Syllabus

VI SEMESTER

MANAGEMENT & ENTREPRENEURSHIP

Subject Code : **10AL61**	IA Marks : 25
No. of Lecture Hrs/Week : 04	Exam Hours : 03
Total no. of Lecture Hrs. : 52	Exam Marks : 100

MANAGEMENT (PART – A)

UNIT - 1

MANAGEMENT: Introduction - Meaning - nature and characteristics of Management, Scope and functional areas of Management - Management as a Science, Art or Profession Management & Administration - Roles of Management, Levels of Management, Development of Management Thought-Early Management Approaches-Modern Management Approaches.

7 Hours

UNIT - 2

PLANNING: Nature, importance and purpose of planning process Objectives - Types of plans (Meaning only) - Decision making – Importance of planning - steps in planning & planning premises - Hierarchy of plans. **6 Hours**

UNIT - 3

ORGANISING AND STAFFING: Nature and purpose of organization Principles of organization - Types of organization - Departmentation Committees – Centralisation Vs Decentralisation of authority and responsibility - Span of control - MBO and MBE (Meaning only) Nature and importance of Staffing - Process of Selection & Recruitment (in brief).

7 Hours

UNIT - 4

DIRECTING & CONTROLLING: Meaning and nature of directing Leadership styles, Motivation Theories, Communication - Meaning and importance – Coordination, meaning and importance and Techniques of Co -ordination. Meaning and steps in controlling - Essentials of a sound control system - Methods of establishing control. **6 Hours**

ENTREPRENEURSHIP (PART – B)

UNIT - 5

ENTREPRENEUR: Meaning of Entrepreneur; Evolution of the Concept, Functions of an Entrepreneur, Types of Entrepreneur, Intrapreneur – an emerging Class. Concept of Entrepreneurship - Evolution of Entrepreneurship, Development of Entrepreneurship; Stages in entrepreneurial process; Role of entrepreneurs in Economic Development; Entrepreneurship in India; Entrepreneurship – its Barriers. **6 Hours**

UNIT - 6

SMALL SCALE INDUSTRY: Definition; Characteristics; Need and rationale: Objectives; Scope; role of SSI in Economic Development. Advantages of SSI Steps to start an SSI - Government policy towards SSI; Different Policies of S.S.I.; Government Support for S.S.I. during 5 year plans, Impact of Liberalization, Privatization, Globalization on S.S.I., Effect of WTO/GATT Supporting Agencies of Government for S.S.I Meaning; Nature of Support; Objectives; Functions; Types of Help; Ancillary Industry and Tiny Industry (Definition only).

7 Hours

UNIT - 7

INSTITUTIONAL SUPPORT: Different Schemes; TECKSOK; KIADB; KSSIDC; KSIMC; DIC Single Window Agency: SISI; NSIC; SIDBI; KSFC. **6 Hours**

UNIT - 8

PREPARATION OF PROJECT: Meaning of Project; Project Identification; Project Selection; Project Report; Need and Significance of Report; Contents; formulation; Guidelines by Planning Commission for Project report; Network Analysis; Errors of Project Report; Project Appraisal. Identification of Business Opportunities - Market Feasibility Study; Technical Feasibility Study; Financial Feasibility Study & Social Feasibility Study. **7 Hours**

TEXT BOOKS:

1. **Principles of Management** - P. C. Tripathi, P. N. Reddy; Tata McGraw Hill, 4th Edition, 2010.
2. **Dynamics of Entrepreneurial Development & Management** – Vasant Desai Himalaya Publishing House.
3. **Entrepreneurship Development** - Small Business Enterprises Poornima M Charantimath - Pearson Education – 2006.

REFERENCE BOOKS:

1. **Management Fundamentals** - Concepts, Application, Skill Development Robert Lusier – Thomson.
2. **Entrepreneurship Development** - S S Khanka - S Chand & Co.
3. **Management** - Stephen Robbins - Pearson Education /PHI -17th Edition, 2003.

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PART – A: MANAGEMENT

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MANAGEMENT:

Syllabus of unit 01 :

Introduction - Meaning - nature and characteristics of Management, Scope and functional areas of Management - Management as a Science, Art or Profession Management & Administration - Roles of Management, Levels of Management, Development of Management Thought-Early Management Approaches-Modern Management Approaches.

Recommended readings:

1. **Principles of Management** - P. C. Tripathi, P. N. Reddy; Tata McGraw Hill.
2. **Management Fundamentals** - Concepts, Skill Development Robert Lusier – Thomson.

INTRODUCTION TO MANAGEMENT:

In today's tough and uncertain economy, a company needs strong managers to lead its staff toward accomplishing business goals. But managers are more than just leaders — they're problem solvers, cheerleaders, and planners as well. And managers don't come in one-size-fits-all shapes or forms. Managers fulfill many roles and have many different responsibilities at each level of management within an organization. In this chapter, you not only discover those roles and functions, but you also find out the
truth about several common misconceptions about management.

"Management" (from Old French ménagement "the art of conducting, directing", from Latin manu agere "to lead by the hand") characterises the process of leading and directing all or part of an organization, often a business, through the deployment and manipulation of resources (human, financial, material, intellectual or intangible). …

Nature & Characteristics :

1. Management is a group activity: - Management is an essential part of group activity. As no individual can satisfy all his desires himself, he units with his fellow- being and works in an organized group to achieve what he cannot achieve individually.
2. Management is goal-oriented: - Management aims to achieve economic and social objective. It exists to achieve some definite goals or objectives. Group efforts in management are always directed toward the achievement of some pre-determined goals.
3. Management is a factor of production: - Management is anuran end in itself but a means to achieve the group objectives. Just as land, labor and capital are factor of production and are essential for the production of goods and services.
4. Management is universal in character: - Management is applicable in all types of organization. Whenever there is human activity, there is management. The basis principle of management are universal application and can be applied in all organization whenever they are business, social, religious, cultural, sport, educational, politics or military.
5. Management is needed at all levels of the organization: - Another important feature of management is that it is needed at all levels of the organization, e.g. top level, middle level and supervisory level. The only difference is of the nature of task and the scope of authority.
6. Management is a distinct process: - Management is a distinct process performed to determine and accomplish started objective by the use of human beings and other resources. It is different from the activities technique and procedures.
7. Management is a social process: - Management is getting thing through others. This involves dealing with people. The efforts of the human beings have to be directed, co-ordinate and regulated by management in order to achieve the desired results.
8. Management is a system of authority: - Since management is a process of directing men to perform a task, authority to accomplish the work from others is implied in the every concept of management. Management cannot perform in the absence of authority.
9. Management is a dynamic function: - Management is a dynamic function and it has to be performed continuously. It is constantly engaged in the molding of the enterprise in an over charging business environment.

10. Management is an art as well as a science: - Management is a science because it has developed certain principle which is of universal application. But the result of management depend upon the personnel skills of managers and in this sense management is an art.

Levels of management:

Two leaders may serve as managers within the same company but have very different titles and purposes. Large organizations, in particular, may break down management into different levels because so many more people need to be managed. Typical management levels fall into the following categories:

Top level: Managers at this level ensure that major performance objectives are established and accomplished. Common job titles for top managers include chief executive officer (CEO), chief operating officer(COO), president, and vice president. These senior managers are considered executives, responsible for the performance of an organization as a whole or for one of its significant parts. When you think of a top-level manager, think of someone like Dave Thomas of thefast-food franchise Wendy's. Although John T. Schuessler was elected CEO in 2000, Dave Thomas is the founder and still the chairman of the board. He is the well-known spokesperson for the chain.

Middle level: Middle managers report to top managers and are in charge of relatively large departments or divisions consisting of several smaller units. Examples of middle managers include clinic directors in hospitals; deans in universities; and division managers, plant managers,and branch sales managers in businesses. Middle managers develop and implement action plans consistent with company objectives, such as increasing market presence.

Low level: The initial management job that most people attain is typically a **first-line management** position, such as a team leader or supervisor — a person in charge of smaller work units composed of hands-on workers. Job titles for these first-line managers vary greatly, but include such designations as department head, group leader, and unit leader. First-line managers ensure that their work teams or units meet performance objectives, such as producing a set number of items at a given quality, that are consistent with the plans of middle and top management.

Functions of Managers:

Managers just don't go out and haphazardly perform their responsibilities.Good managers discover how to master five basic functions: planning,organizing, staffing, leading, and controlling.

_ **Planning:** This step involves mapping out exactly how to achieve a particular goal. Say, for example, that the organization's goal is to improve company sales. The manager first needs to decide which steps are necessary to accomplish that goal. These steps may include increasing advertising, inventory, and sales staff. These necessary steps are developed into a plan. When the plan is in place, the manager can follow it to accomplish the goal of improving company sales.

_ **Organizing:** After a plan is in place, a manager needs to organize herteam and materials according to her plan. Assigning work and granting authority are two important elements of organizing.
_ **Staffing:** After a manager discerns his area's needs, he may decide to beef up his staffing by recruiting, selecting, training, and developingemployees. A manager in a large organization often works with the
company's human resources department to accomplish this goal.
_ **Leading:** A manager needs to do more than just plan, organize, andstaff her team to achieve a goal. She must also lead. Leading involves motivating, communicating, guiding, and encouraging. It requires
the manager to coach, assist, and problem solve with employees.
_ **Controlling:** After the other elements are in place, a manager's job is not finished. He needs to continuously check results against goals and take any corrective actions necessary to make sure that his area's plans remain on track. All managers at all levels of every organization perform these functions,
but the amount of time a manager spends on each one depends on both the level of management and the specific organization.

Roles performed by managers:

A manager wears many hats. Not only is a manager a team leader, but he or he is also a planner, organizer, cheerleader, coach, problem solver, and decision maker — all rolled into one. And these are just a few of a manger's roles. In addition, managers' schedules are usually jam-packed. Whether they're busy with employee meetings, unexpected problems, or strategy sessions,managers often find little spare time on their calendars. These roles fall into three categories:
_ **Interpersonal:** This role involves human interaction.

Monitor: Seek and receive information; scanperiodicals and reports; maintain personal contact with stakeholders.

Disseminator: Forward information to organization members via memos, reports, and phone calls.

Spokesperson:Transmit information to outsiders via reports,memos, and speeches.

_ **Informational:** This role involves the sharing and analyzing of information.

Figurehead: Perform ceremonial and symbolic duties, such as greeting visitors and signing legal documents.

Leader: Direct and motivate subordinates; counsel and communicate with subordinates.

Liaison: Maintain information links both inside and outside organization via mail, phone calls,and meetings.

_ **Decisional:** This role involves decision making.Decisional Entrepreneur Initiate improvement projects; identify new ideas and delegate idea responsibility to others.

Disturbance : Take corrective action during disputes or handler crises; resolve conflicts among subordinates; adapt to environments.

Resource: Decide who gets resources; prepare allocator budgets; set schedules and determine priorities.

Negotiator: Represent department during negotiations of union contracts, sales, purchases, and budgets.

Skills needed by managers

Not everyone can be a manager. Certain **skills,** or abilities to translate knowledge into action that results in desired performance, are required to help other employees become more productive. These skills fall under the following categories:

_ **Technical:** This skill requires the ability to use a special proficiency or expertise to perform particular tasks. Accountants, engineers, market researchers, and computer scientists, as examples, possess technical skills. Managers acquire these skills initially through formal education and then further develop them through training and job experience.Technical skills are most important at lower levels of management.

_ **Human:** This skill demonstrates the ability to work well in cooperation with others. Human skills emerge in the workplace as a spirit of trust, enthusiasm, and genuine involvement in interpersonal relationships. A manager with good human skills has a high degree of self-awareness and a capacity to understand or empathize with the feelings of others. Some managers are naturally born with great human skills, while others improve their skills through classes or experience. No matter how human skills are acquired, they're critical for all managers because of the highly interpersonal nature of managerial work.

_ **Conceptual:** This skill calls for the ability to think analytically. Analytical skills enable managers to break down problems into smaller parts, to see the relations among the parts, and to recognize the implications of any one problem for others. As managers assume everhigher responsibilities in organizations, they must deal with more ambiguous problems that have long-term consequences. Again, managers may acquire these skills initially through formal education and then further develop them by training and job experience. The higher the management level, the more important conceptual skills become. Although all three categories contain skills essential for managers, their relative importance tends to vary by level of managerial responsibility. Business and management educators are increasingly interested in helping people acquire technical, human, and conceptual skills, and develop specific competencies, or specialized skills, that contribute to high performance in a management job. Following are some of the skills and personal characteristics that the American Assembly of Collegiate Schools of Business (AACSB) is urging business schools to help their students develop.

_ **Leadership** — ability to influence others to perform tasks
_ **Self-objectivity** — ability to evaluate yourself realistically
_ **Analytic thinking** — ability to interpret and explain patterns in information
_ **Behavioral flexibility** —ability to modify personal behavior to react objectively rather than subjectively to accomplish organizational goals.
_ **Oral communication** — ability to express ideas clearly in words
_ **Written communication** — ability to express ideas clearly in writing
_ **Personal impact** — ability to create a good impression and instill confidence
_ **Resistance to stress** —ability to perform under stressful conditions
_ **Tolerance for uncertainty** — ability to perform in ambiguous situations

The Evolution of Management Thought

One of the first schools of management thought, the **classical management theory,** developed during the Industrial Revolution when new problems related to the factory system began to appear. Managers were unsure of how to train employees (many of them non-English speaking immigrants) or deal with increased labor dissatisfaction, so they began to test solutions. As a result, the classical management theory developed from efforts to find the "one best way" to perform and manage tasks. This school of thought is made up of two branches: classical scientific and classical administrative, described in the following sections.

Classical scientific school

The **classical scientific branch** arose because of the need to increase productivity and efficiency. The emphasis was on trying to find the best way to get the most work done by examining how the work process was actually accomplished and by scrutinizing the skills of the workforce. The classical scientific school owes its roots to several major contributors, including Frederick Taylor, Henry Gantt, and Frank and Lillian Gilbreth.

Frederick Taylor is often called the "father of scientific management." Taylor believed that organizations should study tasks and develop precise procedures. As an example, in 1898, Taylor calculated how much iron from rail cars Bethlehem Steel plant workers could be unloading if they were using the correct movements, tools, and steps. The result was an amazing 47.5 tons per day instead of the mere 12.5 tons each worker had been averaging. In addition, by redesigning the shovels the workers used, Taylor was able to increase the length of work time and therefore decrease the number of people
shoveling from 500 to 140. Lastly, he developed an incentive system that paid workers more money for meeting the new standard. Productivity at Bethlehem Steel shot up overnight. As a result, many theorists followed Taylor's philosophy when developing their own principles of management.

Henry Gantt, an associate of Taylor's, developed the Gantt chart, a bar graph that measures planned and completed work along each stage of production. Based on time instead of quantity, volume, or weight, this visual display chart has been a widely used planning and control tool since its development in 1910.

Frank and Lillian Gilbreth, a husband-and-wife team, studied job motions. In Frank's early career as an apprentice bricklayer, he was interested in standardization and method study. He watched bricklayers and saw that some workers were slow and inefficient, while others were very productive. He discovered that each bricklayer used a different set of motions to lay bricks. From his observations, Frank isolated the basic movements necessary to do the job and eliminated unnecessary motions. Workers using these movements raised their output from 1,000 to 2,700 bricks per day. This was the first **motion study** designed to isolate the best possible method of performing a given job. Later, Frank and his wife Lillian studied job motions using a motion-picture camera and a split-second clock. When her husband died at the age of 56, Lillian continued their work. Thanks to these contributors and others, the basic ideas regarding scientific management developed. They include the following:
_ Developing new standard methods for doing each job

_ Selecting, training, and developing workers instead of allowing them to choose their own tasks and train themselves
_ Developing a spirit of cooperation between workers and management to ensure that work is carried out in accordance with devised procedures
_ Dividing work between workers and management in almost equal.

Classical administrative school

Whereas scientific management focused on the productivity of individuals, the classical administrative approach concentrates on the total organization. The emphasis is on the development of managerial principles rather than work methods. Contributors to this school of thought include Max Weber, Henri Fayol,Mary Parker Follett, and Chester I. Barnard. These theorists studied the flow of information within an organization and emphasized the importance of understanding how an organization operated.
Max Weber disliked that many European organizations were managed on a "personal" family-like basis and that employees were loyal to individual supervisors rather than to the organization. He believed that organizations should be managed impersonally and that a formal organizational structure, where specific rules were followed, was important. In other words, he didn't think that authority should be based on a person's personality. He thought authority should be something that was part of a person's job and passed from individual to individual as one person left and another took over. This nonpersonal, objective form of organization was called a **bureaucracy.**
Weber believed that all bureaucracies have the following characteristics:
_ **A well-defined hierarchy.** All positions within a bureaucracy are structured in a way that permits the higher positions to supervise and control the lower positions. This clear chain of command facilitates control and order throughout the organization.
_ **Division of labor and specialization.** All responsibilities in an organization are specialized so that each employee has the necessary expertise to do a particular task.
_ **Rules and regulations.** Standard operating procedures govern all organizational activities to provide certainty and facilitate coordination.
_ **Impersonal relationships between managers and employees.** Managers should maintain an impersonal relationship with employees so that favoritism and personal prejudice do not influence decisions.
_ **Competence.** Competence, not "who you know," should be the basis for all decisions made in hiring, job assignments, and promotions in order to foster ability and merit as the primary characteristics of a bureaucratic organization.
_ **Records.** A bureaucracy needs to maintain complete files regarding all its activities.

Henri Fayol, a French mining engineer, developed 14 principles of management based on his management experiences. These principles provide modern-day managers with general guidelines on how a supervisor should organize her department and manage her staff. Although later research has created controversy over many of the following principles, they are still widely used in management theories.
_ **Division of work:** Division of work and specialization produces more and better work with the same effort.
_ **Authority and responsibility:** Authority is the right to give orders and the power to exact obedience. A manager has official authority because of her position, as well as personal authority based on individual personality,intelligence, and experience. Authority creates responsibility.

_ **Discipline:** Obedience and respect within an organization are absolutely essential. Good discipline requires managers to apply sanctions whenever violations become apparent.
_ **Unity of command:** An employee should receive orders from onlyone superior.
_ **Unity of direction:** Organizational activities must have one central authority and one plan of action.
_ **Subordination of individual interest to general interest:** The interests of one employee or group of employees are subordinate to the interests and goals of the organization.
_ **Remuneration of personnel:** Salaries — the price of services rendered by employees — should be fair and provide satisfaction both to the employee and employer.
_ **Centralization:** The objective of centralization is the best utilization of personnel. The degree of centralization varies according to the dynamics of each organization.
_ **Scalar chain:** A chain of authority exists from the highest organizational authority to the lowest ranks.
_ **Order:** Organizational order for materials and personnel is essential. The right materials and the right employees are necessary for each organizational function and activity.
_ **Equity:** In organizations, equity is a combination of kindliness and justice. Both equity and equality of treatment should be considered when dealing with employees.
_ **Stability of tenure of personnel:** To attain the maximum productivity of personnel, a stable work force is needed.
_ **Initiative:** Thinking out a plan and ensuring its success is an extremely strong motivator. Zeal, energy, and initiative are desired at all levels of the organizational ladder.
_ **Esprit de corps:** Teamwork is fundamentally important to an organization.Work teams and extensive face-to-face verbal communication encourages teamwork.

Mary Parker Follett stressed the importance of an organization establishing common goals for its employees. However, she also began to think somewhat differently than the other theorists of her day, discarding command-style hierarchical organizations where employees were treated like robots. She began to talk about such things as ethics, power, and leadership. She encouraged managers to allow employees to participate in decision making. She stressed the importance of people rather than techniques — a concept very much before her time. As a result, she was a pioneer and often not taken seriously by management scholars of her time. But times change, and innovative ideas from the past suddenly take on new meanings. Much of what managers do today is based on the fundamentals that Follett established more than 70 years ago.

Chester Barnard, who was president of New Jersey Bell Telephone Company, introduced the idea of the **informal organization** —*cliques* (exclusive groups of people) that naturally form within a company. He felt that these informal organizations provided necessary and vital communication functions for the overall organization and that they could help the organization accomplish its goals. Barnard felt that it was particularly important for managers to develop a sense of common purpose where a willingness to cooperate is strongly encouraged. He is credited with developing the **acceptance theory of management,** which emphasizes the willingness of employees to accept that mangers have legitimate authority to act. Barnard felt that four factors affected the willingness of employees to accept authority:
_ The employees must understand the communication.
_ The employees accept the communication as being consistent with the organization's purposes.

_ The employees feel that their actions will be consistent with the needs and desires of the other employees.
_ The employees feel that they are mentally and physically able to carry out the order. Barnard's sympathy for and understanding of employee needs positioned him as a bridge to the behavioral school of management, the next school of thought to emerge.

Behavioral Management Theory

As management research continued in the 20th century, questions began to come up regarding the interactions and motivations of the individual within organizations. Management principles developed during the classical period were simply not useful in dealing with many management situations and could not explain the behavior of individual employees. In short, classical theory ignored employee motivation and behavior. As a result, the behavioral school was a natural outgrowth of this revolutionary management experiment.

The **behavioral management theory** is often called the human relations movement because it addresses the human dimension of work. Behavioral theorists believed that a better understanding of human behavior at work, such as motivation, conflict, expectations, and group dynamics, improved productivity. The theorists who contributed to this school viewed employees as individuals, resources, and assets to be developed and worked with — not as machines, as in the past. Several individuals and experiments contributed to this theory.

Elton Mayo's contributions came as part of the *Hawthorne studies,* a series of experiments that rigorously applied classical management theory only to reveal its shortcomings. The Hawthorne experiments consisted of two studies conducted at the Hawthorne Works of the Western Electric Company in Chicago from 1924 to 1932. The first study was conducted by a group of engineers seeking to determine the relationship of lighting levels to worker productivity. Surprisingly enough, they discovered that worker productivity increased as the lighting levels decreased — that is, until the employees were unable to see what they were doing, after which performance naturally declined. A few years later, a second group of experiments began. Harvard researchers Mayo and F. J. Roethlisberger supervised a group of five women in a bank wiring room. They gave the women special privileges, such as the right to leave their workstations without permission, take rest periods, enjoy free lunches, and have variations in pay levels and workdays. This experiment also resulted in significantly increased rates of productivity. In this case, Mayo and Roethlisberger concluded that the increase in productivity resulted from the supervisory arrangement rather than the changes in lighting or other associated worker benefits. Because the experimenters became the primary supervisors of the employees, the intense interest they displayed for the workers was the basis for the increased motivation and resulting productivity. Essentially, the experimenters became a part of the study and influenced its outcome. This is the origin of the term *Hawthorne effect,* which describes the special attention researchers give to a study's subjects and the impact that attention has on the study's findings. The general conclusion from the Hawthorne studies was that human relations and the social needs of workers are crucial aspects of business management. This principle of human motivation helped revolutionize theories and practices of management.

Abraham Maslow, a practicing psychologist, developed one of the most widely recognized **need theories,** a theory of motivation based upon a consideration of human needs. His theory of human needs had three assumptions:

_ Human needs are never completely satisfied.
_ Human behavior is purposeful and is motivated by the need for satisfaction.
_ Needs can be classified according to a hierarchical structure of importance, from the lowest to highest.Maslow broke down the needs hierarchy into five specific areas:
_ **Physiological needs.** Maslow grouped all physical needs necessary for maintaining basic human well-being, such as food and drink, into this category. After the need is satisfied, however, it is no longer is a motivator.
_ **Safety needs.** These needs include the need for basic security, stability, protection, and freedom from fear. A normal state exists for an individual to have all these needs generally satisfied. Otherwise, they become primary motivators.
_ **Belonging and love needs.** After the physical and safety needs are satisfied and are no longer motivators, the need for belonging and love emerges as a primary motivator. The individual strives to establish meaningful relationships with significant others.
_ **Esteem needs.** An individual must develop self-confidence and wants to achieve status, reputation, fame, and glory.
_ **Self-actualization needs.** Assuming that all the previous needs in the hierarchy are satisfied, an individual feels a need to find himself. Maslow's hierarchy of needs theory helped managers visualize employee motivation.

Douglas McGregor was heavily influenced by both the Hawthorne studies and Maslow. He believed that two basic kinds of managers exist. One type, the Theory X manager, has a negative view of employees and assumes that they are lazy, untrustworthy, and incapable of assuming responsibility. On the other hand, the Theory Y manager assumes that employees are not only trustworthy and capable of assuming responsibility, but also have high levels of motivation. An important aspect of McGregor's idea was his belief that managers who hold either set of assumptions can create **self-fulfilling prophecies** — that through their behavior, these managers create situations where subordinates act in ways that confirm the manager's original expectations. As a group, these theorists discovered that people worked for inner satisfaction and not materialistic rewards, shifting the focus to the role of individuals in an organization's performance.

Various functional areas of management are:

- **Production management**
- **Marketing management**
- **Financial management**
- **Personal management**

Production management:

Production means creation of utilities by converting raw material in to final product by various scientific methods and regulations. It is very important field of management. Various sub-areas of the production department are as follows.

Plant lay out and location: This area deals with designing of plant layout, decide about the plant location for various products and providing various plant utilities

Production planning: Managers has to plan about various production policies and production methods.

Material management: This area deals with purchase, storage, issue and control of the material required for production department.

Research and Development: This area deals with research and developmental activities of manufacturing department. Refinement in existing product line or develop a new product are the major activities.

Quality Control: Quality control department works for production of quality product by doing various tests which ensure the customer satisfaction.

Marketing management:

Marketing management involves distribution of the product to the buyers. It may need number of steps. Sub areas are as follows

Advertising: This area deals with advertising of product, introducing new product in market by various means and encourage the customer to buy thee products.

Sales management: Sales management deals with fixation of prices, actual transfer of products to the customer after fulfilling certain formalities and after sales services.

Market research: It involves in collection of data related to product demand and performance by research and analysis of market.

Finance and accounting management:

Financial and accounting management deals with managerial activities related to procurement and utilization of fund for business purpose. Its sub areas are as follows

Financial accounting: It relates to record keeping of various financial transactions their classification and preparation of financial statements to show the financial position of the organization.

Management accounting: It deals with analysis and interpretation of financial record so that management can take certain decisions on investment plans, return to investors and dividend policy

Taxation: This area deals with various direct and indirect taxes which organization has to pay.

Costing: Costing deals with recording of costs, their classification, analysis and cost control.

Personnel Management:

Personnel management is the phase of management which deals with effective use and control of manpower. Following are the sub areas of Personnel management

Personnel planning: This deals with preparation inventory of available manpower and actual requirement of workers in organization.

Recruitment and selection: This deals with hiring and employing human being for various positions as required.

Training and development: Training and development deals with process of making the employees more efficient and effective by arranging training programmes. It helps in making team of competent employees which work for growth of organisation.

Wage administration: It deals in job evaluation, merit rating of jobs and making wage and incentive policy for employees.

Industrial relation: It deals with maintenance of overall employee relation, providing good working conditions and welfare services to employees.

Difference between Administration /Management

There are many factors according to which administration can be distinguished from management. These are as follows:

Nature of work

Administration: It is concerned about the determination of objectives and major policies of an organization.
Management: It puts into action the policies and plans laid down by the administration.

Type of function

Administration: It is a determinative function.
Management: It is an executive function.

Scope

Administration: It takes major decisions of an enterprise as a whole.
Management: It takes decisions within the framework set by the administration.

Level of authority

Administration: It is a top-level activity.
Management: It is a middle level activity.

Nature of status

Administration: It consists of owners who invest capital in and receive profits from an enterprise.
Management: It is a group of managerial personnel who use their specialized knowledge to fulfill the objectives of an enterprise.

Nature of usage

Administration: It is popular with government, military, educational, and religious organizations.
Management: It is used in business enterprises.

Decision making

Administration: Its decisions are influenced by public opinion, government policies, social, and religious factors.
Management: Its decisions are influenced by the values, opinions, and beliefs of the managers.

Main functions

Administration: Planning and organizing functions are involved in it.
Management: Motivating and controlling functions are involved in it.

Abilities

Administration: It needs administrative rather than technical abilities.
Management: It requires technical activities

Management handles the employers.
Administration handles the buisness aspects such as finance.

Recommended questions:

1. Bring out clearly the meaning of Business management. Discuss its importance.
2. Management is the art of getting things done through other people. Discuss and explain the meaning and concept of management.
3. What are the characteristics of management? Discuss its nature as an art and a science.
4. Is management an Art or Science?
5. Discuss management as a profession. To what extent has management been professionalised in India.
6. Are' management' and 'administration' different? How will you resolve their terminological conflicts?
7. Discuss the role and importance of management
8. Briefly discribe different levels of management.
9. Explain and discuss the functions of management.
10. Explain the growth of modern management thought.

UNIT….02 PLANNING: **Hrs: ……06…..**

Syllabus of unit 02 :

Nature, importance and purpose of planning process -Objectives –Types of plans (Meaning only) - Decision making – Importance of planning –steps in planning & planning premises - Hierarchy of plans.

Recommended readings:

1. **Principles of Management** - P. C. Tripathi, P. N. Reddy; Tata McGraw Hill.
2. **Management Fundamentals** - Concepts, Skill Development Robert Lusier – Thomson.
3. **Management** - Stephen Robbins - Pearson Education /PHI -17th Edition, 2003.

PLANNING

Of the five management functions — planning, organizing, staffing, leading and controlling — planning is the most fundamental. All other functions stem from planning. However, planning doesn't always get the attention that it deserves; when it does, many managers discover that the planning process isn't as easy as they thought it would be — or that even the best-laid plans can go awry.In this chapter, the process of planning and the strategies behind different types of plans are discussed. Topics also include the importance of employee involvement and the significance of goal setting.

Defining Planning:

Before a manager can tackle any of the other functions, he or she must first devise a plan. A **plan** is a blueprint for goal achievement that specifies the necessary resource allocations, schedules, tasks, and other actions. A *goal* is a desired future state that the organization attempts to realize. Goals are important because an organization exists for a purpose, and goals define and state that purpose. Goals specify future ends; plans specify today's means.

The word **planning** incorporates both ideas: It means determining the organization's goals and defining the means for achieving them. Planning allows managers the opportunity to adjust to the environment instead of merely reacting to it. Planning increases the possibility of survival in business by actively anticipating and managing the risks that may occur in the future. In short, planning is preparing for tomorrow, today. It's the activity that allows managers to determine what they want and how they will achieve it. Not only does planning provide direction and a unity of purpose for organizations, it also answers six basic questions in regard to any activity:

_ What needs to be accomplished?
_ When is the deadline?
_ Where will this be done?
_ Who will be responsible for it?
_ How will it get done?
_ How much time, energy, and resources are required to accomplish this goal?

Various steps in planning:

Step 1 - Review or develop Vision & Mission

Able to obtain first hand information from various stakeholders (Shareholders, customers, employee, suppliers communities etc).

You may use templates to evaluate how the stakeholders think about your organization. To find out whether their action are aligned with the organization's objectives.

To review or develop company's Vision and Mission with the involvement of other stakeholders to ensure it is still current with the business changes and new challenges. Also use this session as a mean for communication.

Step 2 - Business and operation analysis (SWOT Analysis etc)

One of the key consideration of strategic planning is to understand internal (own organization) Strengths and Weaknesses as well as external Threats and Opportunities. These are commonly known as the four factors of a S.W.O.T. analysis.

Involvement from various stakeholders to provide their points of view about your organization is key. In the process, you will gain better buy-in from these implementers of strategies and policies.

Step 3 - Develop and Select Strategic Options

You may use templates to develop several key possible strategies to address the organization's objectives. More important, these possible strategies are develop based on the inputs from stakeholders (step 1) and Business and Operation analysis (step 2).

It is often several possible strategies are developed and everyone of them seems important. Since it is quite normal that an organization would have several key issues to tackle, you will be able to use a proper tools to select a few from the possible strategies. You will b e able to apply several prioritizing tools as introduced in this step.

Step 4 - Establish Strategic Objectives

During this step, you will be able to view the overall picture about the organization and able to select a few strategic options objectively. Template may be used to understand various strategic options, set key measures and broad time line to ensure the selected strategic options are achieved.

While it is quite common that measures and timeline is given by top management, it is the intention of this step 4 that these measures and timeline is SMART . What it meant was Specific (S), Measurable (M), Achievable (A), Realistic (R) and Time-bound (T). when the strategic options are SMART, it will help to ease the communication toward the lower level of the organizational hierarchy for implementation.

Step 5 - Strategy Execution Plan

Many organization failed to realize its full potential of its strategies are due to weak implementation. In this Step 5, a proper deployment plan is developed to implement these strategies.

Step 6 - Establish Resource Allocation

Very often, management team assigned selected strategies to key personnel and left it to the individual to carry out the task. While most organizations operate with minimum resources, it often ends up work overloaded by individual.

Step 7 - Execution Review

One of the key success factors for an effective strategy deployment is constant review of its progress and make decision for any deviations to plan. It is vital to decide what to review and with who the review is done. New decision may be required as the status of the strategies progressed.

Recognizing the Advantages of Planning:

The military saying, "If you fail to plan, you plan to fail," is very true. Without a plan, managers are set up to encounter errors, waste, and delays. A plan, on the other hand, helps a manager organize resources and activities efficiently and effectively to achieve goals. The advantages of planning are numerous. Planning fulfills the following objectives:

_ **Gives an organization a sense of direction.**Without plans and goals, organizations merely react to daily occurrences without considering what will happen in the long run. For example, the solution that makes sense in the short term doesn't always make sense in the long term. Plans avoid this drift situation and ensure that short-range efforts will support and harmonize with future goals.

_ **Focuses attention on objectives and results.** Plans keep the people who carry them out focused on the anticipated results. In addition,keeping sight of the goal also motivates employees.

_ **Establishes a basis for teamwork.** Diverse groups cannot effectively cooperate in joint projects without an integrated plan. Examples are numerous: Plumbers, carpenters, and electricians cannot build a house without blueprints. In addition, military activities require the coordination of Army, Navy, and Air Force units.

_ **Helps anticipate problems and cope with change.** When management plans, it can help forecast future problems and make any necessary changes up front to avoid them. Of course, surprises — such as the 1973 quadrupling of oil prices — can always catch an organization short, but many changes are easier to forecast. Planning for these potential problems helps to minimize mistakes and reduce the "surprises" that inevitably occur.

_ **Provides guidelines for decision making.** Decisions are future-oriented. If management doesn't have any plans for the future, they will have few guidelines for making current decisions. If a company knows that it wants to introduce a new product three years in the future, its management must be mindful of the decisions they make now. Plans help both managers and employees keep their eyes on the big picture.

_ **Serves as a prerequisite to employing all other management functions.** Planning is primary, because without knowing what an organization wants to accomplish, management can't intelligently undertake any of the other basic managerial activities: organizing, staffing, leading, and/or controlling.

Criteria for effective goals:

To make sure that goal setting benefits the organization, managers must adopt certain characteristics and guidelines. The following describes these criteria:

_ **Goals must be specific and measurable.** When possible, use quantitative terms, such as increasing profits by 2 percent or decreasing student enrollment by 1 percent, to express goals.

_ **Goals should cover key result areas.** Because goals cannot be set for every aspect of employee or organizational performance, managers should identify a few key result areas. These key areas are those activities that contribute most to company performance — for example, customer relations or sales.

_ **Goals should be challenging but not too difficult.** When goals are unrealistic, they set employees up for failure and lead to low employee morale. However, if goals are too easy, employees may not feel motivated. Managers must be sure that goals are determined based on existing resources and are not beyond the team's time, equipment, and financial resources.

_ **Goals should specify the time period over which they will be achieved.** Deadlines give team members something to work toward and help ensure continued progress. At the same time, managers should set short-term deadlines along the way so that their subordinates are not overwhelmed by one big, seemingly unaccomplishable goal. It would be more appropriate to provide a short term goal such as, "Establish a customer database by June 30."

_ **Goals should be linked to rewards.** People who attain goals should be rewarded with something meaningful and related to the goal. Not only will employees feel that their efforts are valued, but they will also have something tangible to motivate them in the future.

Coordination of goals:

All the different levels of management should have plans that work together to accomplish the organization's purpose. The plans of the top-, middle-, and first-level managers of an organization should work together to achieve the main goal. All managers plan basically the same way, but the kinds of plans they develop and the amount of time they spend on planning vary. Here are some examples:

_ Top-level managers are concerned with longer time periods and with plans for larger organizational units. Their planning includes developing the mission for the organizational units, the organizational objective, and major policy areas. These goals are called *strategic* goals or objectives.

_ Middle-level managers' planning responsibilities center on translating broad objectives of top-level management into more specific goals for work units. These goals are called *tactical* goals or objectives.

_ First-level managers are involved in day-to-day plans, such as scheduling work hours, deciding what work will be done and by whom, and developing structures to reach these goals. These goals are called *operational* goals or objectives.

If a first-level manager develops a set of plans that contradicts that of a middle-level manager, conflicts will result. Therefore, all managers must work together when planning their activities and the activities of others.

Types of Plans:

Plans commit individuals, departments, organizations, and the resources of each to specific actions for the future. As the previous section explains, effectively designed organizational goals fit into a hierarchy so that the achievement of goals at low levels permits the attainment of high-level goals. This process is called a **means-ends chain** because low-level goals lead to accomplishment of high-level goals. Three major types of plans can help managers achieve their organization's goals: **strategic, tactical, and operational**. Operational plans lead to the achievement of tactical plans, which in turn lead to the attainment of strategic plans. In addition to these three types of plans, managers should also develop a contingency plan in case their original plans fail.

OPERATIONAL PLANS:

_ **Single-use plans** apply to activities that do not recur or repeat. A one-time occurrence, such as a special sales program, is a single-use plan because it deals with the who, what, where, how, and how much of an activity. A budget is also a single-use plan because it predicts sources and amounts of income and how much they are used for a specific project.

_ **Continuing or ongoing plans** are usually made once and retain their value over a period of years while undergoing periodic revisions and updates. The following are examples of ongoing plans: A **policy** provides a broad guideline for managers to follow when dealing with important areas of decision making. Policies are general statements that explain how a manager should attempt to handle routine management responsibilities. Typical human resources policies, for example, address such matters as employee hiring, terminations, performance appraisals, pay increases, and discipline.

A **procedure** is a set of step-by-step directions that explains how activities or tasks are to be carried out. Most organizations have procedures for purchasing supplies and equipment, for example. This procedure usually begins with a supervisor completing a purchasing requisition. The requisition is then sent to the next level of management for approval. The approved requisition is forwarded to the purchasing department. Depending on the amount of the request, the purchasing department may place an order, or they may need to secure quotations and/or bids for several vendors before placing the order. By defining the steps to be taken and the order in which they are to be done, procedures provide a standardized way of responding to a repetitive problem.

A **rule** is an explicit statement that tells an employee what he or she can and cannot do. Rules are "do" and "don't" statements put into place to promote the safety of employees and the uniform treatment and behavior of employees. For example, rules about tardiness and absenteeism permit supervisors
to make discipline decisions rapidly and with a high degree of fairness.

Tactical plans:

A **tactical plan** is concerned with what the lower level units within each division must do, how they must do it, and who is in charge at each level. Tactics are the means needed to activate a strategy and make it work. Tactical plans are concerned with shorter time frames and narrower scopes than are strategic plans. These plans usually span one year or less because they are considered short-term goals. Long-term goals, on the other hand, can take several years or more to accomplish. Normally, it is the middle manager's responsibility to take the broad strategic plan and identify specific tactical actions.

Strategic plans:

A **strategic plan** is an outline of steps designed with the goals of the entire organization as a whole in mind, rather than with the goals of specific divisions or departments. Strategic planning begins with an organization's mission. Strategic plans look ahead over the next two, three, five, or even more years to move the organization from where it currently is to where it wants to be. Requiring multilevel involvement, these plans demand harmony among all levels of management within the organization. Top-level management develops the directional objectives for the entire organization, while lower levels of management develop compatible objectives and plans to achieve them. Top management's strategic plan for the entire organization becomes the framework and sets dimensions for the lower level planning.

Contingency plans:

Intelligent and successful management depends upon a constant pursuit of adaptation, flexibility, and mastery of changing conditions. Strong management requires a "keeping all options open" approach at all times — that's where contingency planning comes in.

Contingency planning involves identifying alternative courses of action that can be implemented if and when the original plan proves inadequate because of changing circumstances. Keep in mind that events beyond a manager's control may cause even the most carefully prepared alternative future scenarios to go awry. Unexpected problems and events frequently occur. When they do, managers may need to change their plans. Anticipating change during the planning process is best in case things don't go as expected. Management can then develop alternatives to the existing plan and ready them for use when and if circumstances make these alternatives appropriate.

Barriers to Planning:

Various barriers can inhibit successful planning. In order for plans to be effective and to yield the desired results, managers must identify any potential barriers and work to overcome them. The common barriers that inhibit successful planning are as follows:

_ **Inability to plan or inadequate planning.** Managers are not born with the ability to plan. Some managers are not successful planners because they lack the background, education, and/or ability. Others
may have never been taught how to plan. When these two types of managers take the time to plan, they may not know how to conduct planning as a process.

_ **Lack of commitment to the planning process.** The development
of of a plan is hard work; it is much easier for a manager to claim that he or she doesn't have the time to work through the required planning process than to actually devote the time to developing a plan. (The latter, of course, would save them more time in the long run!)Another possible reason for lack of commitment can be fear of failure.As a result, managers may choose to do little or nothing to help in the planning process.

_ **Inferior information.** Facts that are out-of-date, of poor quality, or of insufficient quantity can be major barriers to planning. No matter how well managers plan, if they are basing their planning on inferior information, their plans will probably fail.

_ **Focusing on the present at the expense of the future.** Failure to consider the long-term effects of a plan because of emphasis on shortterm problems may lead to trouble in preparing for the future. Managers should try to keep the big picture — their long-term goals — in mind when developing their plans.

_ **Too much reliance on the organization's planning department.** Many companies have a planning department or a planning and development team. These departments conduct studies, do research, build
models, and project probable results, but they do not implement plans. Planning department results are aids in planning and should be used only as such. Formulating the plan is still the manager's responsibility.

_ **Concentrating on controllable variables.**Managers can find themselves concentrating on the things and events that they can control, such as new product development, but then fail to consider outside
factors, such as a poor economy. One reason may be that managers demonstrate a decided preference for the known and an aversion to the unknown.

The good news about these barriers is that they can all be overcome. To plan successfully, managers need to use effective communication, acquire quality information, and solicit the involvement of others.

DECISION MAKING AND PROBLEM SOLVING:

Quite literally, organizations operate by people making decisions. A manager plans, organizes, staffs, leads, and controls her team by executing decisions. The effectiveness and quality of those decisions determine how successful a manager will be.

The Decision-Making Process

Managers are constantly called upon to make decisions in order to solve problems. Decision making and problem solving are ongoing processes of evaluating situations or problems, considering alternatives, making choices, and following them up with the necessary actions. Sometimes the decision- making process is extremely short, and mental reflection is essentially instantaneous. In other situations, the process can drag on for weeks or even months. The entire decision-making process is dependent upon the right information being available to the right people at the right times.

The decision-making process involves the following steps:

1. Define the problem.
2. Identify limiting factors.
3. Develop potential alternatives.
4. Analyze the alternatives.
5. Select the best alternative.
6. Implement the decision.
7. Establish a control and evaluation system.

Define the problem

The decision-making process begins when a manager identifies the real problem. The accurate definition of the problem affects all the steps that follow; if the problem is inaccurately defined, every step in the decisionmaking process will be based on an incorrect starting point. One way that a manager can help determine the true problem in a situation is by identifying the problem separately from its symptoms. The most obviously troubling situations found in an organization can usually be identified as symptoms of underlying problems.manager doesn't just attack symptoms; he works to uncover the factors that cause these symptoms.

Symptoms and Their Real Causes:*Symptoms Underlying Problem* Low profits and/or declining sales Poor market research igh costs Poor design process; poorly trained Employees Low morale Lack of communication between management and subordinates High employee turnover Rate of pay too low; job design not suitable High rate of absenteeism Employees believe that they are not valued

Identify limiting factors

All managers want to make the best decisions. To do so, managers need to have the ideal resources — information, time, personnel, equipment, and supplies — and identify any limiting factors. Realistically, managers operate in an environment that normally doesn't provide ideal resources. For example, they may lack the proper budget or may not have the most accurate information or any extra time. So, they must choose to **satisfice** — to make the best decision possible with the information, resources, and time available.

Develop potential alternatives

Time pressures frequently cause a manager to move forward after considering only the first or most obvious answers. However, successful problem solving requires thorough examination of the challenge, and a quick answer may not result in a permanent solution. Thus, a manager should think through and investigate several alternative solutions to a single problem before making a quick decision. One of the best known methods for developing alternatives is through **brainstorming,** where a group works together to generate ideas and alternative solutions. The assumption behind brainstorming is that the group dynamic stimulates thinking — one person's ideas, no matter how outrageous, can generate ideas from the others in the group. Ideally, this spawning of ideas is contagious, and before long, lots of suggestions and ideas flow. Brainstorming usually requires 30 minutes to an hour. The following specific rules should be followed during brainstorming sessions:

_ **Concentrate on the problem at hand.** This rule keeps the discussion very specific and avoids the group's tendency to address the events leading up to the current problem.

_ **Entertain all ideas.** In fact, the more ideas that come up, the better. In other words, there are no bad ideas. Encouragement of the group to freely offer all thoughts on the subject is important. Participants should be encouraged to present ideas no matter how ridiculous they seem, because such ideas may spark a creative thought on the part of someone else.

_ **Refrain from allowing members to evaluate others' ideas on the spot.** All judgments should be deferred until all thoughts are presented, and the group concurs on the best ideas.Although brainstorming is the most common technique to develop alternative solutions, managers can use several other ways to help develop solutions. Here are some examples:

_ **Nominal group technique.** This method involves the use of a highly structured meeting, complete with an agenda, and restricts discussion or interpersonal communication during the decision-making process. This technique is useful because it ensures that every group member has equal input in the decision-making process. It also avoids some of the pitfalls, such as pressure to conform, group dominance, hostility, and conflict, that can plague a more interactive, spontaneous, unstructured forum such as brainstorming.

_ **Delphi technique.** With this technique, participants never meet, but a group leader uses written questionnaires to conduct the decision making.No matter what technique is used, group decision making has clear advantages and disadvantages when compared with individual decision making.

The following are among the advantages:

_ Groups provide a broader perspective.

_ Employees are more likely to be satisfied and to support the final decision.

_ Opportunities for discussion help to answer questions and reduce uncertainties for the decision makers.

These points are among the disadvantages:

_ This method can be more time-consuming than one individual making the decision on his own.

_ The decision reached could be a compromise rather than the optimal solution.

_ Individuals become guilty of *groupthink* — the tendency of members of a group to conform to the prevailing opinions of the group.

_ Groups may have difficulty performing tasks because the group, rather than a single individual, makes the decision, resulting in confusion when it comes time to implement and evaluate the decision. The results of dozens of individual-versus-group performance studies indicate that groups not only tend to make better decisions than a person acting alone, but also that groups tend to inspire star performers to even higher levels of productivity. So, are two (or more) heads better than one? The answer depends on several factors, such as the nature of the task, the abilities of the group members, and the form of interaction. Because a manager often has a choice between making a decision independently or including others in the decision making, she needs to understand the advantages and disadvantages of group decision making.

Analyze the alternatives

The purpose of this step is to decide the relative merits of each idea. Managers must identify the advantages and disadvantages of each alternative solution before making a final decision. Evaluating the alternatives can be done in numerous ways. Here are a few possibilities:

_ Determine the pros and cons of each alternative.

_ Perform a cost-benefit analysis for each alternative.

_ Weight each factor important in the decision, ranking each alternative relative to its ability to meet each factor, and then multiply by a probability factor to provide a final value for each alternative. Regardless of the method used, a manager needs to evaluate each alternative in terms of its

_ **Feasibility** — Can it be done?

_ **Effectiveness** — How well does it resolve the problem situation?

_ **Consequences** — What will be its costs (financial and nonfinancial) to the organization?

Select the best alternative

After a manager has analyzed all the alternatives, she must decide on the best one. The best alternative is the one that produces the most advantages and the fewest serious disadvantages. Sometimes, the selection process can be fairly straightforward, such as the alternative with the most pros and fewest cons. Other times, the optimal solution is a combination of several alternatives.

Sometimes, though, the best alternative may not be obvious. That's when a manager must decide which alternative is the most feasible and effective, coupled with which carries the lowest costs to the organization. Probability estimates, where analysis of each alternative's chances of success takes place, often come into play at this point in the decision-making process. In those cases, a manager simply selects the alternative with the highest probability of success.

Implement the decision

Managers are paid to make decisions, but they are also paid to get results from these decisions. Positive results must follow decisions. Everyone involved with the decision must know his or her role in ensuring a successful outcome. To make certain that employees understand their roles, managers must thoughtfully devise programs, procedures, rules, or policies to help aid them in the problem-solving process.

Establish a control and evaluation system

Ongoing actions need to be monitored. An evaluation system should provide feedback on how well the decision is being implemented, what the results are, and what adjustments are necessary to get the results that were intended when the solution was chosen. In order for a manager to evaluate his decision, he needs to gather information to determine its effectiveness.

Was the original problem resolved? If not, is he closer to the desired situation than he was at the beginning of the decision-making process? If a manager’s plan hasn’t resolved the problem, he needs to figure out what went wrong. A manager may accomplish this by asking the following questions:

_ **Was the wrong alternative selected?** If so, one of the other alternatives generated in the decision-making process may be a wiser choice.

_ **Was the correct alternative selected, but implemented improperly?** If so, a manager should focus attention solely on the implementation step to ensure that the chosen alternative is implemented successfully.

_ **Was the original problem identified incorrectly?** If so, the decision- making process needs to begin again, starting with a revised identification step.

_ **Has the implemented alternative been given enough time to be successful?** If not, a manager should give the process more time and re-evaluate at a later date.

Conditions That Influence Decison Making

Managers make problem-solving decisions under three different conditions: certainty, risk, and uncertainty. All managers make decisions under each condition, but risk and uncertainty are common to the more complex and unstructured problems faced by top managers.

Certainty:

Decisions are made under the condition of certainty when the manager has perfect knowledge of all the information needed to make a decision. This condition is ideal for problem solving. The challenge is simply to study the alternatives and choose the best solution. When problems tend to arise on a regular basis, a manager may address them through standard or prepared responses called programmed decisions.

These solutions are already available from past experiences and are appropriate for the problem at hand. A good example is the decision to reorder inventory automatically when stock falls below a determined level. Today, an increasing number of programmed decisions are being assisted or handled by computers using decision-support software. Structured problems are familiar, straightforward, and clear with respect to the information needed to resolve them. A manager can often anticipate these problems and plan to prevent or solve them. For example, personnel problems are common in regard to pay raises, promotions, vacation requests, and committee assignments, as examples. Proactive managers can plan processes for handling these complaints effectively before they even occur.

Risk:

In a risk environment, the manager lacks complete information. This condition is more difficult. A manager may understand the problem and the alternatives, but has no guarantee how each solution will work. Risk is a fairly common decision condition for managers. When new and unfamiliar problems arise, nonprogrammed decisions are specifically tailored to the situations at hand. The information requirements for defining and resolving nonroutine problems are typically high. Although computer support may assist in information processing, the decision will most likely involve human judgment. Most problems faced by higher-level managers demand nonprogrammed decisions. This fact explains why the demands on a manager’s conceptual skills increase as he or she moves into higher levels of managerial responsibility.

A **crisis problem** is an unexpected problem that can lead to disaster if it's ot resolved quickly and appropriately. No organization can avoid crises, and the public is well aware of the immensity of corporate crises in the modern world. The Chernobyl nuclear plant explosion in the former Soviet Union and the *Exxon Valdez* spill of years past are a couple of sensational examples. Managers in more progressive organizations now anticipate that crises, unfortunately, will occur. These managers are installing early-warning crisis information systems and developing crisis management plans to deal with these situations in the best possible ways.

Uncertainty:

When information is so poor that managers can't even assign probabilities to the likely outcomes of alternatives, the manager is making a decision in an uncertain environment. This condition is the most difficult for a manager. Decision making under conditions of uncertainty is like being a pioneer entering unexplored territory. Uncertainty forces managers to rely heavily on creativity in solving problems: It requires unique and often totally innovative alternatives to existing processes. Groups are frequently used for problem solving in such situations. In all cases, the responses to uncertainty depend greatly on intuition, educated guesses, and hunches — all of which leave considerable room for error. These unstructured problems involve ambiguities and information deficiencies and often occur as new or unexpected situations. These problems are most often unanticipated and are addressed reactively as they occur. Unstructured problems require novel solutions. Proactive managers are sometimes able to get a jump on unstructured problems by realizing that a situation is susceptible to problems and then making contingency plans. For example, at the Vanguard Group, executives are tireless in their preparations for a variety of events that could disrupt their mutual fund business. Their biggest fear is an investor panic that overloads their customer service system during a major plunge in the bond or stock markets. In anticipation of this occurrence, the firm has trained accountants, lawyers, and fund managers to staff the telephones if needed.

Personal Decison-Making Styles:

Managerial decision making depends on many factors, including the ability to set priorities and time decisions correctly. However, the most important influence on managerial decision making is a manager's personal attributes or his or her own decision-making approach. The three most common decision models are as follows:

_ Rational/logical
_ Intuitive
_ Predisposed

Regardless of the model favored by a manager, understanding personal tendencies and moving toward a more rational model should be the manager's goal. The best decisions are usually a result of a blend of the decision maker's intuition and the rational step-by-step approach. These models are described in the next sections.

Rational/Logical decision model

This approach uses a step-by-step process, similar to the seven-step decision- making process described earlier in this chapter. The rational/logical decision model focuses on facts and reasoning. Reliance is on the steps and decision tools, such as payback analysis, decision tree, and research — all are described later in this chapter. Through the use of quantitative techniques, rationality, and logic, the manager evaluates the alternatives and selects the best solution to the problem.

Intuitive decision model

The managers who use this approach avoid statistical analysis and logical processes. These managers are "gut" decision makers who rely on their feelings about a situation. This definition could easily lead one to believe that intuitive decision making is irrational or arbitrary. Although intuition refers to decision making without formal analysis or conscious reasoning, it is based on years of managerial practice and experience. These experienced managers identify alternatives quickly without conducting systematic analyses of alternatives and their consequences. When making a decision using intuition, the manager recognizes cues in the situation that are the same as or similar to those in previous situations that he or she has experienced;the cues help the manager to rapidly conduct subconscious analysis. Then a decision is made.

Predisposed decision model

A manager who decides on a solution and then gathers material to support the decision uses the predisposed decision model approach. Decision makers using this approach do not search out all possible alternatives.Rather, they identify and evaluate alternatives only until an acceptable decision is found. Having found a satisfactory alternative, the decision maker stops searching for additional solutions. Other, and potentially better, alternatives may exist, but will not be identified or considered because the first workable solution has been accepted. Therefore, only a fraction of the available alternatives may be considered due to the decision maker's information- processing limitations. A manager with this tendency is likely to ignore critical information and may face the same decision again later.

Quantitative Tools to Assist in Decision Making:

Quantitative techniques help a manager improve the overall quality of decision making. These techniques are most commonly used in the rational/logical decision model, but they can apply in any of the other models as well. Among the most common techniques are decision trees, payback analysis, and simulations.

Decision trees

A **decision tree** shows a complete picture of a potential decision and allows a manager to graph alternative decision paths. Decision trees are a useful way to analyze hiring, marketing, investments, equipment purchases, pricing, and similar decisions that involve a progression of smaller decisions. Generally, decision trees are used to evaluate decisions under conditions of risk.The term decision tree comes from the graphic appearance of the technique that starts with the initial decision shown as the base. The various alternatives, based upon possible future environmental conditions, and the payoffs associated with each of the decisions branch from the trunk.Decision trees force a manager to be explicit in analyzing conditions associated with future decisions and in determining the outcome of different alternatives. The decision tree is a flexible method. It can be used for many situations in which emphasis can be placed on sequential decisions, the probability of various conditions, or the highlighting of alternatives.

Payback analysis

Payback analysis comes in handy if a manager needs to decide whether to purchase a piece of equipment. Say, for example, that a manager is purchasing cars for a rental car company. Although a less-expensive car may take less time to pay off, some clients may want more luxurious models. To decide which cars to purchase, a manager should consider some factors, such as the expected useful life of the car, its warranty and repair record, its cost of insurance, and, of course, the rental demand for the car.

Based on the information gathered, a manager can then rank alternatives based on the cost of each car. A higher-priced car may be more appropriate because of its longer life and customer rental demand. The strategy, of course, is for the manager to choose the alternative that has the quickest payback of the initial cost. Many individuals use payback analysis when they decide whether they should continue their education. They determine how much courses will cost, how much salary they will earn as a result of each course completed and perhaps, degree earned, and how long it will take to recoup the investment.If the benefits outweigh the costs, the payback is worthwhile.

Simulations

Simulation is a broad term indicating any type of activity that attempts to imitate an existing system or situation in a simplified manner. Simulation is basically model building, in which the simulator is trying to gain understanding by replicating something and then manipulating it by adjusting the variables used to build the model. Simulations have great potential in decision making. In the basic decisionmaking steps listed earlier in this chapter, Step 4 is the evaluation of alternatives.If a manager could simulate alternatives and predict their outcomes at this point in the decision process, he or she would eliminate much of the guesswork from decision making.

Recommended questions:

1. Discuss the nature and scope of planning in business management.
2. Management planning involves the development of forecasts objectives, policies, programmes, procedures, schedules and budgets, Discuss this to show the significance of planning management.
3. Significance of Planning
4. What are the major limitations of planning? What actions can be taken to make planning effective?
5. Classify plans and explain each classification.
6. State the nature of planning premises and give their classification.
7. What is policy? What characteristics do policies have?
8. Distinguish between policies and Rules.
9. What do you mean by procedure? How does it differ from a policy?
10. What do you understand by forecasting? Explain its significance.
11. What do you understand by decision and decision making? What are its basic elements.

Unit: ……03………… **Hrs:** ……06…..

ORGANISING AND STAFFING:

Syllabus of unit 03 :

Nature and purpose of organization –Principles of organization - Types of organization - Departmentation -Committees –Centralisation Vs Decentralisation of authority and responsibility - Span of control - MBO and MBE (Meaning only) Nature and importance of Staffing - Process of Selection & Recruitment (in brief).

Recommended readings:

1. **Principles of Management** - P. C. Tripathi, P. N. Reddy; Tata McGraw Hill.
2. **Management Fundamentals** - Concepts, Skill Development Robert Lusier – Thomson.

ORGANISING AND STAFFING

Few things endure long term without being changed. Even well-known brand names, familiar slogans, and classic songs face updates in today's changing culture. Organizations are no different, and must respond to changes in their environments as well. Whether it's technology upgrades to meet customer demands or policy updates to accommodate employee growth, managers must be both willing and able to deal with the challenges of change.

In this chapter, the elements of organizational design are discussed. In addition, the importance of a manager's ability to adapt his or her organizational structure to fit the changing times is examined. The basic organizational structures and the importance of recognizing the factors that affect the design of these structures are also studied.

The organic structure

The organic structure tends to work better in dynamic environments where managers need to react quickly to change. An **organic structure** is a management system founded on cooperation and knowledge-based authority. It is much less formal than a mechanistic organization, and much more
flexible. Organic structures are characterized by
_ Roles that are not highly defined.
_ Tasks that are continually redefined.
_ Little reliance on formal authority.
_ Decentralized control.
_ Fast decision making.
_ Informal patterns of both delegation and communication.

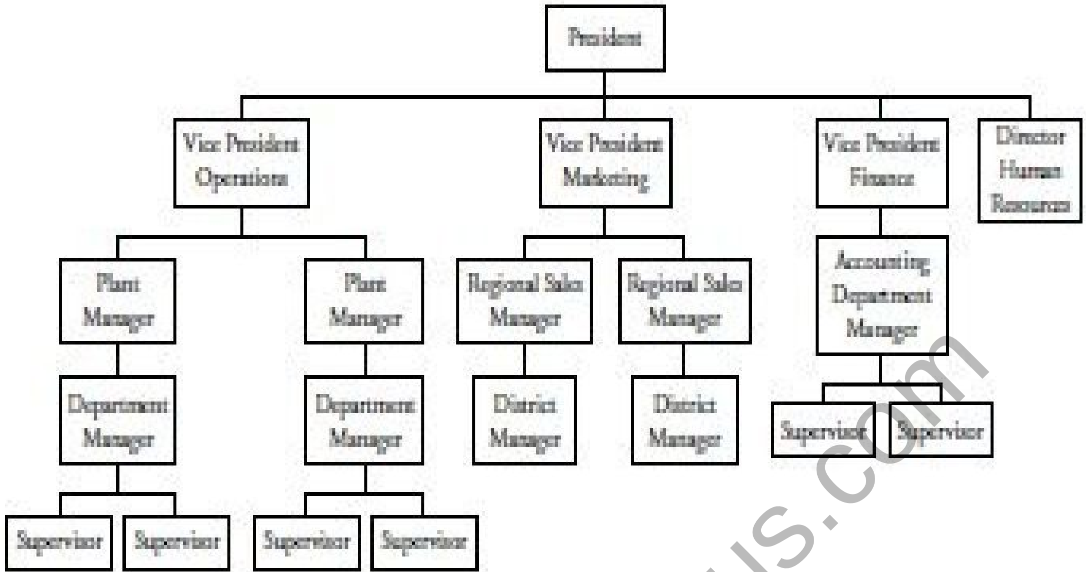
Because the atmosphere is informal and the lines of authority may shift depending on the situation, the organic structure requires more cooperation among employees than does a bureaucracy.One example of an organic structure is the Salvation Army. Although branches are located throughout the nation, the organization does not have a complex structure; it encourages different units to take on new challenges. The Salvation Army does not rely heavily on written rules and procedures. Therefore, this organization can create the procedures that work best as different situations arise. The Salvation Army's ability to take on new tasks and to fulfill its mission regardless of the circumstances it faces is one reason why it's a hallmark of organic organizations.

Five Approaches to Organizational Design

Managers must make choices about how to group people together to perform their work. Five common approaches — functional, divisional, matrix, team, and networking—help managers determine departmental groupings (grouping of positions into departments). The five structures are basic organizational structures, which are then adapted to an organization's needs. All five approaches, outlined in the following sections, combine varying elements of mechanistic and organic structures. For example, the organizational design trend today incorporates a minimum of bureaucratic features and displays more features of the organic design with a decentralized authority structure, fewer rules and procedures, and so on.

Functional structure

The **functional structure** groups positions into work units based on similar activities, skills, expertise, and resources. Production, marketing, finance, and human resources are common groupings within a functional structure



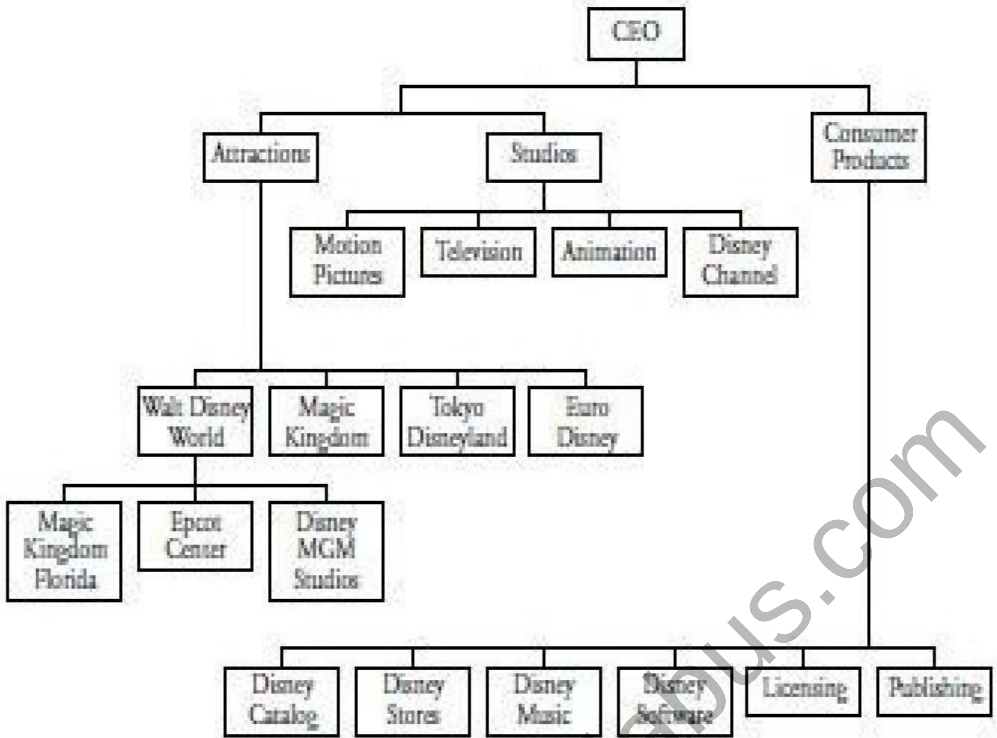
As the simplest approach, a functional structure features well-defined channels of communication and authority/responsibility relationships. Not only can this structure improve productivity by minimizing duplication of personnel and equipment, but it also makes employees comfortable and simplifies training as well. But the functional structure has many downsides that may make it inappropriate for some organizations. Here are a few examples: _ The functional structure can result in narrowed perspectives because of the separateness of different department work groups. Managers may have a hard time relating to marketing, for example, which is often in an entirely different grouping. As a result, anticipating or reacting to changing consumer needs may be difficult. In addition,reduced cooperation and communication may occur.

_ Decisions and communication are slow to take place because of the many layers of hierarchy. Authority is more centralized.

_ The functional structure gives managers experience in only one field—their own. Managers do not have the opportunity to see how all the firm's departments work together and understand their interrelationships and interdependence. In the long run, this specialization results in executives with narrow backgrounds and little training handling top management duties.

Divisional structure

Because managers in large companies may have difficulty keeping track of all their company's products and activities, specialized departments may develop. These departments are divided according to their organizational outputs. Examples include departments created to distinguish among production, customer service, and geographical categories. This grouping of departments is called divisional structure These departments allow managers to better focus their resources and results. Divisional structure also makes performance easier to monitor. As a result, this structure is flexible and responsive to change. However, divisional structure does have its drawbacks. Because managers are so specialized, they may waste time duplicating each other's activities and resources. In addition, competition among divisions may develop due to limited resources.



Matrix structure

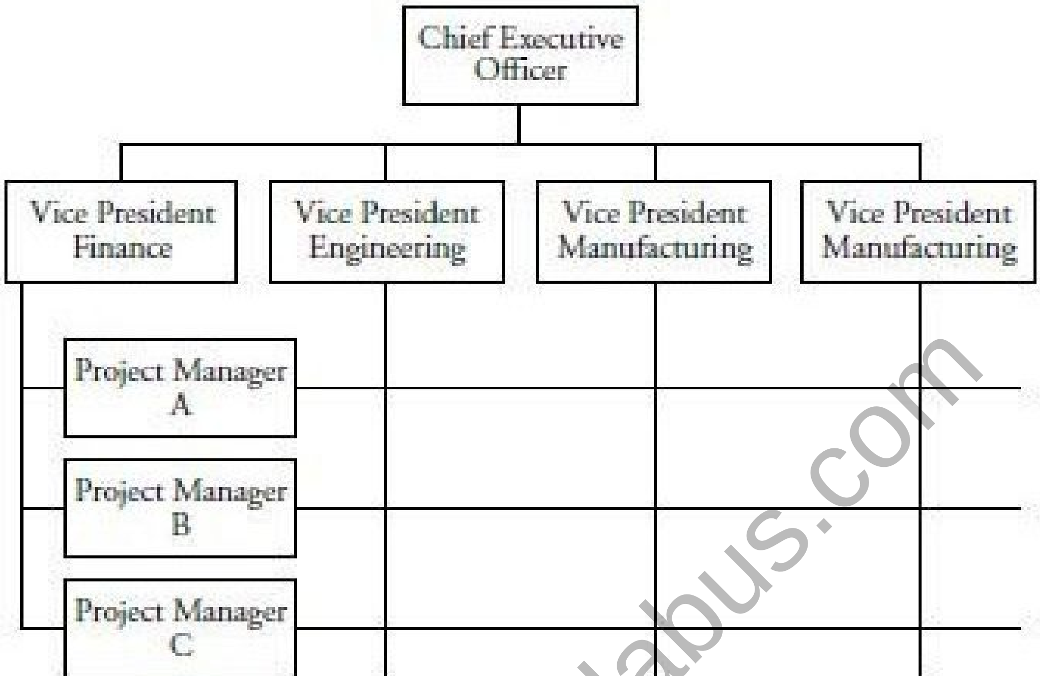
The matrix structure combines functional specialization with the focus of divisional structure This structure uses permanent crossfunctional teams to integrate functional expertise with a divisional focus. Employees in a matrix structure belong to at least two formal groups at the same time—a functional group and a product, program, or project team. They also report to two bosses—one within the functional group and the other within the team.This structure not only increases employee motivation, but it also allows technical and general management training across functional areas as well. Potential advantages include:

_ Better cooperation and problem solving.
_ Increased flexibility.
_ Better customer service.
_ Better performance accountability.
_ Improved strategic management.

Predictably, the matrix structure also has potential disadvantages. Here are a few of this structure's drawbacks:

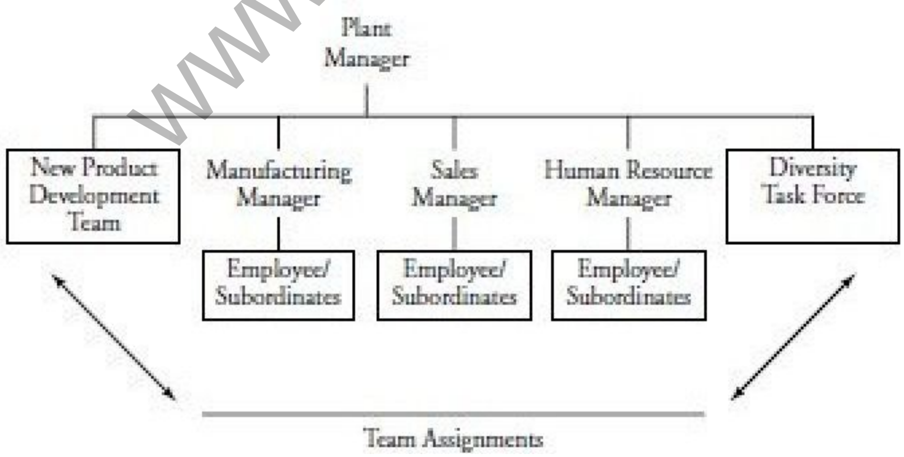
_ The two-boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority.
_ Members of the matrix may suffer task confusion when taking orders from more than one boss.
_ Teams may develop strong team loyalties that cause a loss of focus on larger organization goals.

_ Adding the team leaders, a crucial component, to a matrix structure can result in increased costs.



Team structure

Team structure organizes separate functions into a group based on one overall objective. These **cross-functional teams** are composed of members from different departments who work together as needed to solve problems and explore opportunities. The intent is to break down functional barriers among departments and create a more effective relationship for solving ongoing problems.

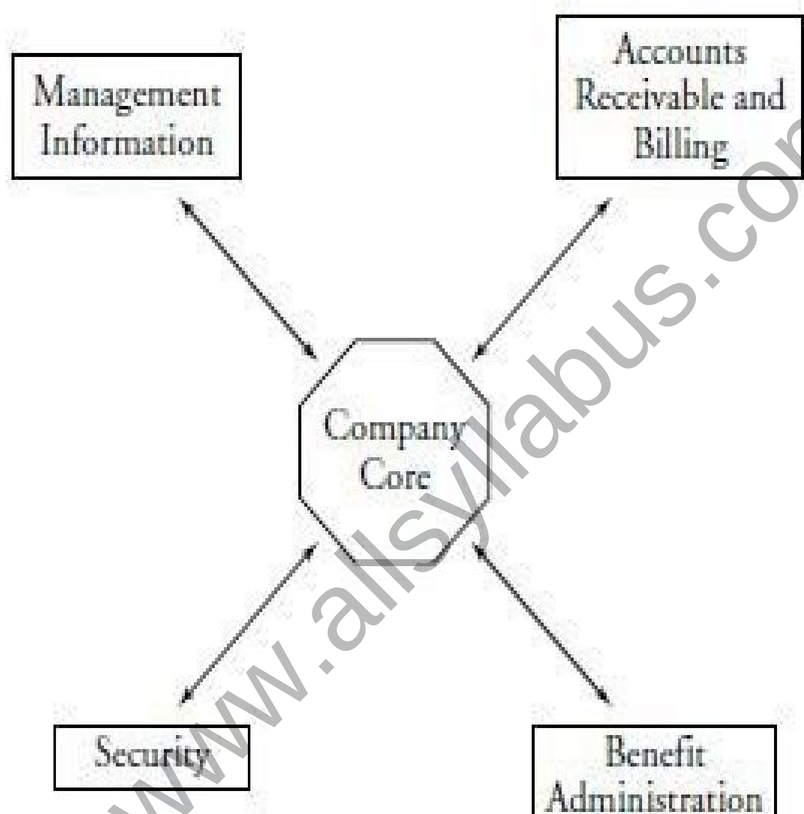


The team structure has many potential advantages, including the following:
_ Intradepartmental barriers break down. _ Decision-making and response times speed up.
_ Employees are motivated. _ Levels of managers are eliminated. _ Administrative costs are lowered.

The disadvantages include:
_ Conflicting loyalties among team members. _ Time-management issues. _ Increased time spent in meetings. Managers must be aware that how well team members work together often depends on the quality of interpersonal relations, group dynamics, and their team management abilities.

Network structure

The network structure relies on other organizations to perform critical functions on a contractual basis. In other words, managers can contract out specific work to specialists.



This approach provides flexibility and reduces overhead because the size of staff and operations can be reduced. On the other hand, the network structure may result in unpredictability of supply and lack of control because managers are relying on contractual workers to perform important work.

Concepts of Organizing

The working relationships — vertical and horizontal associations between individuals and groups — that exist within an organization affect how its activities are accomplished and coordinated. Effective organizing depends on the mastery of several important concepts: work specialization, chain of command, authority, delegation, span of control, and centralization versus decentralization. Many of these concepts are based on the principles developed by Henri Fayol.

Work specialization

One popular organizational concept is based on the fundamental principle that employees can work more efficiently if they're allowed to specialize. **Work specialization,** sometimes called division of labor, is the degree to which organizational tasks are divided into separate jobs. Employees within each department perform only the tasks related to their specialized function. When specialization is extensive, employees specialize in a single task, such as running a particular machine in a factory assembly line. Jobs tend to be small, but workers can perform them efficiently. By contrast, if a single factory employee built an entire automobile or performed a large number of unrelated jobs in a bottling plant, the results would be inefficient. Despite the apparent advantages of specialization, many organizations are moving away from this principle. With too much specialization, employees are isolated and perform only small, narrow, boring tasks. In addition, if that person leaves the company, his specialized knowledge may disappear as well. Many companies are enlarging jobs to provide greater challenges and creating teams so that employees can rotate among several jobs.

Chain of command

The **chain of command** is an unbroken line of authority that links all persons in an organization and defines who reports to whom. This chain has two underlying principles: unity of command and scalar principle.

Unity of command:

This principle states that an employee should have one and only one supervisor to whom he or she is directly responsible.No employee should report to two or more people. Otherwise, the employee may receive conflicting demands or priorities from several supervisors at once, placing this employee in a no-win situation. Sometimes, however, an organization deliberately breaks the chain of command, such as when a project team is created to work on a special project. In such cases, team members report to their immediate supervisor and also to a team project leader. Another example is when a sales representative reports to both an immediate district supervisor and a marketing specialist, who is coordinating the introduction of a new product, in the home office.Nevertheless, these examples are exceptions to the rule. They happen under special circumstances and usually only within a special type of employee group. For the most part, however, when allocating tasks to individuals or grouping assignments, management should ensure that each has one boss, and only one boss, to whom he or she directly reports.

_ **Scalar principle:** The scalar principle refers to a clearly defined line of authority that includes all employees in the organization. The classical school of management suggests that there should be a clear and unbroken chain of command linking every person in the organization with successively higher levels of authority up to and including the top manager. When organizations grow in size, they tend to get taller, as more and more levels of management are added. This increases overhead costs, adds more communication layers, and impacts understanding and access between top and bottom levels. It can greatly slow decision making and can lead to a loss of contact with the client or customer.

Authority

Authority is the formal and legitimate right of a manager to make decisions, issue orders, and allocate resources to achieve organizationally desired outcomes. A manager's authority is defined in his or her job description. Organizational authority has three important underlying principles: _ Authority is based on the organizational position, and anyone in the same position has the same authority.

_ Authority is accepted by subordinates. Subordinates comply because they believe that managers have a legitimate right to issue orders.

_ Authority flows down the vertical hierarchy. Positions at the top of the hierarchy are vested with more formal authority than are positions at the bottom. In addition, authority comes in three types:

_ **Line authority** gives a manager the right to direct the work of his or her employees and make many decisions without consulting others. Line managers are always in charge of essential activities such as sales, and they are authorized to issue orders to subordinates down the chain of command.

_ **Staff authority** supports line authority by advising, servicing, and assisting, but this type of authority is typically limited. For example, the assistant to the department head has staff authority because he or she acts as an extension of that authority. These assistants can give advice and suggestions, but they don't have to be obeyed. The department head may also give the assistant the authority to act, such as the right to sign off on expense reports or memos. In such cases, the directives are given under the line authority of the boss.

_ **Functional authority** is authority delegated to an individual or department over specific activities undertaken by personnel in other departments. Staff managers may have functional authority, meaning
that they can issue orders down the chain of command within the very narrow limits of their authority. For example, supervisors in a manufacturing plant may find that their immediate bosses have line
authority over them, but that someone in corporate headquarters may also have line authority over some of their activities or decisions.Why would an organization create positions of functional authority?
After all, this authority breaks the unity of command principle by having individuals report to two bosses. The answer is that functional authority allows specialization of skills and improved coordination. This concept was originally suggested by Frederick Taylor . He separated "planning" from "doing" by establishing a special department to relieve the laborer and the foreman from the work of planning. The role of the foreman became one of making sure that planned operations were carried out. The major problem of functional authority is overlapping relationships, which can be resolved by clearly designating to individuals which activities their immediate bosses have authority over and which activities are under the direction of someone else.

Delegation

A concept related to authority is **delegation.** Delegation is the downward transfer of authority from a manager to a subordinate. Most organizations today encourage managers to delegate authority in order to provide maximum flexibility in meeting customer needs. In addition, delegation leads to empowerment, in that people have the freedom to contribute ideas and do their jobs in the best possible ways. This involvement can increase job satisfaction for the individual and frequently results in better job performance. Without delegation, managers do all the work themselves and underutilize their workers. The ability to delegate is crucial to managerial success. Managers need to take four steps if they want to successfully delegate responsibilities to their teams.

1. Specifically assign tasks to individual team members. The manager needs to make sure that employees know that they are ultimately responsible for carrying out specific assignments.

2. Give team members the correct amount of authority to accomplish assignments. Typically, an employee is assigned authority commensurate with the task. A classical principle of organization warns managers not to delegate without giving the subordinate the authority to perform to delegated task. When an employee has responsibility for the task outcome but little authority, accomplishing the job is possible but difficult. The subordinate without authority must rely on persuasion and luck to meet performance expectations. When an employee has authority exceeding responsibility, he or she may become a tyrant, using authority toward frivolous outcomes.

3. Make sure that team members accept responsibility. Responsibility is the flip side of the authority coin. Responsibility is the duty to perform the task or activity an employee has been assigned. An important distinction between authority and responsibility is that the supervisor delegates authority, but the responsibility is shared. Delegation of authority gives a subordinate the right to make commitments, use resources, and take actions in relation to duties assigned. However, in making this delegation, the obligation created is not shifted from the supervisor to the subordinate — it is shared. A supervisor always retains some responsibility for work performed by lower-level units or individuals.

4. Create accountability. Team members need to know that they are accountable for their projects. **Accountability** means answering for one's actions and accepting the consequences. Team members may need to report and justify task outcomes to their superiors. Managers can build accountability into their organizational structures by monitoring performances and rewarding successful outcomes. Although managers are encouraged to delegate authority, they often find accomplishing this step difficult for the following reasons: _ Delegation requires planning, and planning takes time. A manager may say, "By the time I explain this task to someone, I could do it myself." This manager is overlooking the fact that the initial time spent up front training someone to do a task may save much more time in the long run. Once an employee has learned how to do a task, the manager will not have to take the time to show that employee how to do it again. This improves the flow of the process from that point forward.

_ Managers may simply lack confidence in the abilities of their subordinates. Such a situation fosters the attitude, "If you want it done well, do it yourself." If managers feel that their subordinates lack abilities, they need to provide appropriate training so that all are comfortable performing their duties.

_ Managers experience dual accountability. Managers are accountable for their own actions and the actions of their subordinates. If a subordinate fails to perform a certain task or does so poorly, the manager is ultimately responsible for the subordinate's failure. But by the same token, if a subordinate succeeds, the manager shares in that success as well, and the department can be even more productive.

_ Finally, managers may refrain from delegating because they are insecure about their value to the organization. However, managers need to realize that they become more valuable as their teams become more productive and talented. Despite the perceived disadvantages of delegation, the reality is that a manager can improve the performance of his or her work groups by empowering subordinates through effective delegation. Few managers are successful in the long term without learning to delegate effectively. So, how do managers learn to delegate effectively? The following additional principles may be helpful for managers who've tried to delegate in the past and failed:

_ **Principle 1: Match the employee to the task.**Managers should carefully consider the employees to whom they delegate tasks. The individual selected should possess the skills and capabilities needed to
complete the task. Perhaps even more important is to delegate to an individual who is not only able to complete the task but also willing to complete the task. Therefore, managers should delegate to employees who will view their accomplishments as personal benefits.

_ **Principle 2: Be organized and communicate clearly.** The manager must have a clear understanding of what needs to be done, what deadlines exist, and what special skills are required. Furthermore, managers
must be capable of communicating their instructions effectively if their subordinates are to perform up to their expectations.

_ **Principle 3: Transfer authority and accountability with the task.** The delegation process is doomed to failure if the individual to whom the task is delegated is not given the authority to succeed at accomplishing the task and is not held accountable for the results as well. Managers must expect employees to carry the ball and then let them do so. This means providing the employees with the necessary resources and power to succeed, giving them timely feedback on their progress, and holding them fully accountable for the results of their efforts. Managers also should be available to answer questions as needed.

_ **Principle 4: Choose the level of delegation carefully.** Delegation does not mean that the manager can walk away from the task or the person to whom the task is delegated. The manager must maintain
some control of both the process and the results of the delegated activities. Depending upon the confidence the manager has in the subordinate and the importance of the task, the manager can choose to
delegate at several levels.

Span of control

Span of control (sometimes called span of management) refers to the number
of workers who report to one manager. For hundreds of years, theorists have searched for an ideal span of control. When no perfect number of subordinates for a manager to supervise became apparent, they turned their attention to the more general issue of whether the span should be wide or narrow.

A wide span of management exists when a manager has a large number of subordinates. Generally, the span of control may be wide when _ The manager and the subordinates are very competent.

_ The organization has a well-established set of standard operating procedures.

_ Few new problems are anticipated.

A narrow span of management exists when the manager has only a few subordinates. The span should be narrow when

_ Workers are located far from one another physically.

_ The manager has a lot of work to do in addition to supervising workers.
_ A great deal of interaction is required between supervisor and workers.
_ New problems arise frequently. Keep in mind that the span of management may change from one department to another within the same organization.

<u>Centralization versus decentralization:</u>

The general pattern of authority throughout an organization determines the extent to which that organization is centralized or decentralized.

A **centralized organization** systematically works to concentrate authority at the upper levels. In a **decentralized organization,** management consciously attempts to spread authority to the lower organization levels. A variety of factors can influence the extent to which a firm is centralized
or decentralized. The following is a list of possible determinants:

_ **The external environment in which the firm operates.** The more complex and unpredictable this environment, the more likely it is that top management will let low-level managers make important decisions. After all, low-level managers are closer to the problems because they are more likely to have direct contact with customers and workers. Therefore, they are in a better position to determine problems and concerns.

_ **The nature of the decision itself.** The riskier or the more important the decision, the greater the tendency to centralize decision making.

_ **The abilities of low-level managers.** If these managers do not have strong decision-making skills, top managers will be reluctant to decentralize. Strong low-level decision-making skills encourage decentralization.

_ **The organization's tradition of management.** An organization that has traditionally practiced centralization or decentralization is likely to maintain that posture in the future. In principle, neither philosophy is right or wrong. What works for one organization may or may not work for another. Kmart Corporation and McDonald's have both been very successful — both practice centralization. By the same token, decentralization has worked very well for General Electric and Sears. Every organization must assess its own situation and then choose the level of centralization or decentralization that works best.

The Informal Organization

In addition to the formal organizational structures covered throughout this chapter, an organization may also have a hidden side that doesn't show up on its organizational chart. This hidden *informal organization* is defined by the patterns, behaviors, and interactions that stem from personal rather than official relationships. In the informal organization, the emphasis is on people and their relationships; in the formal organization, the emphasis is on official organizational positions. The leverage, or clout, in the informal organization is informal power that's attached to a specific individual. On the other hand, in the formal organization, formal authority comes directly from the position. An individual retains formal authority only so long as he or she occupies the position. Informal power is personal; authority is organizational.Firmly embedded within every informal organization are informal groups and the notorious grapevine; the following list offers descriptions of each:

_ **Informal groups.**Workers may create an informal group to go bowling, form a union, discuss work challenges, or have lunch together every day. The group may last for several years or only a few hours.

Sometimes employees join these informal groups simply because of its goals. Other times, they simply want to be with others who are similar to them. Still others may join informal groups simply because
they want to be accepted by their coworkers.

_ **The grapevine.** The grapevine is the informal communications network within an organization. It is completely separate from — and sometimes much faster than — the organization's formal channels of
communication. Formal communication usually follows a path that parallels the organizational chain of command. By contrast, information can be transmitted through the grapevine in any direction — up, down, diagonally, or horizontally across the organizational structure. Subordinates may pass information to their bosses, an executive may relay something to a maintenance worker, or employees in different departments may share tidbits. Grapevine information may be concerned with topics ranging from
the latest management decisions to the results of today's World Series game to pure gossip. The information may be important or of little interest. By the same token, the information on the grapevine may be highly accurate or totally distorted. The informal organization of a firm may be more important than a manager realizes. Although managers may think that the informal organization is nothing more than rumors that are spread among the employees, it is actually a very important tool in maintaining company-wide information flow. Results of studies show that the office grapevine is 75 percent
to 90 percent accurate and provides managers and staff with better information than formal communications. Rather than ignore or try to suppress the grapevine, managers should make an attempt to tune in to it. In fact, they should identify the people in the organization who are key to the information flow and feed them information that they can spread to others. Managers should make as big an effort to know who their internal disseminators of information are as they do to find the proper person to send a press release. Managers can make good use of the power of the informal organization and the grapevine.

<u>Difference between formal and informal organisation:</u>

1. The **formal Organization** refers to the formal relationships of authority and subordinates withing a company. While the **informal organization** refers to the network of personal and social relations that is developed spontaneously between people associated with each other.
2. The primary focus of the **formal organization** is the position of the employee/manager holds. While the primary focus of the **informal organization** is the employee as an individual person.
3. Power is delegated from the top levels of the management down to the organization. In an **informal organization** power is derived from the membership of the informal groups within the organization.
4. In **formal Organization,** each position has rules governing what can be done or what cannot be done. There are rewards and penalties for complying with these rules and

performing duties as well. While in an **informal organization,** the conduct of individuals within organization is governed by norms that is social rules of behavior.

Staffing as a Management Function:

Human resource management (HRM), or *staffing,* is the management function devoted to acquiring, training, appraising, and compensating employees. In effect, all managers are human resource managers, although human resource specialists may perform some of these activities in large organizations. Solid HRM practices can mold a company's workforce into a motivated and committed team capable of managing change effectively and achieving the organizational objectives.

Understanding the fundamentals of HRM can help any manager lead more effectively. Every manager should understand the following three principles:

_ All managers are human resource managers.

_ Employees are much more important assets than buildings or equipment; good employees give a company the competitive edge.

_ Human resource management is a matching process; it must match the needs of the organization with the needs of the employee.

Recruiting strategies

Recruitment includes all the activities an organization may use to attract a pool of viable candidates. Effective recruiting is increasingly important today for several reasons:

_ The U.S. employment rate has generally declined each year through the 1990s. Experts refer to the current recruiting situation as one of "evaporated employee resources."

_ Many experts believe that today's Generation X employees (those born between 1963 and 1981) are less inclined to build long-term employment relationships than were their predecessors. Therefore, finding the right inducements for attracting, hiring, and retaining qualified personnel may be more complicated than in previous years. Keep in mind that recruiting strategies differ among organizations. Although one may instantly think of campus recruiting as a typical recruiting activity, many organizations use internal recruiting, or promote-fromwithin policies, to fill their high-level positions. Open positions are posted, and current employees are given preferences when these positions become available. Internal recruitment is less costly than an external search. It also generates higher employee commitment, development, and satisfaction because it offers opportunities for career advancement to employees rather than outsiders. If internal sources do not produce an acceptable candidate, many external recruiting strategies are available, including the following:

_ Newspaper advertising

_ Employment agencies (private, public, or temporary agencies)

_ Executive recruiters (sometimes called headhunters)

_ Unions

_ Employee referrals

_ Internship programs

_ Internet employment sites

But there's more to recruiting than just attracting employees; managers need to be able to weed out the top candidates. Once a manger has a pool of applicants, the selection process can begin.

Selecting the Best Person for the Job

Having the right people on staff is crucial to the success of an organization. Various selection devices help employers predict which applicants will be successful if hired. These devices aim to be not only valid, but also reliable. *Validity* is proof that the relationship between the selection device and some relevant job criterion exists. *Reliability* is an indicator that the device measures the same thing consistently. For example, it would be appropriate to give a keyboarding test to a candidate applying for a job as an administrative assistant. However, it would not be valid to give a keyboarding test to a candidate for a job as a physical education teacher. If a keyboarding test is given to the same individual on two separate occasions, the results should be similar. To be effective predictors, a selection device must possess an acceptable level of consistency.

Application forms

For most employers, the application form is the first step in the selection process. Application forms provide a record of salient information about applicants for positions, and also furnish data for personnel research. Interviewers may use responses from the application for follow-up questions during an interview. These forms range from requests for basic information, such as names, addresses, and telephone numbers, to comprehensive personal history profiles detailing applicants' education, job experience skills, and accomplishments. According to the Uniform Selection Guidelines of the EEOC, which establish standards that employers must meet to prevent disparate or unequal treatment, any employment requirement is a test, even a job application. As a result, EEOC considerations and application forms are interrelated, and managers should make sure that their application forms do not ask questions that are irrelevant to job success, or these questions may create an adverse impact on protected groups. For example, employers should not ask whether an applicant rents or owns his or her own home, because an applicant's response may adversely affect his or her chances at the job. Minorities and women may be less likely to own a home, and home ownership is probably unrelated to job performance. On the other hand, asking about the CPA exam for an accounting position is appropriate, even if only one-half of all female or minority applicants have taken the exam versus nine-tenths of male applicants.A quick test for disparate impact suggested by the Uniform Selection Guidelines is the **four-fifths rules.** Generally, a disparate impact is assumed when the proportions of protected class applicants who are actually hired is less that 80 percent (four-fifths) of the proportion of the majority group applicants selected. For example, assume that an employer has 100 white male applicants for an entry-level job and hires one-half of them, for a selection ratio of 1:2, or 50 percent (50/100). The four-fifths rule does not mean that the employers must hire four-fifths, or 40 protected class members. Instead, the rule means that the employer's selection ratio of protected classapplicants should be at least four-fifths of that of the majority groups.

Testing

Testing is another method of selecting competent future employees. Although testing use has ebbed and flowed during the past two decades, recent studies reveal that more than 80 percent of employers use testing as part of their selection process. Again, these tests must be valid and reliable, or serious EEO questions may be raised about the use of them. As a result, a manager needs to make sure that the test measures only job-relevant dimensions of applicants. Most tests focus on specific job-related aptitudes and skills, such as math or motor skills. Typical types of exams include the following:

_ **Integrity tests** measure factors such as dependability, carefulness, responsibility, and honesty. These tests are used to learn about the attitudes of applicants toward a variety of job-related subjects. Since the passage of the Employee Polygraph Protection Act in 1988, polygraph (lie detector) tests have been effectively banned in employment situations. In their place, attitude tests are being used to assess attitudes about honesty and, presumably, on-the-job behaviors.
_ **Personality tests** measure personality or temperament. These tests are among the least reliable. Personality tests are problematic and not very valid, because little or no relationship exists between personality and performance.
_ **Knowledge tests** are more reliable than personality tests because they measure an applicant's comprehension or knowledge of a subject. A math test for an accountant and a weather test for a pilot are examples. Human relations specialists must be able to demonstrate that the test reflects the knowledge needed to perform the job. For example, a teacher hired to teach math should not be given a keyboarding test.
_ **Performance simulation tests** are increasing in popularity. Based on job analysis data, they more easily meet the requirement of job relatedness than written tests. Performance simulation tests are made up of actual job behaviors. The best-known performance simulation test is known as work sampling, and other credible similation processes are performed at assessment centers.
_ An *assessment* is a selection technique that examines candidates' handling of simulated job situations and evaluates a candidate's potential by observing his or her performance in experiential activities designed to simulate daily work.
Assessment centers, where work sampling is often completed, utilize line executives, supervisors, or trained psychologists to evaluate candidates as they go through exercises that simulate real problems that these candidates would confront on their jobs. Activities may include interviews, problem-solving exercises, group discussions, and business-decision games. Assessment centers have consistently demonstrated results that accurately predict later job performance in managerial positions.
Work sampling is an effort to create a miniature replica of a job, giving applicants the chance to demonstrate that they possess the necessary talents by actually doing the tasks.

Interviews

Another widely used selection technique is the *interview,* a formal, in-depth conversation conducted to evaluate an applicant's acceptability. In general, the interviewer seeks to answer three broad questions:
1. Can the applicant do the job?
2. Will the applicant do the job?
3. How does the applicant compare with others who are being considered for the job?
Interviews are popular because of their flexibility. They can be adapted to unskilled, skilled, managerial, and staff employees. They also allow a twoway exchange of information where interviewers can learn about the applicant and the applicant can learn about the employer. Interviews do have some shortcomings, however. The most noticeable flaws are in the areas of reliability and validity. Good reliability means that the interpretation of the interview results does not vary from interviewer to interviewer. Reliability is improved when identical questions are

asked. The validity of interviews is often questionable because few departments use standardized questions. Managers can boost the reliability and validity of selection interviews by planning the interviews, establishing rapport, closing the interview with time for questions, and reviewing the interview as soon as possible after its conclusion.

Other selection techniques

Reference checking and health exams are two other important selection techniques that help in the staffing decision.

_ **Reference checking** allows employers to verify information supplied by the candidate. However, obtaining information about potential candidates is often difficult because of privacy laws and employer concerns about defamation lawsuits.

_ **Health exams** identify health problems that increase absenteeism and accidents, as well as detecting diseases that may be unknown to the applicant.

Orientation and Training Programs

Once employees are selected, they must be prepared to do their jobs, which is when orientation and training come in. **Orientation** means providing new employees with basic information about the employer. Training programs are used to ensure that the new employee has the basic knowledge required to perform the job satisfactorily. Orientation and training programs are important components in the processes of developing a committed and flexible high-potential workforce and socializing new employees. In addition, these programs can save employers money, providing big returns to an organization, because an organization that invests money to train its employees results in both the employees and the organization enjoying the dividends. Unfortunately, orientation and training programs are often overlooked. A recent U.S. study, for example, found that 57 percent of employers reported that although employees' skill requirements had increased over a three-year period, only 20 percent of employees were fully proficient in their jobs.

Orientation

Orientation programs not only improve the rate at which employees are able to perform their jobs but also help employees satisfy their personal desires to feel they are part of the organization's social fabric. The HR department generally orients newcomers to broad organizational issues and fringe benefits. Supervisors complete the orientation process by introducing new employees to coworkers and others involved in the job. A buddy or mentor may be assigned to continue the process.

Training needs

Simply hiring and placing employees in jobs does not ensure their success. In fact, even tenured employees may need training, because of changes in the business environment. Here are some changes that may signal that current employees need training:

_ Introduction of new equipment or processes
_ A change in the employee's job responsibilities
_ A drop in an employee's productivity or in the quality of output
_ An increase in safety violations or accidents
_ An increased number of questions
_ Complaints by customers or coworkers

Once managers decide that their employees need training, these managers need to develop clear training goals that outline anticipated results. These managers must also be able to clearly communicate these goals to employees. Keep in mind that training is only one response to a performance problem.

If the problem is lack of motivation, a poorly designed job, or an external condition (such as a family problem), training is not likely to offer much help.

Types of training

After specific training goals have been established, training sessions should be scheduled to provide the employee an opportunity to meet his or her goals. The following are typical training programs provided by employers:

_ **Basic literacy training.** Ninety million American adults have limited literacy skills, and about 40 million can read little or not at all. Because most workplace demands require a tenth- or eleventh-grade reading level (and about 20 percent of Americans between the ages of 21 and 25 can't read at even an eighth-grade level), organizations increasingly need to provide basic literacy training in the areas of reading and math skills to their employees.

_ **Technical training.** New technology and structural designs have increased the need to upgrade and improve employees' technical skills in both white-collar and blue-collar jobs.

_ **Interpersonal skills training.** Most employees belong to a work team, and their work performance depends on their abilities to effectively interact with their coworkers. Interpersonal skills training helps employees build communication skills.

_ **Problem-solving training.**Today's employees often work as members of self-managed teams who are responsible for solving their own problems. Problem-solving training has become a basic part of almost every organizational effort to introduce self-managed teams or implement

_ **Diversity training.** As one of the fastest growing areas of training, diversity training increases awareness and builds cultural sensitivity skills. Awareness training tries to create an understanding of the need for, and meaning of, managing and valuing diversity. Skill-building training educates employees about specific cultural differences in the workplace.

Selection versus Recruitment

Both ***recruitment and selection*** are the two phases of the employment process. The differences between the two are:

1. The **recruitment** is the process of searching the candidates for employment and stimulating them to apply for jobs in the organisation WHEREAS selection involves the series of steps by which the candidates are screened for choosing the most suitable persons for vacant posts.

2. The basic **purpose of recruitments** is to create a talent pool of candidates to enable the selection of best candidates for the organisation, by attracting more and more employees to apply in the organisation WHEREAS the basic purpose of selection process is to choose the right candidate to fill the various positions in the organisation.

3. Recruitment is a positive process i.e. encouraging more and more employees to apply WHEREAS selection is a negative process as it involves rejection of the unsuitable candidates.

4. Recruitment is concerned with tapping the sources of human resources WHEREAS selection is concerned with selecting the most suitable candidate through various interviews and tests.

5. There is no contract of recruitment established in recruitment WHEREAS selection results in a contract of service between the employer and the selected employee

<u>Recommended questions:</u>

1. Organisation is an important tool to achieve organisational objectives. Comment.
2. What do you understand by 'Management by objectives' (MBO)?
3. What are the various steps involved in the process of M.B.O.?
4. What do you understand by 1.line organisation, 2. Functional organisation, 3. Line and staff organisation. Discuss their respective merits and demerits.
5. Line organization presupposes the direct authority exercised by a superior over his subordinates ,its flow is always downwards.
6. State and explain the common causes of conflict between line and staff management in an organisation.
7. What do you mean by Departmentation? Explain with its types.
8. What do you mean by MBE?
9. Explain Nature and importance of Staffing?
10. Explain Process of Selection & Recruitment?

Unit: ……04………… **Hrs: ……07…..**

DIRECTING & CONTROLLING:

Syllabus of unit 04 :

Meaning and nature of directing -Leadership styles, Motivation Theories, Communication - Meaning and importance – Coordination, meaning and importance and Techniques of Co - ordination. Meaning and steps in controlling - Essentials of a sound control system - Methods of establishing control.

Recommended readings:

1. **Principles of Management** - P. C. Tripathi, P. N. Reddy; Tata McGraw Hill.
2. **Management Fundamentals** - Concepts, Skill Development Robert Lusier – Thomson.
3. **Management** - Stephen Robbins - Pearson Education /PHI -17th Edition, 2003.

DIRECTING & CONTROLLING

Directing means giving instructions, guiding, counselling, motivating and leading the staff in an organisation in doing work to achieve Organisational goals. Directing is a key managerial function to be performed by the manager along with planning, organising, staffing and controlling. From top executive to supervisor performs the function of directing and it takes place accordingly wherever superior – subordinate relations exist. Directing is a continuous process initiated at top level and flows to the bottom through organisational hierarchy.

Principles:

- Direction initiates actions to get the desired results in an organisation.
- Direction attempts to get maximum out of employees by identifying their capabilities.
- Direction is essential to keep the elements like Supervision, Motivation, Leadership and Communication effective.
- It ensures that every employee work for organisational goals.
- Coping up with the changes in the Organisation is possible through effective direction.
- Stability and balance can be achieved through directing.

Organizations need employees who are committed and motivated and who want to do their jobs well. To create this environment, managers must understand some of the concepts underlying human behavior. This chapter delves into what motivation is and explores methods and techniques managers can use to motivate employees.

Defining Motivation

Many people incorrectly view motivation as a personal trait—that is, some people have it, and others don't. But *motivation* is defined as the force that causes an individual to behave in a specific way. Simply put, a highly motivated person works hard at a job; an unmotivated person does not. Managers often have difficulty motivating employees. But motivation is really an internal process. It's the result of the interaction of a person's needs, his or her ability to make choices about how to meet those needs, and the environment created by management that allows these needs to be met and the choices to be made. Motivation is not something that a manager can "do" to a person.

Motivation Theories That Focus on Needs

Motivation is a complex phenomenon. Several theories attempt to explain how motivation works. In management circles, probably the most popular explanations of motivation are based on the needs of the individual. The basic needs model, referred to as **content theory** of motivation, highlights the specific factors that motivate an individual. Although these factors are found within an individual, things outside the individual can affect him or her as well.

In short, all people have needs that they want satisfied. Some are *primary needs,* such as those for food, sleep, and water—needs that deal with the physical aspects of behavior and are considered unlearned. These needs are biological in nature and relatively stable. Their influences on behavior are usually obvious and hence asy to identify. *Secondary needs,* on the other hand, are psychological, which means that they are learned primarily through experience. These needs vary significantly by culture and by individual. Secondary needs consist of internal states, such as the desire for power, achievement, and love. Identifying and interpreting these needs is more difficult because they are demonstrated in a variety of ways. Secondary needs are responsible for most of the behavior that a supervisor is concerned with and for the rewards a person seeks in an organization. Several theorists, including Abraham Maslow, Frederick Herzberg, David McClelland, and Clayton Alderfer, have provided theories to help explain needs as a source of motivation.

Abraham Maslow's hierarchy of needs theory

Abraham Maslow defined **need** as a physiological or psychological deficiency that a person feels the compulsion to satisfy. This need can create tensions that can influence a person's work attitudes and behaviors. Maslow formed a theory based on his definition of need that proposes that humans are motivated by multiple needs and that these needs exist in a hierarchical order. His premise is that only an unsatisfied need can influence behavior; a satisfied need is not a motivator.

Maslow's theory is based on the following two principles:

_ **Deficit principle:** A satisfied need no longer motivates behavior because people act to satisfy deprived needs.

_ **Progression principle:** The five needs he identified exist in a hierarchy, which means that a need at any level only comes into play after a lower-level need has been satisfied.

In his theory, Maslow identified five levels of human needs. illustrates these five levels and provides suggestions for satisfying each need.

Higher Level Needs	***To Satisfy, Offer:***
Self-actualization needs	Creative and challenging work
	Participation in decision making
	Job flexibility and autonomy
Esteem needs	Responsibility of an important job
	Promotion to higher status job
	Praise and recognition from boss
Lower Level Needs	***To Satisfy, Offer:***
Social needs	Friendly coworkers
	Interaction with customers
	Pleasant supervisor
Safety needs	Safe working conditions
	Job security
	Base compensation and benefits
Physiological needs	Rest and refreshment breaks
	Physical comfort on the job
	Reasonable work hours

Although research has not verified the strict deficit and progression principles of Maslow's theory, his ideas can help managers understand and satisfy the needs of employees.

Herzberg's two-factor theory

Frederick Herzberg offers another framework for understanding the motivational implications of work environments. In his **two-factor theory,** Herzberg identifies two sets of factors that impact
motivation in the workplace:

_ **Hygiene factors** include salary, job security, working conditions, organizational policies, and technical quality of supervision. Although these factors do not motivate employees, they can cause dissatisfaction if
they are missing. Something as simple as adding music to the office place or implementing a no-smoking policy can make people less dissatisfied with these aspects of their work. However, these improvements
in hygiene factors do not necessarily increase satisfaction.

_ **Satisfiers** or **motivators** include such things as responsibility, achievement, growth opportunities, and feelings of recognition, and are the key to job satisfaction and motivation. For example, managers can
find out what people really do in their jobs and make improvements, thus increasing job satisfaction and performance. Following Herzberg's two-factor theory, managers need to ensure that hygiene factors are adequate and then build satisfiers into jobs.

Alderfer's ERG theory

Clayton Alderfer's **ERG (Existence, Relatedness, Growth) theory** is built upon Maslow's hierarchy of needs theory. To begin his theory, Alderfer collapses Maslow's five levels of needs into three categories.

_ **Existence needs** are desires for physiological and material well-being. (In terms of Maslow's model, existence needs include physiological and safety needs)

_ **Relatedness needs** are desires for satisfying interpersonal relationships. (In terms of Maslow's model, relatedness correspondence to social needs)

_ **Growth needs** are desires for continued psychological growth and development. (In terms of Maslow's model, growth needs include esteem and self-realization needs)

This approach proposes that unsatisfied needs motivate behavior, and that as lower level needs are satisfied, they become less important. Higher level needs, though, become more important as they are satisfied, and if these needs are not met, a person may move down the hierarchy, which Alderfer calls the *frustration-regression principle.* What he means by this term is that an already satisfied lower level need can become reactivated and influence behavior when a higher level need cannot be satisfied. As a result,
managers should provide opportunities for workers to capitalize on the importance of higher level needs.

McClelland's acquired needs theory

David McClelland's acquired needs theory recognizes that everyone prioritizes needs differently. He also believes that individuals are not born with these needs, but that they are actually learned through life experiences. McClelland identifies three specific needs:

_ **Need for achievement** is the drive to excel.

_ **Need for power** is the desire to cause others to behave in a way that they would not have behaved otherwise.

_ **Need for affiliation** is the desire for friendly, close interpersonal relationships and conflict avoidance.

McClelland associates each need with a distinct set of work preferences, and managers can help tailor the environment to meet these needs. High achievers differentiate themselves from others by their desires to do things better. These individuals are strongly motivated by job situations with personal responsibility, feedback, and an intermediate degree of risk. In addition, high achievers often exhibit the following behaviors:

_ Seek personal responsibility for finding solutions to problems

_ Want rapid feedback on their performances so that they can tell easily whether they are improving or not

_ Set moderately challenging goals and perform best when they perceive their probability of success as 50-50

An individual with a high need of power is likely to follow a path of continued promotion over time. Individuals with a high need of power often demonstrate the following behaviors:

_ Enjoy being in charge
_ Want to influence others
_ Prefer to be placed into competitive and status-oriented situations
_ Tend to be more concerned with prestige and gaining influence over others than with effective performance

People with the need for affiliation seek companionship, social approval, and satisfying interpersonal relationships. People needing affiliation display the following behaviors:

_ Take a special interest in work that provides companionship and social approval
_ Strive for friendship
_ Prefer cooperative situations rather than competitive ones
_ Desire relationships involving a high degree of mutual understanding
_ May not make the best managers because their desire for social approval and friendship may complicate managerial decision making Interestingly enough, a high need to achieve does not necessarily lead to
being a good manager, especially in large organizations.

People with high achievement needs are usually interested in how well they do personally and not in influencing others to do well. On the other hand, the best managers are high in their needs for power and low in their needs for affiliation.

Motivation Theories That Focus on Behavior

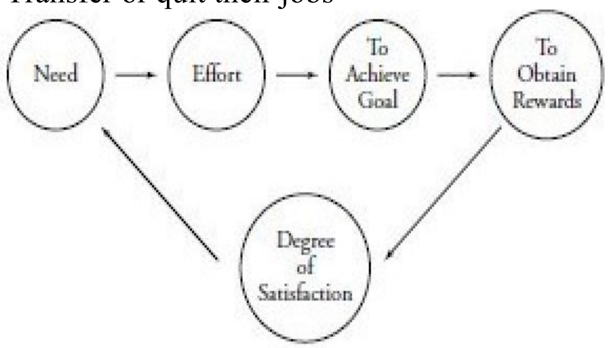
Another set of theories exists as well. **Process theories** explain how workers select behavioral actions to meet their needs and determine their choices. The following theories each offer advice and insight on how people actually make choices to work hard or not work hard based on their individual
preferences, the available rewards, and the possible work outcomes.

Equity theory

According to the equity theory, based on the work of J. Stacy Adams, workers compare the reward potential to the effort they must expend. Equity exists when workers perceive that rewards equal efforts. But employees just don't look at their potential rewards, they look at the rewards of others as well. Inequities occur when people feel that their rewards are inferior to the rewards offered to other persons sharing the same workloads.

Employees who feel they are being treated inequitably may exhibit the following behaviors:

_ Put less effort into their jobs
_ Ask for better treatment and/or rewards
_ Find ways to make their work seem better by comparison
_ Transfer or quit their jobs



The equity theory makes a good point: People behave according to their perceptions. What a manager thinks is irrelevant to an employee because the real issue is the way an employee perceives his or her situation. Rewards perceived as equitable should have positive results on job satisfaction and
performance; those rewards perceived as inequitable may create job dissatisfaction and cause performance problems.

Every manager needs to ensure that any negative consequences from equity comparisons are avoided, or at least minimized, when rewards are allocated.Informed managers anticipate perceived negative inequities when especially visible rewards, such as pay increases or promotions, are allocated. Instead of letting equity concerns get out of hand, these managers carefully communicate the intended values of rewards being given, clarify the performance appraisals upon which these rewards are based, and suggest appropriate comparison points.

Expectancy theory

Victor Vroom introduced one of the most widely accepted explanations of motivation. Very simply, the **expectancy theory** says that an employee will be motivated to exert a high level of effort when he or she believes that:

1. Effort will lead to a good performance appraisal.
2. A good appraisal will lead to organizational rewards.
3. The organizational rewards will satisfy his or her personal goals.

The key to the expectancy theory is an understanding of an individual's goals and the relationships between effort and performance, between performance and rewards, and finally, between the rewards and individual goal satisfaction. When an employee has a high level of expectancy and the reward is attractive, motivation is usually high. Therefore, to motivate workers, managers must strengthen workers' perceptions of their efforts as both possible and worthwhile, clarify expectations of performances, tie rewards to performances, and make sure that rewards are desirable.

Reinforcement theory

The reinforcement theory, based on E. L. Thorndike's law of effect, simply looks at the relationship between behavior and its consequences. This theory focuses on modifying an employee's on-the-job behavior through the appropriate use of one of the following four techniques:

_ **Positive reinforcement** rewards desirable behavior. Positive reinforcement, such as a pay raise or promotion, is provided as a reward for positive behavior with the intention of increasing the probability that the desired behavior will be repeated.

_ **Avoidance** is an attempt to show an employee what the consequences of improper behavior will be. If an employee does not engage in improper behavior, he or she will not experience the consequence.

_ **Extinction** is basically ignoring the behavior of a subordinate and not providing either positive or negative reinforcement. Classroom teachers often use this technique when they ignore students who are "acting out" to get attention. This technique should only be used when the supervisor perceives the behavior as temporary, not typical, and not serious.

_ **Punishment** (threats, docking pay, suspension) is an attempt to decrease the likelihood of a behavior recurring by applying negative consequences.

The reinforcement theory has the following implications for management:

_ Learning what is acceptable to the organization influences motivated behavior.

_ Managers who are trying to motivate their employees should be sure to tell individuals what they are doing wrong and be careful not to reward all individuals at the same time.

_ Managers must tell individuals what they can do to receive positive reinforcement.

_ Managers must be sure to administer the reinforcement as closely as possible to the occurrence of the behavior.

_ Managers must recognize that failure to reward can also modify behavior. Employees who believe that they deserve a reward and do not receive it will often become disenchanted with both their manager and company.

Goal-setting theory

The goal-setting theory, introduced in the late 1960s by Edwin Locke, proposed that intentions to work toward a goal are a major source of work motivation. Goals, in essence, tell employees what needs to be done and how much effort should be expanded. In general, the more difficult the goal, the higher the level of performance expected. Managers can set the goals for their employees, or employees and managers can develop goals together. One advantage of employees participating in goal setting is that they may be more likely to work toward a goal they helped develop. No matter who sets the goal, however, employees do better when they get feedback on their progress. In addition to feedback, four other factors influence the goals-performance relationship:

_ The employee must be committed to the goal.

_ The employee must believe that he is capable of performing the task.

_ Tasks involved in achieving the goal should be simple, familiar, and independent.

_ The goal-setting theory is culture bound and is popular in North American cultures.

If the goal-setting theory is followed, managers need to work with their employees in determining goal objectives in order to provide targets for motivation. In addition, the goals that are established should be specific rather than general in nature, and managers must provide feedback on performance.

Redesigning jobs

Many people go to work every day and go through the same, unenthusiastic actions to perform their jobs. These individuals often refer to this condition as burnout. But smart managers can do something to improve this condition before an employee becomes bored and loses motivation.The concept of *job redesign,* which requires a knowledge of and concern for the human qualities people bring with them to the organization, applies motivational theories to the structure of work for improving productivity and satisfaction When redesigning jobs, managers look at both job scope and job depth. Redesign attempts may include the following:

_ **Job enlargement.** Often referred to as *horizontal job loading,* job enlargement increases the variety of tasks a job includes. Although it doesn't increase the quality or the challenge of those tasks, job enlargement may reduce some of the monotony, and as an employee's boredom decreases, his or her work quality generally increases.

_ **Job rotation**. This practice assigns people to different jobs or tasks to different people on a temporary basis. The idea is to add variety and to expose people to the dependence that one job has on other jobs. Job rotation can encourage higher levels of contributions and renew interest and enthusiasm. The organization benefits from a cross-trained workforce.

_ **Job enrichment.** Also called *vertical job loading***,** this application includes not only an increased variety of tasks, but also provides an employee with more responsibility and authority. If the skills required to do the job are skills that match the jobholder's abilities, job enrichment may improve morale and performance.

Leadership:

Leading is establishing direction and influencing others to follow that direction. But this definition isn't as simple as it sounds because leadership has many variations and different areas of emphasis. Common to all definitions of leadership is the notion that leaders are individuals who, by their actions, facilitate the movement of a group of people toward a common or shared goal. This definition implies that leadership is an influence process.

The distinction between leader and leadership is important, but potentially confusing. The leader is an individual; leadership is the function or activity this individual performs. The word leader is often used interchangeably with the word manager to describe those individuals in an organization who have positions of formal authority, regardless of how they actually act in those jobs. But just because a manager is supposed to be a formal leader in an organization doesn't mean that he or she exercises leadership.

Leaders made or born?

The age old question. Are leaders made or are they born? My belief on this – I believe that a leader is made, not born. Why do I say that? Before going further, lets be clear on one distinction – when we say a leader is made, it does not mean that someone can be taught to become a leader by attending leadership courses. While it helps, it is not enough. Warren Bennis (a leading leadership researcher) believes that one cannot be taught to become a leader but one can learn to become a leader over the years through life and work experiences, through mentors, personal reflection, etc.

Some people believe that leaders are born with the necessary qualities that make them successful as a leader. While others believe that leadership, like many other similar characteristics, can be learned and developed through life. For me, I think much of the debate depends on how you define leadership.

We all have areas of our lives where we have talent and propensity for success. If this is also an area you feel passionate about, you may exude qualities that are absent from other areas of your life. So while you may not be a natural born leader in the strictest sense, you can certainly overcome many obstacles and develop a desire and ability to lead when you are inspired to do so.

Leadership traits

Theories abound to explain what makes an effective leader. The oldest theories attempt to identify the common traits or skills that make an effective leader. Contemporary theorists and theories concentrate on actions of leaders rather than characteristics.

A number of traits that appear regularly in leaders include ambition, energy, the desire to lead, self-confidence, and intelligence. Although certain traits are helpful, these attributes provide no guarantees that a person possessing them is an effective leader. Underlying the trait approach is the assumption that some people are natural leaders, and are endowed with certain traits not possessed by other individuals. This research compared successful and unsuccessful leaders to see how they differed in physical characteristics, personality, and ability. A recent published analysis of leadership traits (S.A. Kirkpatrick and E.A. Locke, *"Leadership: Do Traits Really Matter?"* Academy of Management Executive 5 [1991]) identified six core characteristics that the majority of effective leaders possess:

_ **Drive.** Leaders are ambitious and take initiative.
_ **Motivation.** Leaders want to lead and are willing to take charge.
_ **Honesty and integrity.** Leaders are truthful and do what they say they will do.
_ **Self-confidence.** Leaders are assertive and decisive and enjoy taking risks. They admit mistakes and foster trust and commitment to a vision. Leaders are emotionally stable rather than recklessly adventurous.
_ **Cognitive ability.** Leaders are intelligent, perceptive, and conceptually skilled, but are not necessarily geniuses. They show analytical ability, good judgment, and the capacity to think strategically.
_ **Business knowledge.** Leaders tend to have technical expertise in their businesses.

Traits do a better job at predicting that a manger may be an effective leader rather than actually distinguishing between an effective or ineffective leader. Because workplace situations vary, leadership requirements vary. As a result, researchers began to examine what effective leaders do rather than what effective leaders are. Leadership styles and behaviors are addressed in the next section.

Leadership skills

Whereas traits are the characteristics of leaders, skills are the knowledge and abilities, or *competencies,* of leaders. The competencies a leader needs depends upon the situation:

These competencies depend on a variety of factors:
_ The number of people following the leader
_ The extent of the leader's leadership skills
_ The leader's basic nature and values
_ The group or organization's background, such as whether it's for profit or not-for-profit, new or long established, large or small
_ The particular culture (or values and associated behaviors) of whomever is being led To help managers refine these skills, leadership-training programs typically propose guidelines for making decisions, solving problems, exercising power and influence, and building trust.
_ **To define and establish a sense of mission.** Good leaders set goals, priorities, and standards, making sure that these objectives not only are communicated but maintained.
_ **To accept leadership as a responsibility rather than a rank.** Good leaders aren't afraid to surround themselves with talented, capable people; they do not blame others when things go wrong.
_ **To earn and keep the trust of others.** Good leaders have personal integrity and inspire trust among their followers; their actions are consistent with what they say.

In Drucker's words, "Effective leadership is not based on being clever, it is based primarily on being consistent." Very simply put, leading is establishing direction and influencing others to follow that direction. Keep in mind that no list of leadership traits and skills is definitive because no two successful leaders are alike. What is important is that leaders exhibit some positive characteristics that make them effective managers at any level in an organization.

Leadership styles

No matter what their traits or skills, leaders carry out their roles in a wide variety of styles. Some leaders are autocratic. Others are democratic. Some are participatory, and others are hands off. Often, the leadership style depends on the situation, including where the organization is in its life cycle.

The following are common leadership styles:
_ **Autocratic.** The manager makes all the decisions and dominates team members. This approach generally results in passive resistance from team members and requires continual pressure and direction from the leader in order to get things done. Generally, this approach is not a good way to get the best performance from a team. However, this style may be appropriate when urgent action is necessary or when subordinates actually prefer this style.
_ **Participative.** The manager involves the subordinates in decision making by consulting team members (while still maintaining control), which encourages employee ownership for the decisions. A good participative leader encourages participation and delegates wisely, but never loses sight of the fact that he or she bears the crucial responsibility of leadership. The leader values group discussions and input from team members; he or she maximizes the members' strong points in order to obtain the best performance from the entire team. The participative leader motivates team members by empowering them to direct themselves; he or she guides them with a loose rein. The downside, however, is that a participative leader may be seen as unsure, and team members may feel that everything is a matter for group discussion and decision.
_ **Laissez-faire** (also called free-rein). In this hands-off approach, the leader encourages team members to function independently and work out their problems by themselves, although he or she is available for advice and assistance. The leader usually has little control over team members, leaving them to sort out their roles and tackle their work assignments without

personally participating in these processes. In general, this approach leaves the team floundering with little direction or motivation. Laissez-faire is usually only appropriate when the team is highly motivated and skilled, and has a history of producing excellent work.

COMMUNICATION:

The Significance of Communication in the Management Process

Organizations are totally reliant on **communication,** which is defined as the exchange of ideas, messages, or information by speech, signals, or writing. Without communication, organizations would not function. If communication is diminished or hampered, the entire organization suffers. When communication is thorough, accurate, and timely, the organization tends to be vibrant and effective. Communication is central to the entire management process for four primary reasons:

_ **Communication is a linking process of management.** Communication is the way managers conduct the managerial functions of planning, organizing, staffing, directing, and controlling. Communication is the heart of all organizations

_ **Communication is the primary means by which people obtainand exchange information.** Decisions are often dependent upon the quality and quantity of the information received. If the information on which a decision is based is poor or incomplete, the decision will often be incorrect.

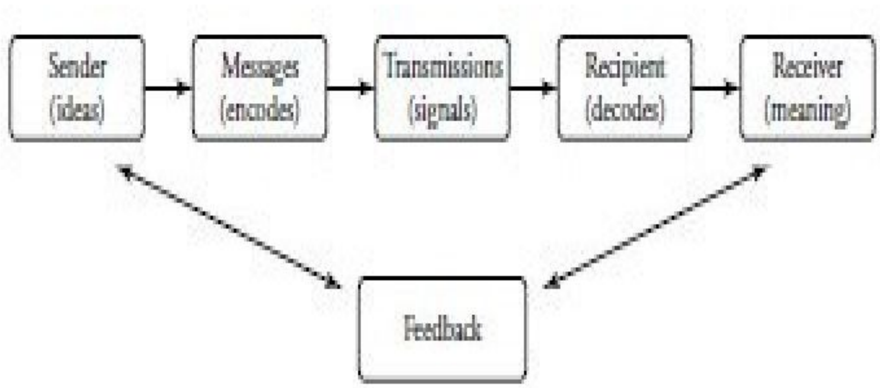
_ **The most time-consuming activity a manager engages in is communication** Managers spend between 70 to 90 percent of their time communicating with employees and other internal and external
customers.

_ **Information and communication represent power in organizations.** An employee cannot do anything constructive in a work unit unless he or she knows what is to be done, when the task is to be accomplished, and who else is involved. The staff members who have this information become centers of power.

The ability to communicate well, both orally and in writing, is a critical managerial skill and a foundation of effective leadership. Through communication,people exchange and share information with one another and influence one another's attitudes, behaviors, and understandings. Communication allows managers to establish and maintain interpersonal relationships, listen to others, and otherwise gain the information needed to create an inspirational workplace. No manager can handle conflict, negotiate successfully, and succeed at leadership without being a good communicator.

The Communication Process

The goal of communication is to convey information—and the understanding of that information—from one person or group to another person or group. This communication process is divided into three basic components: A *sender* transmits a message through a *channel* to the *receiver*. (Figure 13-1 shows a more elaborate model.) The sender first develops an idea, which is composed into a message and then transmitted to the other party, who interprets the message and receives meaning. Information theorists have added somewhat more complicated language. Developing a message is known as *encoding*. Interpreting the message is referred to as *decoding*.



Methods of Communication

The standard methods of communication are speaking or writing by a sender and listening or reading by the receiver. Most communication is oral, with one party speaking and others listening.

However, some forms of communication do not directly involve spokenor written language.

Nonverbal communication (body language) consists of actions, gestures, and other aspects of physical appearance that, combined with facial expressions (such as smiling or frowning), can be powerful means of transmitting messages. At times, a person's body may be "talking" even as he or she maintains silence. And when people do speak, their bodies may sometimes say different things than their words convey.

A *mixed message* occurs when a person's words communicate one message, while nonverbally, he or she is communicating something else. Although technology such as e-mail has lessened the importance of nonverbal communication, the majority of organizational communication still takes place through face-to-face interaction. Every verbal message comes with a nonverbal component. Receivers interpret messages by taking in meaning from everything available. When nonverbal cues are consistent with verbal messages, they act to reinforce the messages. But when these verbal and nonverbal messages are inconsistent, they create confusion for the receiver. The actions of management are especially significant because subordinatesplace more confidence in what managers do than what they say. Unless actions are consistent with communication, a feeling of distrust will undermine the effectiveness of any future social exchange.

Oral communication skills Because a large part of a manager's day is spent conversing with other managers and employees, the abilities to speak and listen are critical to success. For example, oral communication skills are used when a manager must make sales presentations, conduct interviews, perform employee evaluations, and hold press conferences.In general, managers prefer to rely on oral communication because communication tends to be more complete and thorough when talking in person.

In face-to-face interactions, a person can judge how the other party is reacting, get immediate feedback, and answer questions. In general, people tend to assume that talking to someone directly is more credible than receiving a written message. Face-to-face communication permits not only the exchange of words, but also the opportunity to see the nonverbal communication.However, verbal communicating has its drawbacks. It can be inconsistent, unless

all parties hear the same message. And although oral communication is useful for conveying the viewpoints of others and fostering an openness that encourages people to communicate, it is a weak tool for implementing a policy or issuing directives where many specifics are involved.
Here are two of the most important abilities for effective oralcommunication:
_ **Active listening.** Listening is making sense of what is heard and requires paying attention, interpreting, and remembering sound stimuli. Effective listening is active, requiring the hearer to "get inside the head" of the speaker so that he or she can understand the communication from the speaker's point of view.
_ **Constructive feedback.** Managers often do poor jobs of providing employees with performance feedback. When providing feedback, managers should do the following:
Focus on specific behaviors rather than making general statements Keep feedback impersonal and goal-oriented Offer feedback as soon after the action as possible Ask questions to ensure understanding of the feedback Direct negative feedback toward behavior that the recipient can control

Written communication skills

Written communication has several advantages. First, it provides a record for referral and follow-up. Second, written communication is an inexpensive means of providing identical messages to a large number of people. The major limitation of written communication is that the sender does not know how or if the communication is received unless a reply is required. Unfortunately, writing skills are often difficult to develop, and many individuals have problems writing simple, clear, and direct documents. And believe it or not, poorly written documents cost money. How much does bad writing cost a company annually? According to a Canadian consulting and training firm, one employee who writes just one poorly worded memo per week over the course of a year can cost a company $4,258.60. Managers must be able to write clearly. The ability to prepare letters, memos, sales reports, and other written documents may spell the difference between success and failure. The following are some guidelines for effective written communication:

Interpersonal Communication

Interpersonal communication is real-time, face-to-face or voice-to-voice conversation that allows immediate feedback. Interpersonal communication plays a large role in any manager's daily activities, but especially in organizations that use teams. Managers must facilitate interpersonal communication within teams and reduce barriers to interpersonal communications. Common barriers to interpersonal communication include the following:
_ **Expectations of familiarity** (or hearing what one is expected to hear). After hearing the beginning comments, employees may not listen to the remainder of the communication because they think they already know what a manager's going to say.
_ **Preconceived notions.** Many employees ignore information that conflicts with what they "know." Often referred to as *selective perception,* it's the tendency to single out for attention those aspects of a situation or person that reinforce or appear consistent with one's existing beliefs, value, or needs. Selective perception can bias a manager's and employee's view of situations and people.
_ **Source's lack of credibility.** Some employees may negatively size up or evaluate the sender based on stereotypes. *Stereotyping* is assigning attributes commonly associated with a category, such as age group,

race, or gender to an individual. *Class ifying* is making assumptions about an individual based on a group he or she fits into. Characteristics commonly associated with the group are then assigned to the individual. Someone who believes that young people dislike authority figures may assume that a younger colleague is rebellious.

_ **Differing perceptions caused by social and cultural backgrounds.** The process through which people receive and interpret information from the environment is called **perception.** Perception acts as a screen or filter through which information must pass before it has an impact on communication. The results of this screening process vary, because such things as values, cultural background, and other circumstances influence individual perceptions. Simply put, people can perceive the same things or situations very differently. And even more important, people behave according to their perceptions.

_ **Semantics and diction.** The choice and use of words differ significantly among individuals. A word such as "effectiveness" may mean "achieving high production" to a factory superintendent and "employee satisfaction" to a human resources specialist. Many common English words have an average of 28 definitions, so communicators must take care to select the words that accurately communicate their ideas.

_ **Emotions that interfere with reason.** Tempers often interfere with reason and cause the roles of sender and receiver to change to that of opponent and adversary.

_ **Noise or interference.** Noise d oes not allow for understanding between sender and receiver.

Organizational Communication

The formal flow of information in an organization may move via upward, downward, or horizontal channels. Most *downward communications* address plans, performance feedback, delegation, and training. Most *upward communications* concern performance, complaints, or requests for help. *Horizontal communications* focus on coordination of tasks or resources. Organizational structure creates, perpetuates, and encourages formal means of communication. The chain of command typifies vertical communication. Teamwork and interactions exemplify lateral or horizontal efforts to communicate. Coordinating efforts between colleagues or employees of equal rank and authority represent this channel of communication. Feedback from subordinate to superior is indicative of upward communication.For example, status reports to inform upper levels of management are originated in the lower or mid-range of most organizations. The marriage of people to electronic communication equipment and databases that store information is a *formal network.* Formal communication networks provide the electronic links for transferring and storing information through formal organizational channels. *Informal channels,* known as the grapevine, carry casual, social, and personal messages through the organization. The **grapevine** is an informal, person-to-person communication network of employees that is not officially sanctioned by the organization (see Chapter 3). The grapevine is spontaneous, quick, and hard to stop; it can both help and hinder the understanding of information. For these reasons, managers need to stay in touch with the grapevine and counteract rumors. Like interpersonal communication, organizational communication can be blocked by barriers, such as the following:

_ Information overload
_ Embellished messages
_ Delays in formal communications
_ Lack of employee trust and openness

_ Different styles of change
_ Intimidation and unavailability of those of rank or status
_ Manager's interpretations
_ Electronic noises

Improving Communications

Communication touches everything that takes place in an organization and is so intermingled with all other functions and processes that separating it for study and analysis is difficult. Because communication is the most time-consuming activity that a manager engages in, improving management strongly depends on improving communication. One way researchers are trying to improve communication skills for organizations is through instruments that assess managers' writing and speaking effectiveness. The responsibility to strengthen and improve communication is both individual and organizational. Senders should define the purpose behind their message, construct each message with the reader in mind, select the best medium, time each transmission thoughtfully, and seek feedback. Receivers must listen actively, be sensitive to the sender, recommend an appropriate medium for messages, and initiate feedback efforts.

Controlling:

Simply put, *organizational control* is the process of assigning, evaluating, and regulating resources on an ongoing basis to accomplish an organization's goals. To successfully control an organization, managers need to not only know what the performance standards are, but also figure out how to share that information with employees.

Control can be defined narrowly as the process a manager takes to assure that actual performance conforms to the organization's plan, or more broadly as anything that regulates the process or activity of an organization. The content in this chapter follows the general interpretation by defining managerial control as monitoring performance against a plan and then making adjustments either in the plan or in operations as necessary.

The six major purposes of controls are as follows:

_ **Controls make plans effective.**Managers need to measure progress, offer feedback, and direct their teams if they want to succeed.
_ **Controls make sure that organizational activities are consistent.** Policies and procedures help ensure that efforts are integrated.
_ **Controls make organizations effective.** Organizations need controls in place if they want to achieve and accomplish their objectives.
_ **Controls make organizations efficient.** Efficiency probably depends more on controls than any other management function.
_ **Controls provide feedback on project status.** Not only do they measure progress, but controls also provide feedback to participants as well. Feedback influences behavior and is an essential ingredient in the control process.
_ **Controls aid in decision making.** The ultimate purpose of controls is to help managers make better decisions. Controls make managers aware of problems and give them information that is necessary for decision making.

Many people assert that as the nature of organizations has changed, so must the nature of management controls. New forms of organizations, such as self-organizing organizations, self-managed teams, and network organizations, allow organizations to be more responsive and adaptable in today's rapidly changing world. These forms also cultivate empowerment among employees, much more so than the hierarchical organizations of the past.

Some people even claim that management shouldn't exercise any form of control whatsoever, and should only support employee efforts to be fully productive members of organizations and communities. Along those same lines, some experts even use the word "coordinating" in place of "controlling" to avoid sounding coercive. However, some forms of controls must exist for an organization to exist. For an organization to exist, it needs some goal or purpose, or it isn't an organization at all. Individual behaviors, group behaviors, and all organizational performance must be in line with the strategic focus of the organization.

The Control Process

The control process involves carefully collecting information about a system, process, person, or group of people in order to make necessary decisions about each. Managers set up control systems that consist of four key steps:

1. Establish standards to measure performance. Within an organization's overall strategic plan, managers define goals for organizational departments in specific, operational terms that include standards of performance to compare with organizational activities.

2. Measure actual performance. Most organizations prepare formal reports of performance measurements that managers review regularly. These measurements should be related to the standards set in the first step of the control process. For example, if sales growth is a target, the organization should have a means of gathering and reporting sales data.

3. Compare performance with the standards. This step compares actual activities to performance standards. When managers read computer reports or walk through their plants, they identify whether actual performance meets, exceeds, or falls short of standards. Typically, performance reports simplify such comparison by placing the performance standards for the reporting period alongside the actual performance for the same period and by computing the variance—that is, the difference between each actual amount and the associated standard.

4. Take corrective actions. When performance deviates from standards, managers must determine what changes, if any, are necessary and how to apply them. In the productivity and quality-centered environment, workers and managers are often empowered to evaluate their own work. After the evaluator determines the cause or causes of deviation, he or she can take the fourth step—corrective action. The most effective course may be prescribed by policies or may be best left up to employees' judgment and initiative. These steps must be repeated periodically until the organizational goal is achieved.

Types of Controls

Control can focus on events before, during, or after a process. For example, a local automobile dealer can focus on activities before, during, or after sales of new cars. Careful inspection of new cars and cautious selection of sales employees are ways to ensure high quality or profitable sales even before those sales take place. Monitoring how salespeople act with customers is a control during the sales task. Counting the number of new cars sold during the month and telephoning buyers about their satisfaction with sales transactions are controls after sales have occurred. These types of controls are formally called feedforward, concurrent, and feedback, respectively.

_ **Feedforward controls,** sometimes called preliminary or preventive controls, attempt to identify and prevent deviations in the standards before they occur. Feedforward controls focus on human, material, and financial resources within the organization. These controls are evident in the selection and hiring of new employees. For example, organizations attempt to improve the likelihood that employees will perform up to standards by identifying the necessary job skills and by using tests and other screening devices to hire people with those skills.
_ **Concurrent controls** monitor ongoing employee activity to ensure consistency with quality standards. These controls rely on performance standards, rules, and regulations for guiding employee tasks and behaviors. Their purpose is to ensure that work activities produce the desired results. As an example, many manufacturing operations include devices that measure whether the items being produced meet quality standards. Employees monitor the measurements; if they see that standards are not being met in some area, they make a correction themselves or let a manager know that a problem is occurring.
_ **Feedback controls** involve reviewing information to determine whether performance meets established standards. For example, suppose that an organization establishes a goal of increasing its profit by 12 percent next year. To ensure that this goal is reached, the organization must monitor its profit on a monthly basis. After three months, if profit has increased by 3 percent, management might assume that plans are going according to schedule.

Characteristics of Effective Control Systems

The management of any organization must develop a control system tailored to its organization's goals and resources. Effective control systems share several common characteristics. These characteristics are as follows:
_ **A focus on critical points.** For example, controls are applied where failure cannot be tolerated or where costs cannot exceed a certain amount. The critical points include all the areas of an organization's operations that directly affect the success of its key operations.
_ **Integration into established processes.** Controls must function harmoniously within these processes and should not bottleneck operations.
_ **Acceptance by employees.** Employee involvement in the design of controls can increase acceptance.
_ **Availability of information when needed.** Deadlines, time needed to complete the project, costs associated with the project, and priority needs are apparent in these criteria. Costs are frequently attributed to time shortcomings or failures.
_ **Economic feasibility.** Effective control systems answer questions such as, "How much does it cost?" "What will it save?" or "What are the returns on the investment?" In short, comparison of the costs to the benefits ensures that the benefits of controls outweigh the costs.
_ **Accuracy.** Effective control systems provide factual information that's useful, reliable, valid, and consistent.
_ **Comprehensibility.** Controls must be simple and easy to understand.

Control Techniques

Control techniques provide managers with the type and amount of information they need to measure and monitor performance. The information from various controls must be tailored to a specific management level, department, unit, or operation. To ensure complete and consistent information, organizations often use standardized documents such as financial, status, and project reports. Each area within an organization, however, uses its own specific control techniques, described in the following sections.

Financial controls

After the organization has strategies in place to reach its goals, funds are set aside for the necessary resources and labor. As money is spent, statements are updated to reflect how much was spent, how it was spent, and what it obtained. Managers use these financial statements, such as an income statement or balance sheet, to monitor the progress of programs and plans.

Financial statements provide management with information to monitor financial resources and activities. The **income statement** shows the results of the organization's operations over a period of time, such as revenues, expenses, and profit or loss. The *balance sheet* shows what the organization is worth (assets) at a single point in time, and the extent to which those assets were financed through debt (liabilities) or owner's investment (equity).

Financial audits, or formal investigations, are regularly conducted to ensure that financial management practices follow generally accepted procedures, policies, laws, and ethical guidelines. Audits may be conducted internally or externally.

Financial ratio analysis examines the relationship between specific figures on the financial statements and helps explain the significance of those figures:

_ **Liquidity ratios** measure an organization's ability to generate cash.
_ **Profitability ratios** measure an organization's ability to generate profits.
_ **Debt ratios** measure an organization's ability to pay its debts.
_ **Activity ratios** measure an organization's efficiency in operations and use of assets.

In addition, *financial responsibility centers* require managers to account for a unit's progress toward financial goals within the scope of their influences. A manager's goals and responsibilities may focus on unit profits, costs, revenues, or investments.

Budget controls

A budget depicts how much an organization expects to spend (expenses) and earn (revenues) over a time period. Amounts are categorized according to the type of business activity or account, such as telephone costs or sales of catalogs. Budgets not only help managers plan their finances, but also help them keep track of their overall spending. A budget, in reality, is both a planning tool and a control mechanism. Budget development processes vary among organizations according to who does the budgeting and how the financial resources are allocated. Some budget development methods are as follows:

_ **Top-down budgeting.** Managers prepare the budget and send it to subordinates.
_ **Bottom-up budgeting.** Figures come from the lower levels and are adjusted and coordinated as they move up the hierarchy.
_ **Zero-based budgeting.** Managers develop each new budget by justifying the projected allocation against its contribution to departmental or organizational goals.
_ **Flexible budgeting.** Any budget exercise can incorporate flexible budgets, which set "meet or beat" standards that can be compared to expenditures.

Marketing controls

Marketing controls help monitor progress toward goals for customer satisfaction with products and services, prices, and delivery. The following are examples of controls used to evaluate an organization's marketing functions:

_ **Market research** gathers data to assess customer needs—information critical to an organization's success. Ongoing market research reflects how well an organization is meeting customers' expectations and helps anticipate customer needs. It also helps identify competitors.

_ **Test marketing** is small-scale product marketing to assess customer acceptance. Using surveys and focus groups, test marketing goes beyond identifying general requirements and looks at what (or who) actually influences buying decisionns.

_ **Marketing statistics** measure performance by compiling data and analyzing results. In most cases, competency with a computer spreadsheet program is all a manager needs. Managers look at *marketing ratios,* which measure profitability, activity, and market shares, as well as *sales quotas,* which measure progress toward sales goals and assist with inventory controls. Unfortunately, scheduling a regular evaluation of an organization's marketing program is easier to recommend than to execute. Usually, only a crisis, such as increased competition or a sales drop, forces a company to take a closer look at its marketing program. However, more regular evaluations help minimize the number of marketing problems.

Human resource controls

Human resource controls help managers regulate the quality of newly hired personnel, as well as monitor current employees' developments and daily performances. On a daily basis, managers can go a long way in helping to control workers' behaviors in organizations. They can help direct workers' performances toward goals by making sure that goals are clearly set and understood. Managers can also institute policies and procedures to help guide workers' actions. Finally, they can consider past experiences when developing future strategies, objectives, policies, and procedures. Common control types include performance appraisals, disciplinary programs, observations, and training and development assessments. Because the quality of a firm's personnel, to a large degree, determines the firm's overall effectiveness, controlling this area is very crucial.

Computers and information controls

Almost all organizations have confidential and sensitive information that they don't want to become general knowledge. Controlling access to computer databases is the key to this area. Increasingly, computers are being used to collect and store information for control purposes. Many organizations privately monitor each employee's computer usage to measure employee performance, among other things. Some people question the appropriateness of computer monitoring. Managers must carefully weigh the benefits against the costs—both human and financial—before investing in and implementing computerized control techniques.

Although computers and information systems provide enormous benefits, such as improved productivity and information management, organizations should remember the following limitations of the use of information technology:

_ **Performance limitations.** Although management information systems have the potential to increase overall performance, replacing long-time organizational employees with information systems technology

may result in the loss of expert knowledge that these individuals hold. Additionally, computerized information systems are expensive and difficult to develop. After the system has been purchased,
coordinating it—possibly with existing equipment—may be more difficult than expected. Consequently, a company may cut corners or install the system carelessly to the detriment of the system's performance and utility. And like other sophisticated electronic equipment, information systems do not work all the time, resulting in costly downtime.
_ **Behavioral limitations.** Information technology allows managers to access more information than ever before. But too much information can overwhelm employees, cause stress, and even slow decision making. Thus, managing the quality and amount of information available to avoid information overload is important.
_ **Health risks.** Potentially serious health-related issues associated with the use of computers and other information technology have been raised in recent years. An example is carpal tunnel syndrome, a painful
disorder in the hands and wrists caused by repetitive movements (such as those made on a keyboard).
Regardless of the control processes used, an effective system determines whether employees and various parts of an organization are on target in achieving organizational objectives.

Coordination techniques

The following are rather typical methods of coordination in organizations. They are used as means to communicate direction and guide behaviors in that direction. The function of the following methods is not to "control", but rather to guide. If, from ongoing communications among management and employees, the direction changes, then fine. The following methods are changed accordingly.

Note that many of the following methods are so common that we often don't think of them as having anything to do with coordination at all. No matter what one calls the following methods -- coordination or control -- they're important to the success of any organization.

Organizations often use standardized documents to ensure complete and consistent information is gathered. Documents include titles and dates to detect different versions of the document. Computers have revolutionized administrative controls through use of integrated management information systems, project management software, human resource information systems, office automation software, etc. Organizations typically require a wide range of reports, e.g., financial reports, status reports, project reports, etc. to monitor what's being done, by when and how.

Recommended questions:

1. Discuss the nature and scope of Directing.

2. **Motivation is the core of management". Explain the importance of motivation in the light of this statement.**

3. **What do you mean by the motivation? Explain its Nature, Features and Characteristics.**

4. **Write down the various techniques to motivate diverse workforce.**

5. **Write down the various theories of motivation.**

6. **Leadership is a driving force which gets things done by others." Examine and comment.**

7. **"Good leadership is an integral part of effective direction". Discuss, bringing out clearly the qualities of an effective leader.**

8. **Explain the various styles of leadership.**

9. **What is communication? Discuss its characteristics.**

10. **What are the objectives of communication?**

11. **Write down the various qualities of good communication system.**

12. **What do you understand by the process of communication?**

13. **Explain the various forms of communication.**

14. **Suggest the measures to overcome barriers to communication**

PART – B :

ENTREPRENEURSHIP

Unit: ……05………… **Hrs: ……06…..**

ENTREPRENEUR:

Syllabus of unit 05 :

Meaning of Entrepreneur; Evolution of the Concept, Functions of an Entrepreneur, Types of Entrepreneur, Intrapreneur – an emerging Class. Concept of Entrepreneurship - Evolution of Entrepreneurship, Development of Entrepreneurship; Stages in entrepreneurial process; Role of entrepreneurs in Economic Development; Entrepreneurship in India; Entrepreneurship – its Barriers.

Recommended readings:

1. **Dynamics of Entrepreneurial Development & Management** - Vasant Desai Himalaya Publishing House.

2. **Entrepreneurship Development** - Small Business Enterprises - Poornima M Charantimath - Pearson Education – 2006.

3. **Entrepreneurship Development** - S S Khanka - S Chand & Co. 2003.

UNIT – 5:

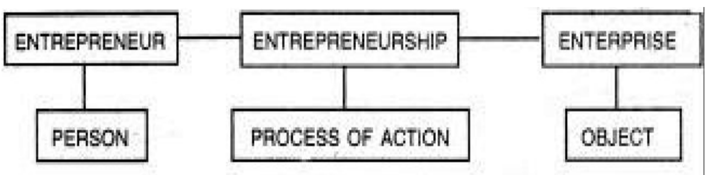
ENTREPRENEUR

Welcome to the world of Entrepreneurship and Entrepreneurs!!!!!!!

Most of you must have planned what you'll be doing after finishing your studies, and I'm sure, few of you would have made up your mind to start your own business or enterprise.

We'll study the concept of entrepreneurship so that it helps in taking proper decisions, while starting a new project.

The Concept of Entrepreneurship



Entrepreneurship is a process undertaken by an entrepreneur to augment his business interests. It is an exercise involving innovation and creativity that leads towards establishing his/her enterprise. One of the qualities of entrepreneurship is the ability to discover an investment opportunity and to organise an enterprise, thereby contributing to real economic growth. It involves taking of risks and making the necessary investments under conditions of uncertainty and innovating, planning, and taking decisions so as to increase production in agriculture, business, industry etc.

Entrepreneurship is a composite skill, the resultant of a mix of many qualities and traits - these. include tangible factors as imagination, readiness to take risks, ability to bring together and put to use other factors of production capital, labour, land, as also intangible factors such as the ability to mobilise scientific and technological advances.

A practical approach is necessary to implement and manage a project by securing the required licences, approvals and finance from governmental and financial agencies. The personal incentive is to make profits from the successful management of the project. A sense of cost consciousness is even more necessary for the long-term success of the enterprise. However, both are different sides of the same coin.

Entrepreneurship lies more in the ability to minimise the use of resources and to put them to_ maximum advantage. Without an awareness of quality and desire for excellence, consumer acceptance cannot be achieved and sustained. Above all, entrepreneurship today is the product of teamwork and the ability to create, build and work as a team.

The entrepreneur is the maestro of the business orchestra, wielding his baton to which the band is played.

> "**Entrepreneurship** is the propensity of mind to calculate risks with confidence to achieve a pre-determined business or industrial objective. In substance, it is the risk-taking ability of the individual, broadly coupled with correct decision—making".

Characteristics of Entrepreneurs

1. Mental Ability - It consists of intelligence and creative thinking. An entrepreneur must be reasonably intelligent, and should have creative thinking and must be able to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study the various situations under which decisions have to be made.

2. Clear Objectives - An entrepreneur should have a clear objective as to the exact nature of the business, the nature of the goods to be produced and subsidiary activities to be undertaken. A successful entrepreneur may have the objective to establish the product, to make profit or to render social service.

3. Business Secrecy - An entrepreneur must be able to guard business secrets. Leakage of business secrets to trade

Competitors is a serious matter, which should be carefully guarded against by an entrepreneur. An entrepreneur should be able to make a proper selection of his assistants.

4. Human Relation Ability - The most important personality factors contributing to the success of an entrepreneur are emotional stability, personal relations, consideration and tactfulness. An entrepreneur must maintain good relation with his customers if he is to establish relations that will encourage them to continue to patronize his business. He must also maintain good relations with his employees if he is to motivate them to perform their jobs at a high level of efficiency. An entrepreneur who maintains good human relation with

customers, employees, suppliers, creditors and the community is much more likely to succeed in his business that the individual who does not practice good human relations.

5. Communication Ability - It is the ability to communicate effectively. Good communication also means that both the sender and the receiver understand each other and are being understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not.

6. Technical Knowledge - An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the one ability that most people are able to acquire if the try hard.

Concepts of entrepreneurship:

Entrepreneur traits, creativity, innovation, business planning and growth management are five of the main concepts of entrepreneurship.

ENTREPRENEUR TRAITS

They classify these as the; "Great Person", Psychological, Classical, Management, Leadership and Intrapreneurship schools of thought.

"Great person" - Born entrepreneurs, e.g. Fords, Rockefeller, Trump.

Psychological - Entrepreneurial personality, behaviour developed over time.

Classical - Entrepreneurial key factors are innovation and creativity.

Management - Entrepreneurs can be developed or trained in the classroom.

Leadership - Attract people to support a vision and transform it into reality.

Intrapreneurship - Encouraging people to work in semi-autonomous units.

They suggest that previous experience has an effect. These previous experiences could be positive, such as role models and education, or they could be negative displacements. Refugees and migrants may choose entrepreneurship if gaining employment is difficult. Job dissatisfaction or job loss may be other stimuli to select entrepreneurship.

CREATIVITY

Entrepreneurship can be partly described as a combination of creativity followed by innovation, where creativity is the act of 'thinking' new things, coming up with ideas and innovation is 'doing' new things or implementing the newly created ideas. Creativity is also concerned with new ways of looking at opportunities and new approaches to solving problems. This may require the entrepreneur to shift paradigms and discard old assumptions and perspectives. Mukerjea (2003), in "Brain Symphony", describes sixteen techniques that can be used by entrepreneurs to stimulate creativity:
Visual Gym - Creating scenes through imagination, used by Nikola Tesla.
Torrence Tests - Reverse, substitute, modify, adapt, new uses, combine, eliminate, simplify.
Random' Riting - Paragraph creation from randomly selected words.
Cinquains - Noun, two adjectives, three verbs, four word statement, noun.
Matchmaking - Attribute matrices, linking, lists and morphological analysis.
Radiant Thinking - Word association to branches radiating from the centre.
Metaphorical-Analogical Thinking - Problem, analogy, attributes, emergent ideas.
Cut n' Paste - Collage of cut-out images with captions.
Abstract Designs - Creative interpretation of instructions for drawing objects.
Object Analogy - Use ordinary objects to draw analogies for problem solving.
Freewheeling - Combine randomly selected objects to produce new objects.
Mentamorphosis - Infusing oneself into the actual form of the central problem.
Ideavisuals - Picture codes and storyboarding, used by Wait Disney.
Kaleidoscoping - Mixing and matching synonyms of the key problem words.
SitSol Reversal - Reverse the situation and focus on the negatives.
Fishboning - Cause and effect diagram for clarifying ambiguities.

Another technique is to “surround yourself with people who are different from you. Always ask for help and another point of view - even when you may not think that you need it. You'll often be surprised that there is a better way to look at the original idea", says Gillian Franklin, according to Turner (2003). Once the entrepreneur has created, or discovered, new ideas then they are evaluated against each other as a candidate for innovation.

Characteristics and Significance

A Function of High Achievement: People having high need for achievement are more likely to succeed as entrepreneurs, according to McClelland. Motive is high achievement and profit is merely a measure of success and competency.

Innovation: According to Schumpeter, entrepreneurship is a creative activity. An entrepreneur is basically an innovator who introduces something new into the economy.

Organization Building Function: According to Harbison, Organization Building skill means the ability to “ multiply oneself” by effectively delegating responsibility to others.

A Function of Managerial Skills and Leadership: Managerial skills and leadership qualities are more important than financial skills

A Function of Status Withdrawal: According to Hagen," Creative innovation or change is the fundamental feature of economic growth. He describes an entrepreneur as a creative problem solver interested in things in the practical and technological realm.

Classification of Entrepreneurs :

Innovative Entrepreneurs-developed countries •Aggressive assemblage of information & analysing. •Aggressive in experimentation and cleverly put attractive possibilities into practice. •Sees opportunity for introducing a new technique, new product or a new market. •Raise money to launch an enterprise, assemble the various factors and choose top executives and set the organisation going.

Imitative Entrepreneurs: Characterised by imitating the innovative entrepreneurs. They imitate the technology & techniques innovated by others. They are important in underdeveloped nations.

Adoptive or Imitative : Transform the system with the limited resources available.Face less risk and uncertainty.Organizer of factors of production than acreator. He can set in chain reaction and lead to cumulative progress.

Fabian Entrepreneurs :•Very cautious and skeptical while practicing any change. •Neither the will to introduce new changes nor the desire to adopt new methods.•Shy and lazy•Don't take risks, Follow predecessors.•Determined by custom, religion, traditions andpast practices. •They imitate only in situations when it becomes absolutely necessary.

Drone Entrepreneurs :•Are laggards and operate in a traditional way. •Conventional

•Refuse to change and adopt new opportunities to make changes in production methods.

Functions of an Entrepreneur

Perceiving market opportunities,Gaining command over scarce resources,Managing human relations within firms,Marketing of the products,Responding to the competition,Dealing with bureaucracy, Managing finance,Upgrading process and product quality,Managing costumer and supplier relations,Introducing new production techniques and products, Risk TakingOrganization and management.

Qualities of a good entrepreneur

According to McClelland:An unusual creativeness,A propensity of risk taking,A strong need for achievement

According to Prof. Tandon : 1. Capacity to assume risks,2. Technical Knowledge and willingness to change 3. Ability to marshal resources,4. Ability of organization and administration.

Development of Entrepreneurship

We are a very young nation – just over 55 years since independence – setting out on a path of sustained economic growth, for decades to come.

We already have over a billion fellow Indians. Within the next 20 years, we will have 400 million people below the age of 35 years – more than the entire population of the United States!

Each person, in this bold new generation, will be in the prime of his or her life, striving for a better tomorrow – creating, in the process, new growth opportunities, for budding entrepreneurs!

On the most conservative basis, our domestic consumption, in virtually any sector, has the potential to at least double, or treble, from current levels – perhaps, just to catch up with a country like China!

Then, there is the entire global opportunity, across diverse sectors internationally, the "Made in India" tag is now an increasingly respected brand, valued for quality, reliability, and competitiveness.

Truly, with economic reforms in the country, and with the virtual removal of all trade barriers, the world is now our market – and our opportunity!

The pursuit of these opportunities requires an indomitable spirit of entrepreneurship!

Scope of entrepreneurship development in India

In India there is a dearth of quality people in industry, which demands high level of entrepreneurship development programme through out the country for the growth of Indian economy.

The scope of entrepreneurship development in country like India is tremendous. Especially since there is widespread concern that the acceleration in GDP growth in the post reforms period has not been accompanied by a commensurate expansion in employment. Results of the 57th round of the National Sample Survey Organization (NSSO) show that unemployment figures in 2001-02 were as high as 8.9 million. Incidentally, one million more Indian joined the rank of the unemployed between 2000-01 & 2001-02. The rising unemployment rate (9.2% 2004 est.) in India has resulted in growing frustration among the youth. In addition there is always problem of underemployment. As a result, increasing the entrepreneurial activities in the country is the only solace. Incidentally, both the reports prepared by Planning Commission to generate employment opportunities for 10 crore people over the next ten years have strongly recommended self-employment as a way-out for teaming unemployed youth.

We have all the requisite technical and knowledge base to take up the entrepreneurial challenge. The success of Indian entrepreneurs in Silicon Valley is evident as proof. The only thing that is lacking is confidence and mental preparation. We are more of a reactive kind of a people. We need to get out of this and become more proactive. What is more important than the skill and knowledge base is the courage to take the plunge. Our problem is we do not stretch ourselves. However, it is appreciative that the current generations of youth do not have hang-ups about the previous legacy and are willing to experiment. Theses are the people who will bring about entrepreneurship in India.

We can take the example of **Vikas Kedia** - one of India's most eligible entrepreneurs; he was barely 21 when he had turned his back on a possible $ 100,000-a-year job. Vikas Kedia, a graduate from the Indian Institute of Management-Bangalore, is much in demand. He has also created history of sorts in the IIM circuit by starting his own dot-com company in Bangalore, now he has his own company which is a California and Kolkata based GRMtech.

At present, there are various organizations at the country level & state level offering support to entrepreneurs in various ways. The Govt. of India & various State Govts. have been implementing various schemes & programmes aimed at nurturing entrepreneurship over last four decades. For example, MCED in Maharashtra provides systematic training, dissemination of the information & data regarding all aspects of entrepreneurship & conducting research in entrepreneurship. Then there are various Govt. sponsored scheme for the budding entrepreneurs.

Recognizing the importance of the entrepreneur development in economic growth & employment generation, Maharashtra Economic Development Council (MEDC) has identified entrepreneurial development as the one of the focus area for Council activities two years ago.

Various Chambers of Commerce & apex institutions have started organizing seminars & workshops to promote entrepreneurship. Incidentally, various management colleges have incorporated entrepreneurship as part of their curriculum. This is indeed a good development. This shows the commitment of the Govt. & the various organizations towards developing entrepreneurial qualities in the individuals.

Promoting Entrepreneurship

In India, where over 300 million people are living below the poverty line, it is simply impossible for any government to provide means of livelihood to everyone. Such situations surely demand for a continuous effort from the society, where the people are encouraged to come up with their entrepreneurial initiative.

Encouragement at attitudinal and social level

In the future, innovation and entrepreneurship needs to be encouraged at Social levels, Governmental levels and Managerial levels. There must be a social attitude that views innovations with positive attitude and reject an innovation only when it is not acceptable.

Encouragement at physical level

At this level the encouragement will refer to two aspects necessary for entrepreneurship to thrive, one is the provision of venture capital and the other being infrastructural support. A real example is Export Processing Zones which are performing extremely well when given the support.

What will be the qualities needed to succeed in this new world?

First and foremost, we need the entrepreneurial spirit. Outside India, this spirit has been very evident in the IT industry. 35% of the start-ups in Silicon Valley are by Indians. We need to have similar risk-taking ability within the country as well. Entrepreneurs need more than technical talent, more than business savvy. What they need is the indefatigable energy and incurable optimism that enables them to take the road less traveled and convert their dreams into reality. It is a force that beckons an individual to pursue countless opportunities. Entrepreneurs must learn how to overcome the risk of failure, or of vulnerability. The institutions can give them valuable insights and also support them in this.

Stages in entrepreneurial process:

Issuing an Initial Public Offering (IPO);Writing a Business Plan;Emailing a Questionnaire

Applying for loans to finance the business;Conducting a Grand Opening for the business;Conducting taste tests at supermarkets;Studying market trends;Creating a 5-year plan for the business;Selecting a location for the business;Looking for employees for the business;Conducting a demographic study of the business location;Listing potential investors for the business;Investigating patents for the business idea;Applying for a SBA (Small Business Association) Loan;Matching your skills with market trends Conducting daily business activities;Researching copyright protection for the business idea;Picking a location for the business;Examining consumer needs;

Role of entrepreneurs in Economic Development:

Serves as catalyst in the process of industrialization and economic growth.
•Capital wealth
•Increase in per capita income
•Employment Generation
•Development of new products, services and new businesses
•Improvement in living standards
Economic Development:•Backward Regional development•Change in business structure and society•Economic Independence/ Self Reliance•Innovations.Reduces concentration of economic power •Promotes capital formation by mobilizing the idle saving of the public. •Stimulates equitable redistribution of wealth, income and political power. •Promotes country's export trade (an imp ingredient to economic development.)

Entrepreneurship in India:

India was second among all nations in Total Entrepreneurship Activity as per the Global Entrepreneurship Monitor Report of 2002. But after several years of data, India appears to have a TEA level rather close to the world average.

India is ninth in the Global Entrepreneurship Monitor (GEM) survey of entrepreneurial countries. It is highest among 28 countries in Necessity based entrepreneurship, while 5th from the lowest in opportunity based entrepreneurship.

The liberalization, which was started in 1991, and the Information Technology boom of the mid-late 90's, have been significant factors, leading to a wave of entrepreneurship sweeping through the country.

Indians have entrepreneurial capacity. However the society and government are not very encouraging towards entrepreneurship. To a large extent, the Indian society is risk averse.

People usually seek secure and long-term employment, such as government jobs. The physical infrastructure needs to be improved. Social Attitudes, lack of capital, inadequate physical infrastructure and lack of government support are major factors of hindrance.

India is the fifth largest economy in the world (ranking above France, Italy, the United Kingdom, and Russia) and has the third largest GDP in the entire continent of Asia. It is also the second largest among emerging nations. The liberalization of the economy in the 1990s has paved the way for a huge number of people to become entrepreneurs.

Entrepreneurship – its Barriers:

Operating in a competitive and increasingly complex environment arguably demands Entrepreneurial behavior and, of course, people who have the competencies to work within such a context.

"This is the entrepreneurial age. Entrepreneurs are driving a revolution that is transforming and renewing economies worldwide. Entrepreneurship... gives a market economy its vitality. New and emerging businesses create a very large proportion of innovative products that transform the way we work and live... They generate most of the new jobs"

The core competencies of the firm are shaped by the entrepreneur in a number of ways including:
• The individual's capacity for the pursuit of effective personal entrepreneurial behavior
• The way they design the organisation to maximise the potential for effective entrepreneurial behaviour by all staff
• The way that the entrepreneur shapes the capacity of the business to develop and innovate over time
• The way that they design the organisation to enable it respond to, and indeed shape, the dynamics of the task structure and interdependencies confronting it
• The degree to which the above are pursued in a socially responsible way thus laying the ground for wider acceptance of entrepreneurial 'ways of doing things' in business and society.

Technopreneurship

High-tech and entrepreneurial skills are driving our economy back to prosperity. Technopreneursip-merging technology prowess and entrepreneurial skills- is the real source of power in toda's knowledge-based economy. A technopreneur distinguishes logic from tradition, tradition from prejudice, prejudice from common sense and common sense from nonsense while integrating a variety of ideas from diverse groups and disciplines.

Technopreneurship is not a product but a process of synthesis in engineering the future of a person, an organization, a nation and the world. Strategic directions or decision-making processes are becoming more demanding and complex. This requires universities, and in site professional development programs and training to produce strategic thinkers who will have skills to succeed in a rapidly changing global environment.

Creativity is breaking the conventional mental blocks and playing with imagination and possibilities, leading to new and meaningful connections and outcomes while interacting with ideas, people and the environment. Technopreneurship is the only source of long-run sustainable competitive advantage. In an era of man-made brainpower industries, individual, corporate, and national economic success will all require both new and more extensive skills sets than have been required in the past . By themselves skills don't guarantee success. They have to be put together in successful organizations. But without skills and technopreurship there are no successful organizations.

Recommended questions:

1. Define Entrepreneur?
2. Explain Evolution of the Concept?
3. what are the Functions of an Entrepreneur?
4. Explain different Types of Entrepreneur?
5. Comment on " Intrapreneur – an emerging Class".
6. Explain the Concept of Entrepreneurship?
7. Explain Evolution of Entrepreneurship & Development of Entrepreneurship?
8. Explain Stages in entrepreneurial process?
9. define Role of entrepreneurs in Economic Development; Entrepreneurship in India;
10. Explain Entrepreneurship – its Barriers.

Unit: ……06………… **Hrs: ……07…..**

SMALL SCALE INDUSTRY:

Syllabus of unit 06 :

Definition; Characteristics; Need and rationale: Objectives; Scope; role of SSI in Economic Development.Advantages of SSI Steps to start an SSI - Government policy towards SSI; Different Policies of S.S.I.; Government Support for S.S.I. during 5 year plans, Impact of Liberalization, Privatization, Globalization on S.S.I., Effect of WTO/GATT Supporting Agencies of Government for S.S.I Meaning;Nature of Support; Objectives; Functions; Types of Help; Ancillary Industry and Tiny Industry (Definition only).

Recommended readings:

1. **Dynamics of Entrepreneurial Development & Management** - Vasant Desai Himalaya Publishing House.

2. **Entrepreneurship Development** - Small Business Enterprises - Poornima M Charantimath - Pearson Education – 2006.

3. **Entrepreneurship Development -** S S Khanka - S Chand & Co. 2003.

SMALL SCALE INDUSTRY

Small scale industry means an industry that employs capital less than 1 crore. Almost all items can be manufactured in a small scale industry, but there are large scale manufacturing activities like rolling mills, extrusion presses, pilger mills etc., that cost much more.

Role of SSI in Economic development:

Small scale industries are vital to economic development as they are more likely to become economically viable in a short time period & offer an incremental boost to the local economy.

They are also more likely to sustain operations over a longer time frame as they utilize a more community based sense of existence than some of the monolithic entities which will relocate causing unemployment & dissension.

Larger industries have become victims of their own largess in many cases & are unable to respond to changing times, & often don't have the ability to respond to the rapidly changing economic environment we now must adhere to.

Objectives; Scope of SSI in Economic Development:

Objectives:

Production

The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy.

It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points.

Employment

SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons.

Generation of Employment - Industry Group-wise

Food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were Non-metallic mineral products with employment of 0.45 million persons (12.2%) and Metal products with 0.37 million persons (10.2%). In Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%.

In all other industries the contribution was less than 5%.

Per unit employment

Per unit employment was the highest (20) in units engaged in beverages, tobacco & tobacco products mainly due to the high employment potential of this industry particularly in Maharashtra, Andhra Pradesh, Rajasthan, Assam and Tamil Nadu.

Next came Cotton textile products (17), Non-metallic mineral products (14.1), Basic metal industries (13.6) and Electrical machinery and parts (11.2.) The lowest figure of 2.4 was in Repair services line.

Per unit employment was the highest (10) in metropolitan areas and lowest (5) in rural areas.

However, in Chemicals & chemical products, Non-metallic mineral products and Basic metal industries per unit employment was higher in rural areas as compared to metropolitan areas/urban areas.

In urban areas highest employment per unit was in Beverages, tobacco products (31 persons) followed by Cotton textile products (18), Basic metal industries (13) and Non-metallic mineral products (12).

Location-wise Employment Distribution - Rural

Non-metallic products contributed 22.7% to employment generated in rural areas. Food Products accounted for 21.1%, Wood Products and Chemicals and chemical products shared between them 17.5%.

Urban

As for urban areas, Food Products and Metal Products almost equally shared 22.8% of employment. Machinery parts except electrical, Non-metallic mineral products, and Chemicals & chemical products between them accounted for 26.2% of employment.

In metropolitan areas the leading industries were Metal products, Machinery and parts except electrical and Paper products & printing (total share being 33.6%).

State-wise Employment Distribution

Tamil Nadu (14.5%) made the maximum contribution to employment.

This was followed by Maharashtra (9.7%), Uttar Pradesh (9.5%) and West Bengal (8.5%) the total share being 27.7%.

Gujarat (7.6%), Andhra Pradesh (7.5%), Karnataka (6.7%) and Punjab (5.6%) together accounted for another 27.4%.

Per unit employment was high - 17, 16 and 14 respectively - in Nagaland, Sikkim and Dadra & Nagar Haveli.

It was 12 in Maharashtra, Tripura and Delhi.

Madhya Pradesh had the lowest figure of 2. In all other cases it was around the average of 6.

Export

SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods.

It would surprise many to know that non-traditional products account for more than 95% of the SSI exports.

The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewellery units from this sector.

The product groups where the SSI sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products.

The SSI sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO

Major Export Markets
An evaluation study has been done by M/s A.C. Nielsen on behalf of Ministry of SSI. As per the findings and recommendations of the said study the major export markets identified having potential to enhance SSIs exports are US, EU and Japan. The potential items of SSIs have been categorised into three broad categories. More..

Export Destinations
The Export Destinations of SSI products have been identified for 16 product groups. More..

<u>Opportunity & Scope:</u>

The opportunities in the small-scale sector are enormous due to the following factors:

- Less Capital Intensive
- Extensive Promotion & Support by Government
- Reservation for Exclusive Manufacture by small scale sector
- Project Profiles

- Funding - Finance & Subsidies
- Machinery Procurement
- Raw Material Procurement
- Manpower Training
- Technical & Managerial skills
- Tooling & Testing support
- Reservation for Exclusive Purchase by Government
- Export Promotion
- Growth in demand in the domestic market size due to overall economic growth
- Increasing Export Potential for Indian products
- Growth in Requirements for ancillary units due to the increase in number of greenfield units coming up in the large scale sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

By its less capital intensive and high labour absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialisation. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. This is the opportune time to set up projects in the small-scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalisation coupled with Government support will therefore, attract the infusion of just these things in the sector.

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Government policy towards SSI:

- **Export Promotion**
    - Exim Policy for Small Scale Sector
    - Export Promotion Programs & Measures
    - National Small Industries Corporation
- **General**
    - Policies
        - Policy of Reservation
            - Items Reserved for manufacturing in SSI
        - Licensing Policy
        - Trade Policy - Imports & Exports
        - Price & Purchase Preference Policy
        - Labour Policies
        - Rehabilitation of Sick Units
    - Schemes
        - Single Window Scheme
        - Industrial Estates
        - National Awards for Outstanding SSI Entrepreneurs
        - National Awards for Quality Products in Small Scale Sector
- **Priority Sector**
    - Policies
        - Policy for Tiny Sector, Cottage & Village Industries, Handicrafts, Khadi & Handlooms
        - Development of Backward Areas
    - Schemes
        - Prime Minister's Rozgar Yozna
        - Self Employment Scheme for Educated Unemployed
        - Assistance to SC/ST Entrepreneurs
- **Funding & Finance**
    - Policies
        - Policy of Fiscal Support
        - Policy of Priority Credit
        - Equity Participation
        - OTC Exchange
    - Schemes
        - Excise Exemption Scheme Tax Holiday
        - Venture Capital
        - National Equity Fund Scheme
        - Factoring Services
        - Other SIDBI Schemes

        - NSIC Schemes
- **Modernization & Training**
    - Policies
        - Quality Certification Schemes (ISO9000)
        - Application for the Reimbursement of Certification Charges for acquiring ISO-9000 Certification (or its equivalent)
        - Policy of Technology Upgradation (UPTECH)
        - Technology Bureau for Small Enterprises
        - Policy for Development of Information Technology
    - Schemes
        - Technology Development Fund Schemes
        - Testing Centres
        - Integrated Infrastructure Development
        - Training Infrastructure
        - Growth Centres
        - Technology Development & Modernisation
        - Quality Certification Schemes
        - Modernisation of Small Scale Industries
        - Ancillary Development
        - Small Entrepreneur Management Assistants Scheme
        - Entrepreneurship Development Programme
        - Management Training Programme
        - Skill Development Programme
- **Energy & Environment**
    - Policies
        - Pollution & Control Measures
        - Environmental Control
    - Schemes
        - Pollution Control Schemes
        - Energy Conservation Schemes
        - Alternative Energy Use Schemes
        - Ozone Depleting Substances Phaseout

Government Support for S.S.I. during 5 year plans:

Package Announced By The Prime Minister For The SSI Sector

- Enhancement of excise duty exemption limit for SSI units from Rs. 50 lakh to Rs.100 lakh.
- Increase in composite loan limit to Rs.25 lakh
- Coverage of loans up to Rs.25 lakh under the Credit Guarantee Fund scheme.
- Increase in project cost limit under the National Equity Fund scheme to Rs. 50 lakh.
- Credit linked capital subsidy at 12 per cent of the cost of technological upgradation of SSI
- units for modernisation of SSI units.

- The service and business related small scale units with a maximum investment limit of Rs.10 lakh would also be covered under priority lending
- Enhancement of investment limit to Rs.500 lakh for hi-tech and export oriented sectors.
- Technology Bank would be set up for SSI sector by strengthening the existing Technology Bureau for Small Enterprises (TBSE) of SIDBI.
- One time capital grant of 50 per cent to SSI associations for setting up international-level
- testing laboratories for SSI units.
- Preference to be given to tiny units while organising buyer-seller meets, vendor development programmes and exhibitions.
- Conduct of Third Census on SSI.
- Integrated Infrastructure Development Centres (IIDC) scheme extended to all areas.

Government policies for SSI's:

INDUSTRIAL POLICY PACKAGE FOR SSI 2001-02

This policy emphasizes the following:
a) The investment limit was enhanced from Rs 1 crore to Rs 5 crore for units in hosiery and hand tool sub sectors.
b) The corpus fund set up under the Credit Guarantee Fund Scheme was increased from 125 crore to 200 crore.
c) Credit Guarantee cover was provided against an aggregate credit of Rs 23 crore till December 2001.
d) 14 items were de-reserved in June 2001 related to leather goods, shoes and toys.
e) Market Development Assistant Scheme was launched exclusively for SSI sector.
f) Four UNIDO assisted projects were commissioned during the year under the Cluster Development Programme.

INDUSTRIAL POLICY ON SSIS 2003-04

The following are the highlights of this endeavor:
a) 73 items reserved for exclusive manufacture in the SSI sector were de-reserved in June 2003. These consist of chemical and their products, leather and leather products, laboratory reagents etc.
b) Selective enhancement of investment in plant and machinery from Rs one crore to Rs 5 crore. It was for 13 items in stationary sector and 10 items of drugs and pharmaceuticals sector, from June 2003.
c) Banks were directed to provide credit to SSI sector within an interest rate band of 2 percent above and below their Prime Lending Rates (PLR).
d) The composite loan limit for SSI was raised from Rs 25 lakhs to Rs 50 lakhs.
e) The limit of dispensation of collateral requirement was raised from Rs 15 lakhs to Rs 25 lakhs on the basis of good track record and financial position of the unit. 302
f) The lower limit of Rs 5 lakhs on loans covered under the Credit Guarantee Scheme was removed. All loans up to Rs 25 lakhs were made eligible for guarantee cover under the Credit Guarantee Scheme.
g) 417 specialised bank branches were made operational for SSIs.
h) Third all India census for SSI was conducted through out the country and its final results were released on January 17, 2004.

i) 60 clusters were identified in July 2003 for focused development.
j) Small and Medium Enterprise (SME) fund of Rs 10000 crore was set up under SIDBI to solve the problem of inadequate finance for SSIs.
k) Laghu Udyami Credit Card Scheme was liberalized. Under this scheme, the credit limit was increased to Rs 10 lakhs from Rs 2 lakhs. But, it was only for borrowers with satisfactory track record.

POLICY INITIATIVES ON SSI 2004-05

Policy initiatives for this year are as follows:
a) The national commission on Enterprises in the Un-organized/Informal Sector was set up in September 2004. It suggested measures considered necessary for improvement in theproductivity of these enterprises, generation of large scale employment opportunities, linkage of the sector to institutional framework in areas like credit, raw material supply, infrastructure, technology up gradation, marketing facilities and skill development by training.
b) 85 items were de-reserved in October 2004.
c) The investment limit in plant and machinery was raised from Rs one crore to Rs 5 crore in October 2004, in respect of seven items of sports goods to help to upgrade the technology and enhance competitiveness.
d) The Small and Medium Enterprise (SME) fund of Rs 10000 crore was started by SIDBI since April 2004, with 80% of the lending for SSI units. The interest rate was 2% below the prevailing Prime Lending Rate (PLR) of the SIDBI.
e) The reserve Bank of India raised the composite loan limit from Rs 50 lakhs to Rs one crore.
f) Promotional Package for small enterprises was initiated.

POLICY PACKAGE FOR SME 2005-06

This policy package contains the following points:
a) The Ministry of Small Scale Industries has identified 180 items for dereservation.
b) Small and Medium Enterprises were recognized in the services sector, and were treated on par with SSIs in the manufacturing sector.
c) The corpus of the Credit Guarantee Fund was raised from Rs.1132 crore in March 2006 to Rs.2500 crore in five years.
d) Credit Guarantee Trust for Small Industries (CGTSI) was advised to reduce the one time guarantee fee from 2.5 per cent to 1.5 per cent for all loans. 303
e) Insurance cover was extended to approximately 30,000 borrowers, identified as chief promoters, under the CGTSI. The sum assured would be Rs.200000 per beneficiary and the premium will be paid by CGTSI.
f) The emphasis was laid on Cluster Development model not only to promote manufacturing but also to renew industrial towns and build new industrial townships. The model is now being implemented, in nine sectors including khadi and village industries, handlooms, handicrafts, textiles, agricultural products and medicinal plants.

<u>Impact of Liberalization:</u>

Small firms in India have a crucial and seminal role to play, which arises out of both the late industrialization context and the particular historical experience of industrialization that has contributed to the evolution of the industrial structure. Analyzing the Indian reality in the context of the experiences of Japan and East Asia and the insights of Dennis Anderson (1982), it is argued that existing macroeconomic, trade, and exchange-rate policies do not favor rapid growth and transformation of small firms, even as they do not favor manufacturing. This is worrying because today Indian manufacturing has to compete with many countries, but notably the dynamic East Asian. Small firms. comparative advantages lie in manufacturing especially in items that involve a greater share of value added from labor. particularly semiskilled and skilled labor.and in the Indian context even unskilled labor. Manufacturing is also the most tradable of all sectors, and especially of output that is standardized, competitive, and has a long shelf life. Successful late industrialization episodes show the crucial role of labor-intensive manufacturing in transforming the economy, especially in exports in the early phase of the transformation (Kojima and Ozawa 1985). Since small firms have a comparative advantage in labor-intensive manufacturing, and this is amplified by the schism in the labor market. Therefore voluminous exports that exploit firms. dominant and productive role. This also gives criticality to the key complementary role of larger firms.that give out subcontracts, aggregate, and trade in small-firm products. Indeed, in a micro-action sense promotion of such trading houses and integrators as also freeing small firms to perform this vital role may be crucial (Morris 1998). The key role of trading firms is amply served in the case of East sia, especially Japan.

<u>Impact of privitization on small scale industries:</u>

` Realistic prospects for disinvestment-privatization of the public sector appear limited, since the bulk of public capital employed is in infrastruc-ture and industries of strategic importance, where national interest demands public policy. Secondly, the argument for ownership as the rincipal basis for economic outcomes is not conclusive: evidence on privatization across the world fails to prove that private ownership necessarily and sustainably improves firm-level performance. History and theory also do not support stock market-based discipline, which is an inevitable result of disinvestment and privatization, to be the superior alternative. How to design an institutional mechanism that limits the agency problem, puts hard budget constraint on firms, and reduces dysfunctional political-bureaucratic interference? The solution seems closely tied to financing of investment, with a financial system that provides resources for development and functions as a disciplining device on firms. In practice it would imply Japanese- and German-style interlocking of ownership of complementary PSEs tied together with a bank that enforces greater managerial accountability and encourages long-term outlook of output growth and acquisition of technological capabilities.

<u>Impact of globalization on small scale industries in India:</u>

Globalization means the dismantling of trade barriers between nations and the integration of the nations economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. As a result of this, globalization of the Indian Industry took place on a major scale.

The various negative Effects of Globalization on Indian Industry are that it increased competition in the Indian market between the foreign companies and domestic companies. With the foreign goods being better than the Indian goods, the consumer preferred to buy the foreign goods. This reduced the amount of profit of the Indian Industry companies. This happened mainly in the pharmaceutical, manufacturing, chemical, and steel industries. The negative Effects of Globalization on Indian Industry are that with the coming of technology the number of labor required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.

Effect of WTO/GATT Supporting Agencies of Government for S.S.I:

One of the most important developments in the millennium that had far reaching implications in the world economic system is the formation and functioning of the world trade organisation. The economic history of the mankind can easily be divided into pre and post WTO era. While the WTO regime is compelling every country to adjust, reformat and, redesign their economic systems to synchronise with the WTO regime, these countries are also doing considerable amount of research for developing prescriptions and formulations to develop appropriate strategies to meet the challenges of the new trade order and to assure fair share of benefits out of the new economic order.

The World Trade Organisation (WTO) represents the culmination of a long drawn process directed at establishing a formal world trade body after 47 years of de facto trade regulation under General Agreement on Tariffs and Trade (GATT). With the completion of the Uruguay Round of Trade Negotiations in December, 1993, the Final Act as well as the Marrakesh Agreement Establishing the World Trade Organization were signed at the last Ministerial meeting of the GATT held in Marrakesh in April, 1994, paving the way for beginning of a new era in world trade. The WTO formally commenced its operations on 1st January, 1995 and has 144 countries as its members; the notable exceptions being Russian Federation, Saudi Arabia, Nepal, amongst other nations, which are actively seeking to join WTO, by fulfilling the commitments enshrined in WTO agreements and principles.

The WTO marks the establishment of a legal and institutional base for international trade that had been previously absent under the GATT; a contractual framework within which governments could formulate domestic trade policy; and the platform upon which trading relations among countries could evolve through collective debate, negotiation and adjudication.

The Guiding Principles of GATT that form the basis of the present WTO

1. *Trade should be on a non-discriminatory basis.*
2. *Domestic industry should only be protected by means of customs tariffs and not through other commercial measures.*
3. *The aim of consultations should be to avoid damage to the interest of the members.*
4. *GATT should serve as a forum within which negotiations could be held to reduce tariffs and other trade.*

Definition:

Ancillary Industry: Ancillary industries are small industries having investment in fixed assets, plant and machinery not exceeding Rs. 75 lakhs and engaged in

- manufacturing of parts, components, sub assemblies
- rendering of services, supplying, rendering or proposing to supply or render 30% production of total services, to other units of for production of other articles
- should not be subsidiary of or owned or controlled by any other undertaking

Tiny Industry: A unit is treated as Tiny industry where investment in plant and machinery does not exceed Rs. 5 lakhs

Recommended questions:

1. Define & what are the Characteristics & Need of SSI?
2. What are the Objectives & Scope of SSI in Economic Development.
3. Mention the Advantages of SSI?
4. What are the Steps to start an SSI?
5. What are the Government policy towards SSI & also explain the Different Policies of S.S.I.?
6. Government Support for S.S.I. during 5 year plans?
7. explain :
    1. Impact of Liberalization,
    2. Privatization,
    3. Globalization on S.S.I.,
    4. Effect of WTO/GATT Supporting Agencies of Government for S.S.I

Unit: ……07………… **Hrs: ……06…..**

INSTITUTIONAL SUPPORT:

Syllabus of unit 07:

Different Schemes; TECKSOK; KIADB;KSSIDC; KSIMC; DIC Single Window Agency: SISI; NSIC; SIDBI; KSFC.

Recommended readings:

1. **Dynamics of Entrepreneurial Development & Management** - Vasant Desai Himalaya Publishing House.

2. **Entrepreneurship Development** - Small Business Enterprises - Poornima M Charantimath - Pearson Education – 2006.

3. **Entrepreneurship Development** - S S Khanka - S Chand & Co.
2003.

INSTITUTIONAL SUPPORT

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 reportpreparation, 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, exservicemen, women entrepreneurs and others.

***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.

Recommended questions:

1. Explain different schemes under:
    1. TECKSOK;
    2. KIADB & KSSIDC & KSIMC.
2. Explain DIC Single Window Agency.
3. Explain SISI, NSIC , SIDBI & KSFC.

Review 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.

<u>Unit:</u> ……08………… **<u>Hrs:</u> ……07…..**

PREPARATION OF PROJECT:

Syllabus of unit 08:

Meaning of Project; Project Identification; Project Selection; Project Report; Need and Significance of Report; Contents; formulation; Guidelines by Planning Commission for Project report; Network Analysis; Errors of Project Report; Project Appraisal. Identification of Business Opportunities - Market Feasibility Study; Technical Feasibility Study; Financial Feasibility Study & Social Feasibility Study.

Recommended readings:

1. **Dynamics of Entrepreneurial Development & Management** - Vasant Desai Himalaya Publishing House.

2. **Entrepreneurship Development** - Small Business Enterprises - Poornima M Charantimath - Pearson Education – 2006.

3. **Entrepreneurship Development** - S S Khanka - S Chand & Co. 2003.

PREPARATION OF PROJECT

Meaning of Project:

A **project** in business and science is a collaborative enterprise, frequently involving research or design, that is carefully planned to achieve a particular aim.

Project Identification:

Project Identification is a repeatable process for documenting, validating, ranking and approving candidate projects within an organization.

Purpose:

Due to the changing financial conditions within the total organization, it is necessary to establish a stable process for approving projects for initiation. This process will...

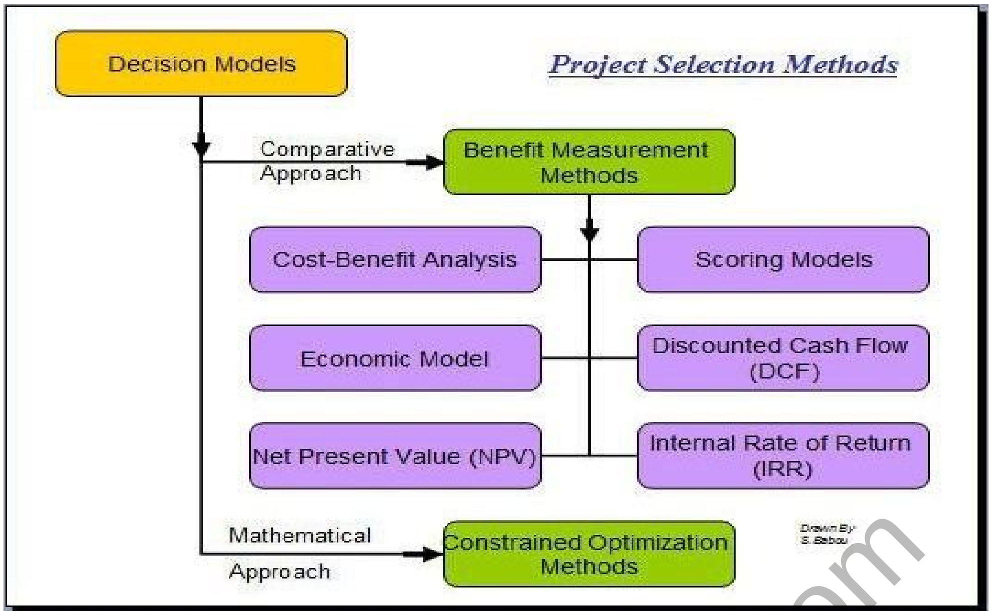
- Validate the business reason for each candidate project.
- Provide the base information for more informed financial commitments to projects.
- Establish a more objective ranking of candidate projects.
- Allow a more effective matching of skilled resources to the right project.
- Avoid over-allocating limited skilled resources.
- Anticipate future human resource quantities and skills.
- Provide a valid basis for staff training.
- Make Project Initiation faster and more efficient.

Project Selection:

Projects are undertaken for various reasons. Each project should have clear justification and methods defined to show its 'worth' taking it. Strategic goals of organization, Market Need, Technological Advancement, Competitive Advantage, Profitability, Project/Portfolio Management Office (PMO), Sponsors are key in project selection.

Below I presented the gist of few widely-used project selection methods. Decisions are made based on the best information in hand about a particular project at a given point of time. One can use either Benefit Measurement Methods(Comparative approach) or Constrained Optimization Methods (Mathematical approach) or both to arrive conclusion on project selection.Out of these two benefit measurement method is most commonly used.

Benefit measurement methods are based on measuring the benefits in taking up the project and comparing the results against other projects or a strategy benchmark. Cost-Benefit Analysis, Scoring Models, Economic Models, Discounted Cash Flow(DCF), Net Present Value (NPV), Internal Rate of Return are different types under Benefit measurement methods.



Constrained optimization methods uses complex mathematical calculation based on different worst/best case scenarios and probability of outcome and then selecting project on best results. Generally known methods are Linear programming, nonlinear programming, multi objective programming.

Project Report: need & its Significance

A project report is analogous to a feasibility study. It is of no moment whether you are a large, medium or small-scale entrepreneur. In every investment, all angles must be considered and these likewise involve hard-earned money, valuable time and priceless effort. Thus, an overview or insight for any business undertaking must be fully scrutinized particularly on the ROI or return of investment which is done practically through a feasibility study or project report.

Note: Always bear in mind the Law of Supply and Demand.

A Business Plan/Project Report submitted to NEDFi for consideration should include the following information:

1. Description of the project.

2. Promoters, Management and Technical Assistance:

- Detailed Biodata of promoters including financial information.
- Proposed management arrangements.
- Description of technical arrangements (management, production, marketing, finance etc.).

3. Market and sales:

- Basic market orientation: local, national, regional, or export.
- Projected production volumes, unit prices, sales objectives, and market share of proposed venture.
- Potential users of products and distribution channels to be used. Present sources of supply for products.
- Future competition and possibility that market may be satisfied by substitute products.
- Tariff protection or import restrictions affecting products.
- Critical factors that determine market potential.

4. Technical feasibility, manpower, raw material resources, and environment:

- Brief description of manufacturing process.
- Comments on special technical complexities and need for know-how and special skills.
- Possible suppliers of equipment. Ideally three competitive quotations to be enclosed.
- Availability of manpower and of infrastructure facilities (transport and communications, power, water, etc.).
- Breakdown of projected operating costs by major categories of expenditures.
- Source, cost, and quality of raw material supply and relations with support industries.
- Import restrictions on required raw materials.
- Proposed plant location in relation to suppliers, markets, infrastructure and manpower.
- Proposed plant size in comparison with other known plants.
- Potential environmental issues and how these issues are addressed.

5. Investment requirements, project financing, and returns:

- Estimate of total project cost, broken down into land, construction of buildings and civil works, plant and machinery, miscellaneous fixed assets, preliminary and preoperative expenses and working capital.
- Proposed financial structure of venture, indicating expected sources and terms of equity and debt financing.
- Type of NEDFi financing (loan, equity, quasi-equity, a combination of financial products, etc.) and amount.
- Projected financial statement, information on profitability, and return on investment.
- Critical factors determining profitability.

6. Government support and regulations:

- Project in context of government economic development and investment program.
- Specific government incentives and support available to project.
- Expected contribution of project to economic development.
- Outline of government regulations on exchange controls and conditions of capital entry and repatriation.

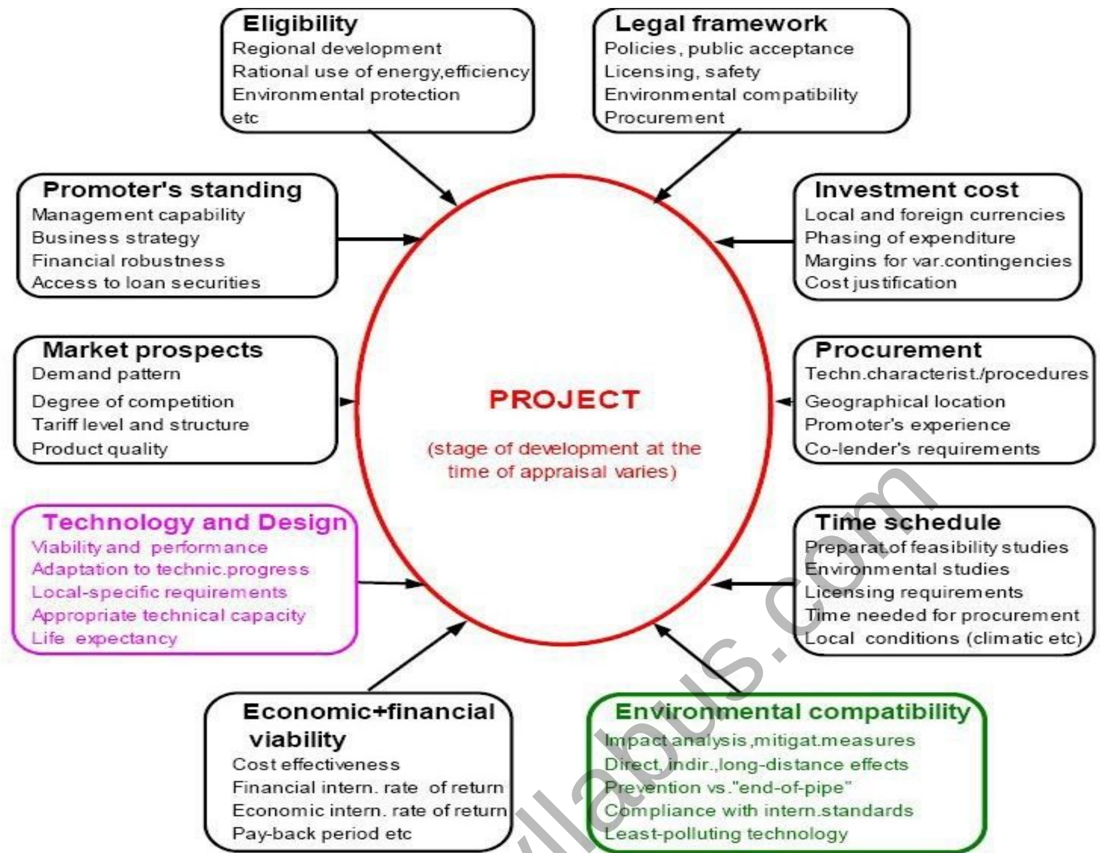
7. Timetable envisaged for project preparation and completion.

Guidelines by Planning Commission for Project report

1. Name of the project and location.
2. Name of Administrative Department including name of the Secretary, telephone number, fax and E.Mail addresses.
3. Method of execution of the project: (Whether the project is to be executed departmentally or through state PWD/Central Government Departments/ Public Sector Undertakings/Non-governmental organisations /Private Companies on a turn-key basis,etc.)
4. List of consultants proposed to be contacted for preparation of Detailed Project Report.
5. Description of the Proposed Project (attach concept paper of 1-2 pages indicating project objectives, background, project components, project rationale, manpower requirements and expected impact of the project on the sector concerned and the state's economy as a whole).
6. Schedule of clearances required for the processing of the investment proposal: Plan of action and timetable for various steps.
7. Linkages with ongoing projects
8. Justification and need for seeking PCPPF assistance: suitability and prospects for external or institutional financing.
9. Gist of informal discussions on acceptability and funding prospects of project held with external agencies, financiers, Government of India, Ministries.

Project appraisal:

Project appraisal is a generic term that refers to the process of assessing, in a structured way, the case for proceeding with a project or proposal. In short, project appraisal is the effort of calculating a project's viability[1]. It often involves comparing various options, using economic appraisal or some other decision analysis technique.



Process of project appraisal

- Project planning
- Project scheduling
- Project control
- Project team
  - made up of individuals from various areas and departments within a company
- Matrix organization
  - a team structure with members from functional areas, depending on skills required
- Project Manager
  - most important member of project team
- Scope statement
  - a document that provides an understanding, justification, and expected result of a project

- Statement of work
  - written description of objectives of a project
- Organizational Breakdown Structure
  - a chart that shows which organizational units are responsible for work items
- Responsibility Assignment Matrix - shows who is responsible for work in a project

PERT AND CPM

- Critical Path Method (CPM)
  - E I Du Pont de Nemours & Co. (1957) for construction of new chemical plant and maintenance shut-down
  - Deterministic task times
  - Activity-on-node network construction
  - Repetitive nature of jobs
- Project Evaluation and Review Technique (PERT)
  - U S Navy (1958) for the POLARIS missile program
  - Multiple task time estimates (probabilistic nature)
  - Activity-on-arrow network construction
  - Non-repetitive jobs (R & D work)

PERT:

Advantages

- PERT chart explicitly defines and makes visible dependencies (precedence relationships) between the WBS elements
- PERT facilitates identification of the critical path and makes this visible
- PERT facilitates identification of early start, late start, and slack for each activity,
- PERT provides for potentially reduced project duration due to better understanding of dependencies leading to improved overlapping of activities and tasks where feasible.
- The large amount of project data can be organized & presented in diagram for use in decision making.

Disadvantages

- There can be potentially hundreds or thousands of activities and individual dependency relationships
- The network charts tend to be large and unwieldy requiring several pages to print and requiring special size paper
- The lack of a timeframe on most PERT/CPM charts makes it harder to show status although colours can help (e.g., specific colour for completed nodes)
- When the PERT/CPM charts become unwieldy, they are no longer used to manage the project.

FEASIBILITY ANALYSIS

The process to make changes in the current system in order to achieve new effective system. The feasibility study includes complete initial analysis of all related system. Therefore the study must be conducted in a manner that will reflect the economic as well as technical feasibility of the system proposal.

Types:

Economic Feasibility:

Economic feasibility is the most frequently used method for evaluating the effectiveness of the candidate system that is proposed system, more commonly used as cost/benefit analysis. The procedure is to determine the benefit and savings that are expected from the candidate system and compare them with the coast, if the benefit over weight cost then the decision is made to design and implement the system, other wise further justification in the proposed system will have it be made, if it has chance to improve. Cost estimate for a system we consider several elements.

Hardware, Personnel, Facility, Operation, Supply cost etc.

Technical Feasibility:

In the technical feasibility the system analyst look between the requirements of the organization, such as Suggest input device which can enter a large amount of data in the effective time.Output devices which can produce output in a bulk in an effective time. The choice of processing unit depends upon the type of processing required in the organization.

Market feasibility

Market Feasibility Study typically involves testing geographic locations for a real estate development project, and usually involves parcels of real estate land. Developers often conduct market studies to determine the best location within a jurisdiction, and to test alternative land uses for given parcels. Jurisdictions often require developers to complete feasibility studies before they will approve a permit application for retail, commercial, industrial, manufacturing, housing, office or mixed-use project. Market Feasibility takes into account the importance of the business in the selected area.

Resource feasibility

This involves questions such as how much time is available to build the new system, when it can be built, whether it interferes with normal business operations, type and amount of resources required, dependencies, etc. Contingency and mitigation plans should also be stated here.

Cultural feasibility

In this stage, the project's alternatives are evaluated for their impact on the local and general culture. For example, environmental factors need to be considered and these factors are to be well known. Further an enterprise's own culture can clash with the results of the project.

Recommended questions:

1. What do you Mean by Project and Project Identification?
2. What are the steps in Project Selection?
3. What is Project Report & explain its Need?
4. Explain the Significance of Report?
5. What are the Contents of project report?
6. Explain the Guidelines by Planning Commission for Project report;?
7. What are the Errors of Project Report?
8. Define Project Appraisal?
9. explain the following:
    1. Market Feasibility Study.
    2. Technical Feasibility Study.
    3. Financial Feasibility Study.
    4. Social Feasibility Study.