary the leasehold rights on the allotted land may be offered as security in order to obtain financial assistance from the government or corporate bodies. However, prior permission of the board has to be obtained for creating second and subsequent charges of the land.

7.10 KARNATAKA STATE FINANCIAL CORPORATION (KSFC)

The KSFC was established by the government of Karnataka in 1956 under the state financial corporation act 1951 for extending financial assistance to set up tiny, small and medium scale industrial units in Karnataka. Since 1956 it is working as a regional industrial development bank of Karnataka. KSFC has a branch office in each district; some districts have more than one branch.

KSFC extends lease financial assistance and hire purchase assistance for acquisition of machinery/equipment/transport vehicles. KSFC has merchant banking department which takes up the management of public issues underwriting at shores, project report preparation, deferred payment guarantee, and syndication of loans, bill discounting and similar tasks.

KSFC give preference to the projects which are

(i) Promoted by technician entrepreneur.
(ii) In the small-scale sector.
(iii) Located in growth centers and developing areas of the state;
(iv) Promoted by entrepreneurs belonging to scheduled castes and scheduled tribes, backward classes and other weaker sections of society.
(v) Characterized by high employment potential.
(vi) Capable of utilizing local resources; and
(vii) In tune with the declared national priorities.

The eligible industrial concerns for financial assistance from KSFC are those engaged/to be engaged in manufacture, preservation, processing of goods, mining, power generation transport, industrial estate, hotels, R & D of any product or process of industrial concern, weigh bridge facilities, power laundries, photocopying, hiring of heavy material handling equipment, cranes and other earth moving equipments, hospitals, nursing homes, medical stores, computers, tourism related activities, construction of roads, tissue and horticulture software development, software parks, block board vehicles, office construction, go down and warehouse construction, mobile canteens, commercial complexes, training institutes, office automation and so on.

Loan Schemes of KSFC

KSFC has evolved loan schemes for extending financial assistance to industrial concerns promoted by rural artisans, weaker sections of society, disabled entrepreneurs, ex-servicemen, women entrepreneurs and others.

T***he various loan schemes of KSFC are given below:***

(1) Composite loan scheme
(2) Disabled entrepreneurs loan scheme.
(3) Scheduled cast and scheduled tribe's loan scheme.
(4) Ex-service men loan scheme.
(5) National equity fund scheme.
(6) Mahila Udyama nidhi loan scheme.
(7) Single window loan scheme.
(8) Transport loan scheme.
(9) Computer loan scheme.
(10) Modernization loan scheme.
(11) Diesel generator loan scheme.
(12) Equipment finance loan scheme.
(13) Tourism related activities loan scheme.
(14) Hospital/nursing/medical store loan scheme.
(15) Electro-medical equipment loan scheme.
(16) Assistance for acquiring indigenous or imported second-hand machinery.
(17) Qualified professionals loan scheme.
(18) Scheme of assistance for acquisition of ISO 9000 series of certification.
(19) Hotel/mobile canteen loan scheme.
(20) Industrial estate loan scheme.
(21) Loan scheme for office automation.
(22) Loan scheme for training institution.
(23) Loan scheme for private software technology parks.
(24) Loan scheme for commercial complexes.
(25) Industrial estate loan scheme.
(26) Loan scheme for ready-built office/construction of new office building.
(27) Loan scheme for acquisition of land/building/commercial space.
(28) Loan schemes for marketing related activities.

***Equity lease finance*:** Industrial concerns engaged in production for the preceding two years, earning profits and regular in repayment to financial institutions/banks, can avail the services of plant and machinery/equipment on lease without making

investment or incurring debt obligation and become more competitive and efficient. The minimum assistance is Rs 5 lakh.

***Hire purchase*:** This scheme provides for a fast, easy alternative to ready cash. Industrial concerns in commercial production for two years and earning profits and regular in repayment to financial institutions/banks can avail assistance of Rs. 1 lakh. Professionals and commercial operators can also avail hire purchase assistance.

CHAPTER SUMMARY

The various central government agencies for support of SSI are SSI board, KVIC, SIDO, NSIC, NSTEDB, NPC, NISIET etc. The state government agencies are DI, DIC, SFC, SIDC, SIIC, SSIDC etc. NSIC provides information services, fulfills raw material requirements of SSIs, meets credit needs and provides marketing assistance. SIDO is a nodal agency for identifying needs of SSI units, coordinating and monitoring the policies and programmes for promotion of small industries. The activities of SIDO are divided into coordination activities, industrial development activities and management activities. SISI serve as interface between central and state government, render technical support services, conduct entrepreneurship development programme and initiate promotional programmes.

SSIB has constituted to facilitate coordination and to act as inter-institutional linkage. SSIDCs were setup in 1956 under companies act. The important function of SSIDC are procuring and distributing scarce raw material, supplying machinery on hire purchase system, providing marketing assistance and to construct industrial sheds. The district industries centers were started in 1958 to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The main functions of DIC are preparing and keeping model project profiles, prepare action plans, carrying out industrial potential survey to identify feasible ventures, providing assistance for land/shed, equipment etc.

TECSOK is leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, merger and acquisition etc. KIADB is in the business of apportioning land for industries and gearing up facilities to carry out operations.

KSFC was established in 1956 for extending financial assistance to tiny, small and medium industries. It extends lease financial assistance, hire purchase assistance for acquisition of machinery/equipment/transport vehicles. KSFC has evolved more than thirty loans schemes.

QUESTIONS

1. Discuss the support provided by NSIC to small scale industries.
2. Explain various activities of SIDO.
3. Explain the functions of SISI. Enumerate various types of assistances rendered by it.
4. Discuss the important functions of SSIDC.
5. Explain in brief the main function of DIC.
6. Discuss the various activities of TECSOK.
7. Explain the focused consultancy areas of TECSOK.
8. Explain the procedure for getting industrial sheds/plots from KIADB.
9. Enumerate the projects for which KSFC gives preference.
10. List various loan schemes of KSFC.
11. Discuss equity lease finance and hire purchase schemes of KSFC.

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CHAPTER 8

PREPARATION OF PROJECT

Learning Objectives:

- To understand the meaning of project.
- Present the classification of project.
- Discuss the steps in project selection.
- Present the meaning and contents of project report.
- Present guidelines by Planning Commission for project report.
- Discuss network analysis.
- Present errors of project report.
- Understand project appraisal.
- Discuss identification of opprtunity and feasibility study.

8.1 MEANING OF PROJECT

An entrepreneur takes numerous decisions to convert his business idea into a running concern. His/Her decision making process starts with project/product selection. The project selection is the first corner stone to be laid down in setting up an enterprise. The success or failure of an enterprise largely depends upon the project. The popular English proverb "well began is half done" applies to project selection also indicates the significant of good beginning.

The dictionary meaning of project is that is a scheme, design a proposal of something intended or devised to be achieved. Newman and his associates define that "a project has typically has a distinct mission that it is designed to achieve and clear termination point, the achievement of the mission. Gillinger defines project "as a whole complex of activities involved in using resources to gain benefits". According to Encyclopedia of management, "a project is an organized unit dedicated to the attainment of goal—the successful completion of a development project on time, within budget, in conformance with predetermined programme specifications." Now, a project can be defined as a

scientifically evolved work plan devised to achieve a specific objective within a specified period of time.

Project can differ in their size, nature of objectives, time duration and complexity. However projects partake of the following three basic attributes:

(i) A course of action

(ii) Specific objectives and

(iii) Definite time perspectives.

Every project has starting point, an end point with specific objectives.

8.2 PROJECT CLASSIFICATION

Project classification helps in expressing and highlighting the essential features of project. Different authorities have classified projects differently. The following are some of the important classification of projects.

(1) Quantifiable and Non-Quantifiable Projects

Quantifiable projects are those in which possible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such assessment is not possible. Projects concerned with industrial development, power generation, mineral development fall in the first category while projects involving health, education and defense fall in the second category.

(2) Sectional Projects

Here the classification is based on various sectors like

- Agriculture and allied sector
- Irrigation and power sector
- Industry and mining sector
- Transport and com munication sector
- Information technology sector
- Miscellaneous

This system of classification has been found useful in resource allocation at macro level.

(3) Techno-Economic Projects

Classification of projects based on techno-economic characteristic fall in this category. This type of classification includes factors intensity-oriented classification, causation oriented classification as discussed below.

(a) ***Factor intensity-oriented classification*:** Based on this projects may be classified as capital intensive or labor intensive if large investment is made in plant and

machinery the project will be termed as capital intensive. On the other hand project involving large number of human resources will be termed as "labor intensive".

(b) ***Causation-oriented classification*:** On the basis of causation, projects can be classified as demand based and raw material based projects. The availability of certain raw materials, skills or other inputs makes the project raw-material based and the very existence of demand for certain goods or services make the project demand-based.

(c) ***Magnitude-oriented classification*:** This is based on the size of investment involved in the projects, accordingly project are classified into large scale, medium-scale or small-scale projects.

The selection of a project consists of two main steps: Project identification and project selection.

8.3 PROJECT IDENTIFICATION

Often indenting entrepreneurs always are in search of project having a good market but how without knowing the product coat they determine market whose market they find out without knowing the item i.e. product? Idea generation about a few projects provides a way to come out of the above tangle.

IDEA GENERATION

The process of project selection starts with idea generation. In order to select most promising and profitable project, the entrepreneur has to generate large number of ideas about the possible projects he can take. The project ideas can be discovered from various internal and external sources. These may include:

(i) Knowledge of potential customer needs.

(ii) Personal observation of emerging trends in demand for certain products.

(iii) Scope for producing substitute product.

(iv) Trade and professional magazines which provide a very fertile source of project ideas.

(v) Departmental publications of various departments of the government.

(vi) Success stories of known entrepreneurs or friends or relatives.

(vii) A new product introduced by the competitor.

(viii) Ideas given by knowledgeable persons.

All these sources putting together may give few ideas about the possible projects to be examined among which the project must be selected. After going through these sources if an entrepreneur has been able to get six project ideas, one project idea will be finally selected going through the following selection process.

PROJECT SELECTION

Project selection starts once the entrepreneur has generated few ideas of project. After having some ideas, these project ideas are analyzed in the light of existing economic conditions, market conditions, and the government policy and so on. For this purpose a tool is generated used what is called SWOT analysis. The intending entrepreneur analyses his strengths and weaknesses as well as opportunities/competitive advantages and threats/challenges offered by each of the project ideas. In addition the entrepreneur needs to analyze other related aspects also like raw material, potential market, labor, capital, location and forms of ownerships etc. Each of these aspects has to be evaluated independently and in relation to each of these aspects. This forms a continuous and back and forth process as shown in fig 8.1.

On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of few projects is also termed as "Zeroing in Process".

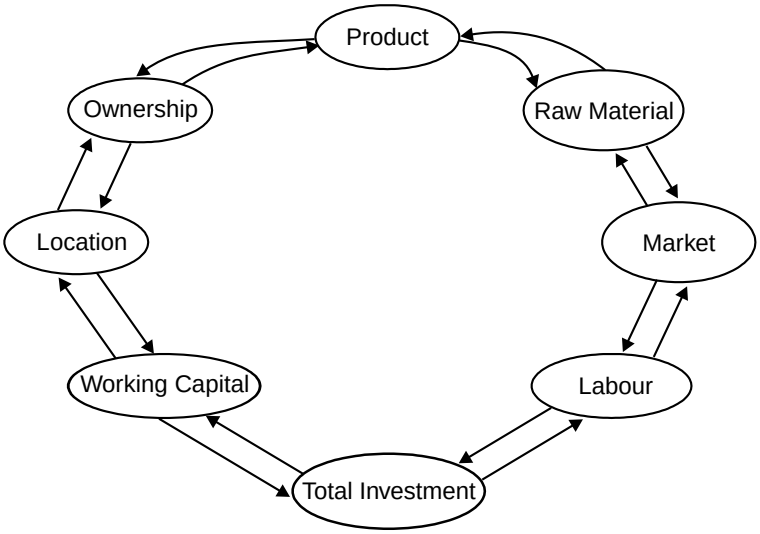


Fig. 8.1: Interdependent aspects of projects

Readers are advised to note that there is a time interval involved in between project identification and project selection. In some cases it may be few months and in others it may be few minutes.

8.4 MEANING AND SIGNIFICANCE OF PROJECT REPORT

As is discussed in the previous section, Webster new 20th century dictionary defines as a scheme, design a proposal something intended or devised. A project report or a business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course at action what the entrepreneur hopes to achieve in his business

and how is he going to achieve it. A project report serves like a kind of big road map to reach the destination determined by entrepreneur. Hence a project report can be defined as a well evolved course of action devised to achieve the specified objectives within a specified period of time. It is like an operating document.

The preparation of project report is of great significance for an entrepreneur. The project report serves two essential purposes. The first is the project report is like a road map it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. In addition it enables the entrepreneur to know that he is proceeding in the right direction. Dan Steinhoff and John F. Burgess hold the view that without well spelled out goals and operational methods, most businesses flounder on the rocks of hard times.

The second purpose of the project report is to attract lenders and investors. The preparation of project report is beneficial for those small scale enterprises which apply for financial assistance from the financial institutions and commercial banks. On the basis of this project report the financial institutes make appraisal and decide whether financial assistance should be given or not. If yes how much. Other organizations which provide various assistance like work shed/land, raw material etc, also make decision on the basis of this project report.

8.5 CONTENTS OF A PROJECT REPORT

The significance of project report as discussed above makes it clear that there is no substitution for business plan or project report and there are no shortcuts to prepare it. The more concrete and complete project report not only serves as road map but also earns the respect of outsiders who support in making and running an enterprise. Hence project report should be prepared with great care and consideration. A good project report should contain the following.

(1) ***General information*:** Information on product profile and product details.

(2) ***Promoter*:** His/her educational qualification, work experience, project related experience.

(3) ***Location*:** exact location of the project, lease or freehold, location advantages.

(4) ***Land and building*:** land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.

(5) ***Plant and machinery*:** Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.

(6) ***Production process*:** Description of production process, process chart, technical know how, technology alternatives available, production programme.

(7) ***Utilities*:** Water, power, steam, compressed air requirements, cost estimates sources of utilities.

(8) ***Transport and communication*:** Mode, possibility of getting costs.

(9) ***Raw material*:** List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.

(10) ***Man power*:** Man power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.

(11) ***Products*:** Product mix, estimated sales distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.

(12) ***Market*:** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.

(13) ***Requirement of working capital*:** Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.

(14) ***Requirement of funds*:** Break-up project cost in terms of costs of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.

(15) ***Cost of production and profitability of first ten years.***

(16) ***Break-even analysis***.

(17) ***Schedule of implementation.***

8.6 FORMULATION OF PROJECT REPORT

A project report is like a road map. It is an operating document. What information and how much information it contain depends upon the size of the enterprise, as well as nature of production. For example small-scale enterprises do not include technology which is used for preparing project reports of large-scale enterprises. Within small-scale enterprises too, all information may not be homogeneous for all units. Vinod Gupta has given a general set of information in his study "Formation of a project report." According to Gupta, project formulation divides the process of project development into eight distinct and sequential stages as below:

(1) General information

(2) Project description

(3) Market potential

(4) Capital costs and sources of finance

(5) Assessment of working capital requirements

(6) Other financial aspects

(7) Economical and social variables

(8) Project implementation

The nature of formation to be collected and furnished under each of these stages has been given below.

(1) General Information

The information of general nature given in the project report includes the following:

***Bio-data of promoter*:** Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

***Industry profile*:** A reference analysis of industry to which the project belongs, e.g., past performance; present status, its organization, its problems etc.

***Constitution and organization*:** The constitution and organization structure of the enterprise; in case of partnership firm its registration with registrar of firms, certification from the directorate of industries/district industry centre.

***Product details*:** Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

(2) Project Description

A brief description of the project covering the following aspects should be made in the project report.

Site: Location of the unit; owned, rented or leasehold land; industrial area; no objection certificate from municipal authorities if the enterprise location falls in the residential area.

Physical Infrastructure: Availability of the following items of infrastructure should be mentioned in the project report.

(a) ***Raw material*:** Requirement of raw material, whether inland or imported, sources of raw material supply.

(b) ***Skilled labour*:** Availability of skilled labour in the area i.e., arrangements for training labourers in various skills.

(c) ***Utilities***: These include:

  (i) ***Power*:** Requirement of power, load sanctioned, availability of power

  (ii) ***Fuel*:** Requirement of fuel items such as coal, coke, oil or gas, state of their availability and supply position.

  (iii) ***Water*:** The sources of water, quality and quantity available.

(d) ***Pollution control*:** The aspects like scope of dumps, sewage system, sewage treatment plant, infiltration facility etc., should be mentioned.

(e) ***Communication and transportation facility*:** The availability of communication facilities, e.g., telephone, fax, telex, internet etc., should be indicated. Requirements for transport, mode of transport, potential means of transport, approximate distance to be covered, bottlenecks etc., should be stated in the business plan.

(f) ***Production process*:** A mention should be made for process involved in production and period of conversion from raw material into finished goods.

(g) ***Machinery and equipment*:** A complete list of machines and equipments required indicating their size, type, cost and sources of their supply should be enclosed with the project report.

(h) ***Capacity of the plant*:** The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.

(i) ***Technology selected*:** The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.

(j) ***Other common facilities*:** Availability of common facilities like machine shops, welding shops and electrical repair shops etc should be stated in the project report.

(k) ***Research and development*:** A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

(3) Market Potential

While preparing a project report, the following aspects relating to market potential of the product of the product should be stated in the report.

(a) ***Demand and supply position*:** State the total expected demand for the product and present supply position, what is the gap between demand and supply and how much gap will fill up by the proposed unit.

(b) ***Expected price*:** Expected price of the product to be realized should also be mentioned.

(c) ***Marketing strategy*:** Arrangements made for selling the product should be clearly stated in the project report.

(d) ***After sales service*:** Depending upon the nature of the product, provisions made for after-sales should normally be stated in the project report.

(4) Capital Costs and Sources of Finance

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report. The sources should indicate the owners funds together with funds raised from financial institutions and banks.

(5) Assessment of Working Capital

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will reduce the objections from banker's side.

(6) Other Financial Aspects

To adjudge the profitability of the project to be set up, a projected profit and loss account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected balance sheet and cash flow statement should also be prepared to indicate the financial position and requirements at various stages of the project. In addition to this, the break even analysis should also be presented. Break even point is the level of production at which the enterprise shall earn neither profit nor incur loss. Breakdown level indicates the gestation period and the likely moratorium required for repayment of the loans. Break-even point is calculated as

Break-Even Point (BEP) = F/S–V

Where F = Fixed Cost

S = Selling Price/Unit

V = Variable Cost/Unit

The break-even point indicates at what level of output the enterprise will break even.

(7) Economical and Social Variables

Every enterprise has social responsibility. In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project. Arrangements made for treating the effluents and emissions should also be mentioned in the report. In addition the following socio-economic benefits should also be stated in the report.

(i) Employment Generation
(ii) Import Substitution
(iii) Ancillaration
(iv) Exports
(v) Local Resource Utilization
(vi) Development of the Area

(8) Project Implimentation

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost overrun. Delay in project implementation jeopardizes the financial viability of the project, on one hand, and props up the entrepreneur to drop the idea to set up an enterprise, on the other. Hence there is need to draw up an implementation schedule for the project and then to adhere to it.

PERT and CPM discussed later in this chapter can be used to get better insight into all activities related to implementation of the project.

8.7 PLANNING COMMISSION GUIDELINES

In order to process investment proposals and arrive at investment decisions, the planning Commission has issued guidelines for preparing/formulating industrial projects. The guidelines have been summarized as follows:

1. ***General information*:** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, i.e., the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should contain information about the enterprise submitting the feasibility report.
2. ***Preliminary analysis of alternatives***: This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and their level of production actually attained, a list of all projects for which letters of intent licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project and its implications should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options shou1d also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-à-vis return should be presented.
3. ***Project description*:** The feasibility report should provide a brief description of the technology/process chosen for the project. Information relevant for determining the optimality of the location chosen should also be included. To assist in the assessment of the environmental effects of a project every feasibility report must present the information on specific points, i.e., population, water, land, air, flora, fauna, effects arising out of the project's pollution, other environmental destruction, etc. The report should contain a list of important items of capital equipment and also the list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organizational structure envisaged, transport costs, activity wise phasing of construction and factors affecting it.
4. ***Marketing plan*:** It should contain the following items: Data on the marketing plan, demand and prospective supply in each of the areas to be served.

   The methods and the data used for making estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.

5. ***Capital requirements and cost*:** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.
6. ***Operating requirements and costs*:** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating cost should be collected. Operating costs relate to cost of raw, materials and intermediaries, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.
7. ***Financial analysis*:** The purpose of this analysis is to present some measures to asses the financial viability of the project. A Performa balance sheet for the project data should be presented. Depreciation should be allowed for on the basis specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyze the sensitivity of the rate of return on the level and pattern of product prices.
8. ***Economic analysis*:** Social profitability analysis needs some adjustments in the data relating to the costs and return to the enterprise. One important type of adjustment involves a correction in input and cost, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign, trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified they should be analyzed and their importance emphasized.

8.8 NETWORK ANALYSIS

A project consists of a number of constituted activities. It is examined in detail and the details are utilized to compile the sequential narration of the constituent activities of a project. The compilation is known as the project logic. When it is represented in the form of a graphical portrayal it is called as network. Network in simple words is defined as the graphical representation of interrelated activities of the project.

A network generally comprises a set of symbols connected with each other in a sequential relationship with each step making the completion of an event. The network diagram and scheduling computations enable the project formulation team to identify the longest series of activities through the project implementation phase which determines the project duration.

A number of network techniques have been developed and some of them are discussed below:

***Critical Path Method* (CPM):** The CPM is a logical mathematical model of the project based upon the optimal duration required for each activity and optimal use of available limited resources. It is a deterministic model.

Program Evaluation and Review Technique **(PERT):** The PERT is primarily a scheduling technique. It shows any job or project as a set of processes of operations called 'activities' which must take place in a certain sequence. All activities have to be compelled in order to accomplish the project. It is a probabilistic model and introduces uncertainties in project network.

Graphical Evaluation and Review Technique **(GERT):** The GERT is a more recently used network. This is superior to CPM and PERT. It allows for probabilistic events while all events in CPM and PERT are deterministic. In the networks representing research and development project the process is repeated till the desired out come is achieved. CPM and PERT cannot be used in such situations. In GERT network only simulation can be used.

Line of Balance **(LOB):** Line of balance uses graphic techniques to show the progress achieved on the project with respect to key events.

Workshop Analysis Scheduling Programme **(WASP):** This technique of networking system was developed by the British Automatic Energy Authority.

However, the most commonly used techniques are PERT and CPM.

Use of PERT**:** The following steps are used in PERT:

(1) The activities of the project are identified along with their interrelationships and graphically represented using networks.

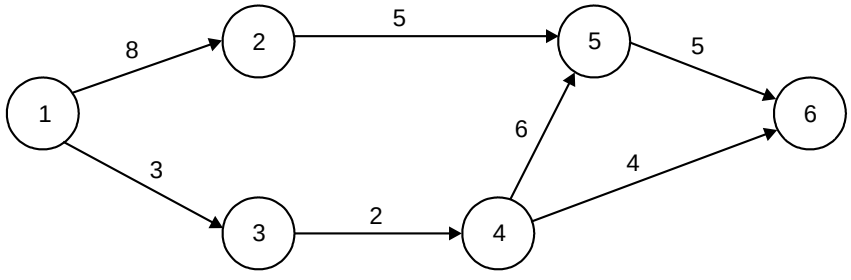
(2) The time required for completing each activity is estimated and noted on the network.

(3) The minimum time required for completing the entire project is estimated.

(4) The critical activities are identified for the efficient allocation of resources in order to complete the project earlier, if necessary.

(5) Closer watch on critical and other activities so as to complete the project on time.

The following table gives the activities and the time required to complete each activity of the project.



Activity	Time required to complete activity (days)
1-2	08
1-3	03
3-4	02
2-5	05
4-5	06
4-6	04
5-6	05

Path 1-2-5-6 = 8 + 5 + 5 = 18 days

Path 1-3-4-6 = 3 + 2 + 4 = 09 days

Path 1-3-4-5-6 = 3 + 2 + 6 + 5 = 16 days

Since the path 1-2-5-6 consumes longest time, it is known as critical path and the activities 1-2, 2-5 and 5-6 are known as critical activities. Hence the project completion time is 18 days.

***Use of CPM*:** The CPM is almost similar to the PERT. However it is activity oriented and focuses on cost and not time. The CPM is generally used to find the optimum project cost and time. The optimum project cost is the minimum cost at which the project can be completed. This can be determined by using the concept of crashing of activities. Crashing of activity is nothing but reducing the time required to complete an activity, by allocations additional resources, which adds cost. CPM is also used to find minimum time at which a project can be completed, irrespective of cost, which may be necessary under crisis situations.

Advantages of PERT

(1) It determines the expected duration of activities and consequently of the project duration.

(2) It incorporates risk analysis in project network.

(3) It determines critical activities in the project.

(4) It determines the most economical scheduled for fixed project duration.

(5) It enables optimal allocation of limited resources.

Limitations of PERT

(1) The time estimates to perform activities constitutes a major limitation of this technique.

(2) The probability distribution of total time is assumed to be normal which in real life situations may not be true.

(3) The simple PERT technique does not consider the resources required at various stages. If a certain resource must be used to perform more than one activity and at the same time if it can be used for only one activity at a time then the network diagram will become infeasible.

Advantages of CPM

(1) CPM allows for a comprehensive view of the entire project. Because of the sequential and concurrent relationships, time scheduling becomes very effective.

(2) Identifying critical activities keeps the project manager alert and in a state of preparedness, with alternative plans ready in case these are needed.

(3) Selective management principle may be used in project management. In the network analysis, the critical activities become item 'A' the sub-critical activities item 'B' and all others, item 'C'. Breaking down the project into smaller components permits better and closer control.

(4) Through the plan schedule derived from CPM, delegation can be effectively practised.

Limitations of CPM

(1) CPM is deterministic model based on certainty assumptions as regards time. But it may not be true in practice.

(2) CPM does not use statistical analysis in making time estimates.

(3) It cannot be used as a controlling device since any changes introduced will alter the entire structure of network.

Differences between PERT and CPM

Though both PERT and CPM are used for managing projects, yet there are differences between them. These are listed in table

PERT	CPM
1. It is event oriented approach	It is an activity oriented approach
2. It allows uncertainty	It does not allow uncertainty
3. It is probabilistic model	It is deterministic model
4. It is time based	It is cost based
5. It averages time	It does not average time
6. It has three estimates of time	It has single estimate of time
7. It is suitable when high precision is required.	It is suitable where reasonable precision is required.

8.9 COMMON MISTAKES BY ENTREPRENEURS IN PROJECT FORMULATION

Entrepreneurs do make mistakes while selecting and formulating their projects and evolving business plans. Some of the common errors found in project formulation are:

(1) ***Selection of project area*:** Entrepreneurs select wrong area of product or service by studying wrong or exaggerated data of particular industries. This happens particularly when entrepreneur gets data from the presentations and projections made by experts in the field or exhibitions or from trend analysis. The selection of a product without detailed study of product market, demand patterns, competition in the industry, change of customer taste and perceptions or mistaken overview of the demand pattern. Usually an entrepreneur selects a product which he knows best or where he has worked for long years. Example: A marketing man in textile is likely to choose textile as his product.

(2) ***Market study and analysis*:** Market research, study and analysis is a critical aspect for an entrepreneur in selection of a product and market segment. Any decision based on scanty, wrong or un-organized data will give a distorted demand picture leading to wrong choices. An entrepreneur should also choose products' based on the objective studies and not go by his previous experience, avoiding likes and dislikes in his personal capacity.

(3) ***Selection of technology*:** An appropriate technology is necessary for any new enterprise for its survival and growth. A wrong selection of technology leads to problems of costs, profit margins and feasibility issues of the entire project.

(4) ***Optimistic estimate*s:** Over optimistic estimates by the entrepreneurs in the area of productivity, capacity utilization, prevailing marketing conditions, under estimation of competitors and pricing give wrong selection of products. Any business plan made by an entrepreneur based on wrong data, financial jugglery will give problems in selection and implementation of the project.

(5) ***Ownership form*:** A suitable ownership form be evolved for the project to avoid stoppages and disputes.

(6) ***Selection of location*:** An entrepreneur should not be tempted select locations that are not viable. A location is almost permanent to any project and as such plays an important role in cost competitiveness and viability of the organization throughout its life. An entrepreneur is tempted usually on three counts, first the cheapness on and second love of the native place of the entrepreneur and third the incentives offered by the government agencies for location of industries. It could be seen that all the three alternative give a broad idea of the costs whereas the selection be made only on the basis of techno-economic analysis and overall benefits to the proposed projects. In order to process investment proposals and arrive at investment decisions, of the Planning

Commission has issued guidelines for preparing formulating industrial projects. The guidelines have been summarized as follows.

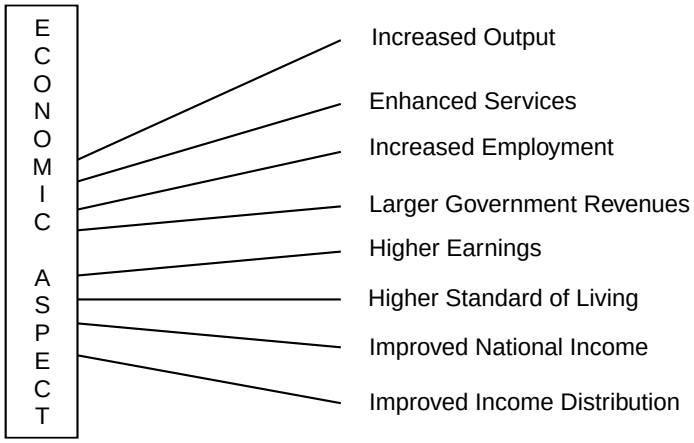
8.10 PROJECT APPRAISAL: MEANING AND DEFINITION

Project appraisal is an exercise where by, a lending financial institution makes an independent and objective assessment of various aspects of an investment proposition to arrive at the financial decision. Project appraisal means the assessment of project in terms of its economic, social and financial viability. It is a complete scanning of the project. Usually banks and financial institutions conduct a critical appraisal of projects, which are submitted to them by the entrepreneur for getting loans. They have been traditionally accepting the data provided by the entrepreneur as valid while assessing the project. In fact the emphasis has largely been on the cash flow and financial viability of a project in assessing their suitability for extending the loans.

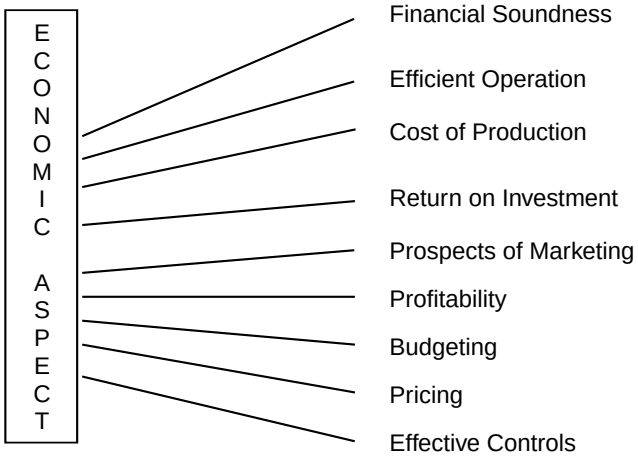
Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter person who is no way involved in or connected with its preparation and who is as such able to take an independent dispassionate and objective view of the project in its totality as also in respect of its various components. The person who carries out appraisal of project is usually a team of institutional officials.

The appraisal of proposed project includes the following analysis:

(1) ***Economic analysis*:** An economic analysis looks at the project from the viewpoint of the whole economy, asking whether the latter will show benefits sufficiently greater than project cost to justify investment in it.



(2) ***Financial analysis*:** The purpose of the appraisal of the financial aspects of a project is generally to ensure its initiation of financial conditions for the sound implementation and efficient operation.



(3) ***Market analysis*:** Financial institutions examine the project to ensure economic justification of investment details. They study the marketing scope of the project and also its worth to the national economy by analyzing the consumption pattern and the potential demand for the project.

***Market analysis covers the following*:**

- Anticipated market for the product
- Analysis of market opportunity and specifying marketing objectives
- Planning the process of marketing the product
- Organization for the marketing process
- Life cycle of the product

(4) ***Technical analysis*:** Technical appraisal of a project broadly involves a critical study of the following:

(i) *Location and site:* There are a number of aspects that influence industrial location because it may significantly influence the cost of production and distribution efficiency, the operating environment etc. The important factors that influence industrial location are raw material, proximity to market, availability of water, power, transportation facilities, man power, labor laws, taxes, incentives, subsidies etc. The factors to be considered for selection of site are load bearing capacity, access to water, effluent discharge etc.

(ii) *Size of the plant/scale of operation:* The size of the plant determines the economic and financial liability of a project. An important aspect of size is the available process technology. Equipment is often standardized at specific capacities in production sectors. Operative capacities in such sectors are therefore available only in certain multiples.

(iii) *Technical Feasibility:* The appraisal of the technical aspects involves scrutiny of such aspects of the project as

- Technology selected
- Technical collaboration arrangements made
- Capacity/Size of the project
- Selection of plant, machinery and equipment
- Plant layout and factory building
- Technical and engineering services

(5) ***Organizational analysis*:** As a lender and development institution, the banks and other financial institutions place particular stress on the need and efficient organization and responsible management for the execution of the project. During project appraisal, these two aspects of a project are examined. If both aspects are not carried out properly, short term remedial steps are recommended to the entrepreneur. The objective of this aspect of appraisal is to make sure that the project is adequately carried out. The various organizational aspects are organization, structure, recruitment, training and development and so on.

(6) ***Managerial aspects*:** If the management is incompetent, even a good project may fail. It is rightly pointed out that if the project is week, it can be improved upon but if the promoters are week and lack in business acumen, it is difficult to reverse the situation. To safeguard from this problem, the financial institutions can exercise control over the assisted units. There is a provision for appointment by the financial institutions of nominee directors on the boards of all MRTP companies assisted by them. The companies act, the industries act (Development and Regulation), empower government to exercise powers of control over the management, including the take over of management of industrial undertakings. All these indicate the importance given to proper managerial strategies to prevent mismanagement. If the proper appraisal of the managerial aspects is made in the beginning itself, future problems in this area can be avoided to a very large extent.

8.11 IDENTIFICATION OF OPPORTUNITY

The reason for anyone to think of establishing an SSI unit can be summarized in single word—opportunity. The opportunity to be your own boss, to implement your own ideas, to earn for himself or herself is reason to think of starting an SSI unit. Starting an SSI needs a lot of courage. To be successful, to stay in the business an entrepreneur needs combination of hard work, skill and perseverance.

Entrepreneur who starts their own business can be grouped into two broad categories. The first category consists of people who know exactly what they want to do and are merely looking for the opportunity or resources to do it. These people may

already developed many of skills necessary to succeed in their chosen field and are also likely to be familiar with industry customs and practices, which can help during the start-up phase of a new business.

The second group consists of people who want to start their own business, but do not have definite ideas about what may would like to do. They may have developed skills during their education or in the course of their previous employment, but many have not be interested in opening a business in the same field of endeavor.

Project identification is concerned with the collection complication and analysis of data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according to Drucker, are of three kinds: additive, complimentary and break-through.

Adiptive opportunities are those opportunities which enable the decision maker to better utilize the existing resources without in any way involving a change in the character of business. Complementary opportunities involve the introduction of new ideas and as such do lead to certain amount of change in the existing structure. Break-through opportunities on the other hand, involve fundamental changes in both the structure and character of business. Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence the least amount of risk. The element of risk is more in other two opportunities.

Project identification cannot be complete without identifying the characteristics of the project. Every project has three elements—inputs, outputs and social costs and benefits. The input characteristics define what the project will consume in terms of raw material, energy, manpower, finance and organizational setup. The native and magnitude of these input must be determined in order to make the input characteristics explicit. The output characteristics of a project define what the project will generate in the form of goods and services, employment revenue etc. The quantity and quality of all these output should be clearly specified. In addition every project will have impact on society. It inevitably affects the current equilibriums of demand and supply in the economy. It is necessary to evaluate carefully the sacrifice which the society will be required to make and the benefits will not accrue to the society from a given project.

8.12 PROJECT FEASIBILITY STUDY

Project feasibility analysis is carried out to ensure viability of project. The important project feasibility study is

1. Market feasibility
2. Technical feasibility
3. Financial feasibility

4. Economic feasibility
5. Ecological feasibility

Market feasibility

Market feasibility is concerned with two aspects the aggregate demand for the proposed product/service, the market share of the project under consideration. For this market analysis requires variety of information and appropriate forecasting methods. The kind of information required is

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints
- Imports and exports
- Structure of competition
- Cost structure
- Elasticity of demand
- Consumer behavior, intentions, motivations, attitudes, preferences and requirements
- Distribution channels
- Administrative, technical and legal constraints

Technical Analysis

Technical analysis seeks to determine whether prerequisites for successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size, and so on. The important questions raised in technical analysis are:

- Has the availability if raw material, power, and other inputs been established?
- Is the selected scale of operation optimal?
- Is the production process chosen suitable?
- Are the equipment and machines chosen appropriate?
- Have the auxiliary equipment and supplementary engineering works been provided for?
- Has provision been made for treatment of effluents?
- Is the proposed layout of the site, buildings and plant sound?
- Have work schedules been drawn up realistically?
- Is the technology proposed to be employed appropriate from the social point of view?

Financial Analysis

Financial analysis is necessary as ascertain whether the propose project is financially viable in the sense of being able to meet the burden of servicing dept and whether the propose project will satisfy the return expectations of those who provide the capital. The aspects to be looked into while conducting financial appraisal are as follows.

- Investment outlay and cost of project
- Means of financing.
- Project profitability
- Break-even point
- Cash shows of the project
- Investment worthiness judged in terms of various criteria of merit
- Project financial position
- Level of risk

Economic/Social Cost-benefit Analysis

This is concerned with judging a project from the larger social point of view, where in the focus if on social costs and benefits of a project, which may often be different from its monitory costs and benefits. The questions to be answered in social cost-benefit analysis are as follows.

- What are the direct economic benefits and costs of the project measured in terms of shadow (efficiency) prices and not in terms of market prices?
- What would be the impact of the project on the distribution of income in the society?
- What would be the impact of the project on the level of savings and investment in the society?
- What would be the contribution of the project towards the fulfillment of certain like self-sufficiency, employment and social order?

Ecological Analysis

Today, environmental concerns assured a great deal of significance and hence ecological analysis should be done, particulars for project which have significant ecological implications like power plants and irrigation schemes and for environmental polluting industries like chemicals, leather processing etc. The key questions to be answered in ecological analysis are as follows.

- What is the likely damage caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable?

CHAPTER SUMMARY

A project is defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Projects are classified in a number of ways. Project identification involves idea generation. The project ideas can be discovered from various internal and external sources. Project ideas are analyzed in the light of existing economic and market conditions, government policy and so on in order to select project.

A project report can be defined as a well evolved course of action devised to achieve the specific objectives within a specified period of time. It is like an operating document. The project report contains general information, project description, market potential, capital costs and sources of finance, assessment of working capital, economic and social variables, project implementation scheme and so on. Planning commission provides guidelines for preparing project report. Network techniques like PERT, CPM and GERT can be used for scheduling and controlling the projects.

Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter person. Project appraisal involves carrying economic, financial, market, technical organizational analysis.

QUESTIONS

(1) Explain in brief the meaning of project.
(2) Discuss the classification of projects.
(3) Write a note on the following
    (a) Idea generation
    (b) Project selection
(4) What do you mean by a project report? Explain in brief the contents of project report.
(5) Discuss the guidelines of planning commission for project report.
(6) List the merits and demerits of PERT and CPM.
(7) Explain the steps involved in using PERT and CPM.
(8) Write a note on errors in project report.
(9) What do you mean by project appraisal? Explain various types of analysis used in project appraisal.
(10) Write a note on
    (a) Identification of opportunity
    (b) Feasibility study

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