

MODULE 2

Organizing and staffing

2.1. Definition

An organization can be defined as a social unit or human grouping deliberately structured for the purpose of attaining specific goals. An organization can also be defined as the process of identifying and grouping of the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in the accomplishment of their objectives.

2.2. Characteristics of organization:

Every organization has:

- A purpose, goal or goals
 - A clear concept of the major duties or activities required to achieve the purpose
 - Classification of activities into jobs
 - Establishment of relationships between these jobs in order to ensure coordination. This is achieved through division of labor and delegation of authority.
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2.3. Purpose of an organization:

- The purpose of any organization is to achieve goals for which it is formed which aims at achieving common objectives through its group member efforts.
 - The organizations exist for different purpose and the efforts for organizational members are directed for the achievement of this purpose.
 - For example: For business organization the purpose is to develop people and their skills for contributing towards the growth of the enterprise through profits.
 - For nonprofit organization the purpose the objective would be to serve the members of the committee in a productive manner.
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2.4. Principles of organization

1. **Objectives:** The objectives of the enterprise influence the organization structure and hence the objectives of the enterprise should first be clearly defined. Then every part of the organization should be geared to the achievement of these objectives.
 2. **Specialization:** Effective organization must promote specialization. The activities of the enterprise should be divided according to functions and assigned to persons according to their specialization.
 3. **Span of control:** As there is a limit to the number of persons that can be supervised effectively by one boss, the span of control should be as far as possible, the minimum. That means, an executive should be asked to supervise a reasonable number of subordinates only.
 4. **Exception:** As the executives at the higher levels have limited time, only exceptionally complex problems should be referred and routine matters should be dealt with by the subordinates at lower levels. This will enable the executives at higher levels to devote time to more important and crucial issues.
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5. **Scalar Principle:** This Principle is sometimes known as the “chain of command”. The line of authority from the chief executive at the top to the first-line supervisor at the bottom must be clearly defined.
 6. **Unity of command:** Each subordinate should have only one superior whose command he has to obey. Multiple-subordination must be avoided for it causes Uneasiness, disorder, indiscipline and undermining of authority.
 7. **Delegation:** Proper authority should be delegated at the lower levels of manager of the organization also. The authority delegated should be equal to responsibility i.e. each manager should have enough authority to accomplish the task assigned to him. Inadequate delegation often results into multiplication of staff and service activity.
 8. **Responsibility:** The superior should be held responsible for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.
 9. **Authority:** The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined. Further, the authority should be equal to responsibility.
 10. **Efficiency:** The organization structure should enable the enterprise to function efficiently and accomplish its objectives with the lowest possible cost.
 11. **Simplicity:** The Organization structure should be as simple as possible and the organization levels should as far as possible, be minimum. A large number of levels of organization means difficulty of effective communication and coordination. Too many committees and excessive procedures also unduly complicate the structure.
 12. **Flexibility:** The organization should be adaptable to changing circumstances and permit correction of demonstrated deficiencies in the existing structure without dislocation and disruption of the basic design.
 13. **Balance:** There should be a reasonable balance in the size of various departments, between centralization and decentralization, between the principle of span of control and the short chain of command, and among all types of factors such as human, technical and financial.
 14. **Unity of direction:** There should be one objective and one plan for a group of activities having the same objective. Unity of direction facilitates unification and coordination of activities at various levels.
 15. **Personal Ability:** As people constitute an organization, there is need for proper selection, placement and training of staff. Further the organization structure must ensure optimum use of human resources and encourage management development programmes.
 16. **Acceptability:** The structure of the organization should be acceptable to the people who constitute it. Two things generally happen if people oppose the structure: it is modified gradually by the people, or it is used ineffectively.
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2.4. Process of organizing

1. **Consideration of objectives:** the first step in organizing is to know the objectives of the enterprise. Objectives determine various activities which need to be performed and the type of organization which needs to be built for this purpose.

2. **Deciding organizational boundaries:** after the consideration of objectives, the next step is to decide what to do inside and what outside the boundaries of the organization. This means making manufacture versus buy choices for different goods and services and choices about strategic alliance with other firms.
 3. **Grouping of activities into departments:** the next step is to group all closely related and similar activities into departments and sections. For example activities of a manufacturing concern may be grouped into such departments as production, marketing, financing and personnel.
 4. **Deciding which departments will be key departments:** key departments are those which are rendering key activities I;e; activities essential for the fulfillment of goals. Such key departments demand key attention. Other departments exist merely to serve them. Key departments should be placed directly under higher management.
 5. **Determining levels at which various types of decisions are to be made:** after deciding the relative importance of various departments, the levels at which various major and minor decision are to be made must be determined. Each firm must decide for itself as to how much decentralization of authority and responsibility it wants to have.
 6. **Determining the span of management:** the next step to be taken in designing a structure is to determine the number of subordinates who should report directly to each executive. The narrower the span, the taller would be the structure with several levels of management.
 7. **Setting up a coordination mechanism:** a direct consequence of departmentalization is the need to coordinate the independent activities of the members of the organizations. Effective integration is as important as careful differentiation. As individuals and departments carry out their specialized activities, the overall goals of the organization may become submerged or conflicts among organization members may develop.
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2.5. Management by objectives(MBO):

- MBO is a process whereby subordinate and superiors of an organization jointly define common goals, define each individual major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing contribution of each of its members.

Management by exception (MBE)

- Management by Exception is a management style wherein managers intervene only when their employees fail to meet their performance standards.
 - If the employees are performing as expected, the manager will take no action. It is an organizational system where in which managers delegate as much responsibility as possible to those who below them stepping in only when it is absolutely essential.
 - MBE policy focuses on those issues or events in which there is a deviation from the established standard.
 - Management spends its valuable time on important strategic issues. Attention is given only when there is a deviation.
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2.6. Departmentalization

Definition: The horizontal differentiation of tasks or activities into discrete segments is called departmentalization. Departmentalization is one important step of building an organization.

There are several bases for departmentalization, each of which is suitable for particular corporate sizes, strategies and purposes. Following is a brief description of these bases.

I. *Process departmentalization:* there are two ways for dividing the work by process.

- **Business or organizational functions:**

The most widely used base for departmentalization is function. Each major function of the enterprise is grouped into a department. **Example: finance and marketing departments in a manufacturing company**

Advantages

- 1) It is a simple form of grouping activities for small organizations which manufacture only a limited number of Products or render only a limited number of services. Everybody in this form of organization understands and feels highly secure both in his work and in relationships.
- 2) It promotes excellence in performance because of development of expertise in only a narrow range of skills.
- 3) It leads to improved planning and control of the key functions.
- 4) It ensures economy, there is only one department related to one function for the entire function.
- 5) Manpower and Other resources of the company are effectively utilized by time-sharing then across products or projects.

Drawbacks

1) It fosters sub-goal loyalties. It is difficult for anyone to understand the task of the whole and to relate his own work to it. Each manager thinks only in terms of his own departmental goals and does not think in terms of the company as a whole. **Example:** the manufacturing department may concentrate on meeting cost standards and delivery dates, and neglect quality control **Result:** the sales or marketing department may be flooded with complaints lead to inter-departmental conflicts and disagreements, feuds, misunderstandings etc.

2)Does not offer a good training ground for the overall development of manager who gains expertise in handling problems of his particular department only.

3) Unsuitable for organizations which are large in size, complexity or innovative scope.

4) In this form the customer needs evoke conflicting interpretations from each department head like the story of twelve blind people and an elephant.

5)In this form the procedures are overly complicated, wasteful and time consuming weakness called organizational arthritis develops where the structure is rigid and resists adaptation.

6) It is difficult to judge whether the activities of a particular department are worth their cost.

- **Technology**

Departmentalization here is done on the basis of several stages in the process or technologies involved in the manufacture of a product. **Example** : production of vegetable oil may have separate departments for crushing, refining, finishing.

Advantages:

1. It facilitates the use of heavy and costly equipment in an efficient manner.
2. It follows the principle of specialization.
3. It is suitable for organizations which are engaged in the manufacture of those products which involve a number of processes.

Disadvantages.

1. Workers tend to feel less responsible for the whole product.
2. Does not provide good training ground and opportunity for the overall development of managerial talent.
3. When the technology is sequential, a breakdown in one department slows the work of all other departments.
4. It is difficult to compare the performance of different technology-based departments.
5. Top management needs to devote extra attention to maintaining inter-departmental co-operation.

II. **Purpose departmentalization:**

There are five externally oriented ways in which work can be departmentalized by purpose. They are- product, customers, regions/territory/location, division and time.

- **Products:**

- ❖ Eminently suited for large organization manufacturing a variety of products.
- ❖ For each major product a separate semi-autonomous department is created and is put under the charge of a manager who may also be responsible for producing profit of a given magnitude.
- ❖ For each department, all the needed manufacturing, engineering, marketing, manpower and other facilities are assembled.
- ❖ Product departmentalization is the logical pattern to be followed when each product requires raw materials, manufacturing technology and marketing methods that are markedly different from others from those used by other products in the organization.
Example: many companies like Hindustan Lever, Richardson Hindustan and Johnson & Johnson have product based departments.

Advantages:

- 1) This form relieves top management from operating task responsibility and therefore can concentrate on such centralized activities such as finance, R&D and control.
- 2) Enables top management to compare performances of different products and invest more resources in profitable products and withdraw resources from unprofitable ones.
- 3) In this form as the responsibility is entrusted on a particular department head, he is stimulated for improving his performance.
- 4) In this form natural team work develops as each worker sees that his contribution is needed to make the whole product.

Drawbacks:

- 1) This form results in duplication of staff and facilities.
- 2) Extra expenditure is incurred in maintaining a sales force for each product line.
- 3) Employment of a large number of managerial power is required.
- 4) Equipment in each product may not be utilized fully.

- **Customers:**

An enterprise may be divided into number of departments on the basis of the customers that it services. Example: An electronics department may be divided into separate departments for military, industrial and consumer customers.

- **Regions or territory:**

When production or marketing units of an organization are geographically dispersed in various locations, it is logical to departmentalize those units on a geographical basis. Example: The Indian railways are departmentalized on this basis like north, west, south, eastern, central are departments in this sense.

Advantages

- i. Motivates each divisional head to show high performance.
- ii. Provides each regional head an opportunity to adapt to his local situation and customer need with speed and accuracy.
- iii. Affords valuable top management training and experience to middle-level executives.
- iv. Enables the organization to take advantage of location factors, such as availability of raw materials, labour, market etc.
- v. enables the organization to compare regional performances and invest more resources in profitable regions and withdraw resources from unprofitable ones.

Drawbacks:

- i. Gives rise to duplication of various activities and many of the routine and service functions carried out by the regional offices can be carried out centrally by the head

- office very economically.
- ii. Many regional units may forget the overall interest of the total organization

- **Division**

When large , multi-product companies segment themselves into several independent profit centres on the basis of product, territory or customer, these units are called as divisions.

- **Time**

In departmentalization by time, activities are grouped on the basis of timing of their performance. For example, as a small machine shop grows in size its owner has the choice of either adding extra shifts or renting two more shops.

2.7. Committees

- A committee is a group of people who have been formally assigned some task or some problem for their decision and implementation

2.8. Classification of committees

a) Advisory committees:

- ✓ committees are vested with staff authority .
- ✓ Only have a recommendation role and cannot enforce implementation of their advice or recommendation.
- ✓ Examples of advisory committees formed in business enterprises: works committees, sales committees, finance committees etc.

b) Executive committees:

- ✓ vested with the line of authority .
- ✓ Not only take decisions but also enforce decisions and thus perform a double role of taking a decision and ordering its execution.
- ✓ Example: Board of directors is an example of an executive committee. Are also classified as standing committees or ad-hoc task forces.

c) Standing committees:

- They are formed to deal with current organizational problem. Example: finance committee in a company, loan approval committee in a bank etc. Members of this committee are chosen because of their title or position, instead of individual qualifications or skills.

d) Ad-hoc committees: Have a short duration, dissolved after the task is over, or the problem is solved and their members are chosen for their skills and experience.

Advantages:

- i. People get an opportunity to better understand each other's problems and move towards organizational goals.
- ii. Provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds which helps in improving the quality of decisions.
- iii. Provide an opportunity to many persons to participate decision-making process.
- iv. They are excellent means of transmitting information and ideas, both upward and downward
- v. Contribute indirectly to their training and viewpoints.
- vi. They are impersonal inaction and hence their decisions are generally unbiased and are based on facts and there is no fear of single individual taking a decision.

Weaknesses:

- Committees keep up minutes and waste hours by setting up a committee which takes a longer time to get action than from an individual manager.
 - If wrong decision taken, no member can be individually blamed which encourages irresponsibility among members of the committee.
 - Can be expensive form of administration where huge amount is spent on convening meetings and giving allowances to the members.
 - Members of the coordinating committees feel appointed to protect their interests of the departments rather than finding appropriate solution to the problem.
 - Have a tendency to perpetuate themselves and difficult to dissolve them.
 - Decisions are generally based on some compromise among members which are not best decisions which results in log rolling.
 - Consists of large number of persons, difficult to maintain secrecy.
 - Chairman often changes, influence accumulate in the hands of some other person which may result in domination and may bring about resistance from others.
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2.9. Centralization vs. decentralization

Centralization	Decentralization
1. Centralization is preferred if education and experience is concentrated at the top.	Decentralization is preferred if education and experience are spread over the hierarchy.
2. This is more appropriate in simple and stable organisations.	This is more appropriate in complex and uncertain organisations.

3. This is preferred if the lower level managers are not competent enough to take decisions.	This is preferred if the lower level managers are competent to take decisions.
4. It is better to follow centralization if the lower level managers are not particularly interested in having their say in the decision-making process.	It is better to follow decentralization if the lower level managers are keen in taking part in the decision-making process.
5. Centralization is needed if the decisions to be taken are significant and far-reaching.	Decentralization is better if the decisions taken are insignificant and relatively minor ones.
6. Organizations tend to be centralized if the environment is threatening and distrustful.	Organizations tend to be decentralized if the environment is free and friendly .
7. Centralization is better in vertical organizational structure.	Decentralization is better if it is more horizontal in structure.
8. Centralization is better in single-location facilities.	Decentralization is better in multi-location facilities.
9. If the mindset of top management is more autocratic, it leads to more centralization.	If the mindset of top management is more democratic, it leads to more decentralization.

2.10. Staffing

- **The process of recruiting, retaining, developing and nurturing the workforce is called staffing.**

Need and importance

- A business cannot be successful for any length of time unless it is capable of bringing in and developing the right kind of people.

Advantages of proper and efficient staffing

- It helps in discovering talented and competent workers and developing them to move up the corporate ladder.
- Ensures greater production by putting the right man in the right job.
- It helps to avoid a sudden disruption of an enterprises production run by indicating shortages of personal if any in advance.
- Helps to prevent underutilization of personnel through over manning and the resultant high labor cost and low profit margins.
- Provides information to management for the internal succession of managerial personnel in the event of unanticipated turnover.

2.11. Recruitment

- It can be defined as the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs. In other words, recruitment is generating of applications or applicants for specific positions.

2.12. Steps in the selection procedure:

- Commonly used selection procedure steps.
 - 1. **Application blank:** Filling the application blank by the candidate is the first step in which the applicant gives relevant personal data such as qualification, experience, firms in which he has worked.
 - 2. **Initial interview:** Selected personnel based on the particulars furnished in the application blank are called for the initial interview by the company which is the most important means of evaluating the poise or appearance of the candidate.
 - 3. **Employment tests:** Are used for the further assessment of the candidate of his nature and abilities certain tests are conducted by the company. These are:
 - i. **Aptitude test:** is used in finding out whether a candidate is suitable for clerical or a mechanical job which helps in assessing before training as how well the candidate will perform the job.
 - ii. **Interest test:** is used to find out the type of work in which the candidate has an interest.
 - iii. **Intelligent test:** used to find out the candidates intelligence and candidates mental alertness, reasoning ability, poor of understanding are judged.
 - iv. **Trade or performance achievement test:** this test is used to measure the candidate's level of knowledge and skill in the particular trade or occupation in which all he will be appointed, in case he is finally selected. in this test the candidate is asked to do a simple operation of the proposed job. **Example:** A candidate for a driver may be asked to drive to test his driving proficiency, a typist may be asked to type out some letters to find out his speed and efficiency.
 - v. **Personality test:** it is used to measure those characteristics of candidate which constitute his personality e.g.self-confidence, temperament etc.
 - 4. **Checking references:** used to know about the important personal details about the candidate, his character, past history his background verified from the people mentioned in the application after selection and found satisfactory at the interview.
 - 5. **Physical or medical examination:** is another step in selection procedure. The objectives of this examination are (i) to check the physical fitness of the applicant for the job applied for (ii)to protect the company against the unwarranted claims for compensation under certain legislative enactments.
 - 6. **Final interview:** This interview is conducted for those who are ultimately selected for employment and the selected candidates are given an idea about their future projects within the organization.
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Directing and controlling

2.13. Meaning and nature of directing: Direction Means issuance of orders and leading and motivating subordinates as they go about executing orders. It consists of the process and techniques utilized in issuing instructions and making certain that operations are carried on as originally planned. It is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives.

2.14. Requirements or principles of effective direction:

- **Harmony of objectives:** The goals of its members must be in complete harmony with the goals of an organization. The manager must direct the subordinates in such a way that they that they perceive their goals to be in harmony with enterprise objectives. For Example the company's profits may be associated with the employee's gains by giving additional bonus or promotion.
 - **Unity of Command:** The subordinates must receive orders and instructions from one supervisor only the violation of which may lead to conflicting orders, divided loyalties and decreased personal responsibility for results.
 - **Direct supervision** Every supervisor must Maintain face-to-face contact with his subordinates which boosts the morale of the employees, increases their loyalty and provides them with feedback on how well they are doing.
 - **Efficient Communication:** Communication is An instrument of direction through which the supervisor gives orders, allocates jobs, explains duties and ensures performance. Is a two way process which enables the superior to know how his subordinates feel about the company and how the company feels on a number of issues concerning them. In communication comprehension is more important than the content.
 - **Follow-through:** Is an act of following through the whole performance of his subordinates to keep check on their activities, help them in their cat and point out deficiencies if any and revise their direction if required.
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2.15. Giving orders

The order is devised is a devise employed by a line manager in directing his immediate subordinates to start an activity, stop it and modify it. A staff executive does not issue orders.

Mary Parker Follett has given the following principles to be followed while giving order:

1. The attitude necessary for carrying out an order should be prepared in advance.
2. Face-to-face suggestions are preferable to long-distance orders.
3. An order should be depersonalized and made an integral part of a given situation so that the question of someone giving and someone receiving does not come up.

Chester Barnard has laid down 4 conditions which make an order acceptable. These are

1. Order should be clear and complete.
2. Order should be compatible with the purpose of the organization.
3. Order should be compatible with the employee's personal interest.
4. Order should be operationally feasible.

Orders may be communicated verbally or in writing. Written orders are appropriate when

1. The subject is important;
2. Many details are involved
3. There is geographical distance between the order-giver and the recipient.

A manager may follow 4 types of methods to ensure compliance to his orders:

1. **Force:** the formula followed is "do what I say or else..." meaning an employee will be punished if he does not follow orders.
2. **Paternalism:** the formula followed is "do what I say because I am good to you....".
3. **Bargain:** the formula followed is "you do as I say in certain aspects and I do as you say in certain other respects."
4. **Harmony of objectives:** the formula followed is "if we perform together each will achieve his goal."

2.16. Motivation

Motivation means 'to move'. It is concerned with those dynamic processes which produce a goal-directed behavior. It is the ability to move other people in the right direction day after day.

2.17. Nature of motivation

- **Individuals differ in their motives:** the viewpoint that there is only one "economic drive" which determines behavior is irrational. The goals to which individuals aspire differ and so do their motives.
- **Sometimes the individual himself is unaware of his motive:** in many ways man is like an iceberg. Only a small part is conscious and visible and the rest is beneath the surface. This below the surface concept is unconscious motive.
- **Motives change:** hierarchy of motives of each individual called "structure" is not fixed. It changes from time to time. An individual's primary motive today may not be primary tomorrow even though he may continue to behave in the same way.
- **Motives are expressed differently:** the ways in which motives are eventually translated into actions also vary considerably between one individual and another. One individual with a strong security motive may play it safe and avoid accepting responsibility for fear of failing and being fired. Another individual with the same security motive may seek out responsibility for fear of being fired for low performance.
- **Motives are complex:** it is difficult to explain and predict the behavior of workers.

- **Multiple motives make the choice of goals difficult for an individual:** multiple motivations operate simultaneously to influence an individual's behavior. Some of these motivations are incompatible with one another. This results in the following three types of motivation conflicts which makes the person's choice of goal difficult:
 1. *Approach-approach conflict:* where the person desires to do two things which he likes equally well, but it is possible to do only one.
 2. *Avoidance-avoidance conflict:* where the person is forced to choose between two alternatives both of which are considered equally undesirable by him.
 3. *Approach-avoidance conflict:* where the person is attracted to the positive characteristics of his choice, but wants to avoid its negative characteristics.
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2.18. Maslow's Need-Hierarchy Theory:

- All people have variety of needs. At any given time, some of these needs are satisfied and others are unsatisfied. An unsatisfied need is the starting point in the motivation process.
- When a person has an unsatisfied need, he or she attempts to identify something that will satisfy the need. This is called a goal. Once a goal has been identified, the person takes action to reach that goal and thereby satisfy the need.
- According to Maslow, needs are arranged in a hierarchy or a ladder of five successive categories.

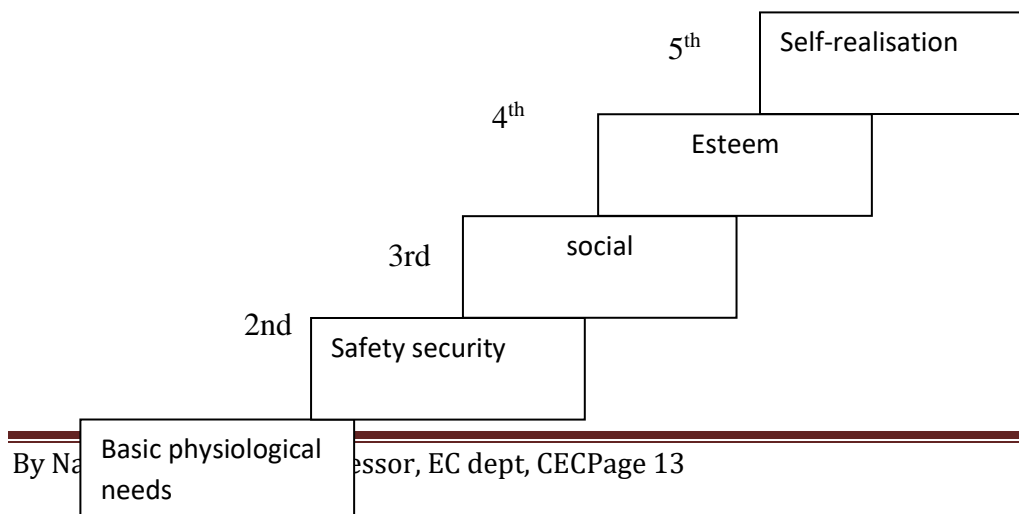


Figure: order of priority of human needs

Physiological needs are at the lowest level followed by security, social, esteem and self-fulfillment needs.

Physiological needs are those which arise out of the basic physiology of life, for ex water, food etc. these needs must be partially satisfied for continued survival.

Security needs are the needs to feel both economically secure and psychologically secure. Ex: protection from layoff and dismissal, disaster etc.

Social needs are those needs to associate with other people and be accepted by them, to love and be loved.

Egoistic or esteem needs are those which relate to respect and prestige. A need for dominance may be thought of as one of the egoistic needs. These are of two types: self-esteem and esteem from others. Self-esteem is an individual's need to feel inside him that he is worthy. He has also the need that others think he is worthy.

Self-fulfillment needs are needs for realizing one's potential. These include the need for realizing one's capabilities to the fullest-for accomplishing what one is capable of accomplishing for becoming what one is capable of becoming

2.19. Herzberg's Two-factor theory:

- Original study based on the research by Fredrick and Herzberg who interviewed 200 engineers and accountants and were asked about the good times and bad times they think about their jobs.

Out of these interviews two factors emerged.

Herzberg called these factors maintenance or hygiene factors since they are necessary to maintain a reasonable level of satisfaction to serve as a take-off point for motivation.

- 1) **Maintenance factors** – 1) Fair company policies and administration 2) A supervisor who knows the work 3) A good relationship with ones supervisor. 4) A good relationship with ones peers. 5) A good relationship with ones subordinates. 6) A fair salary 7) Job security 8) Personal life 9) Good working conditions 10) Status.

To build high levels of motivation, a different set of factors is necessary. However of these factors are not present they do not in themselves lead to strong dissatisfaction. Herzberg called these the **motivators or satisfiers**.

- 2) **Motivators or satisfiers**-1) Opportunity to accomplish something significant 2)

Recognition for significant achievements 3) Chance for advancement 4) Opportunity to grow and develop on the job 5) Chance for increased responsibility 6) The job itself.

2.20. Communication: Communication means exchange of opinions, facts ideas or emotions by two or more persons. It is the sum of all things what one does to create an understanding in the minds of others. It is the process of passing information, correct understanding and with right Interpretation from one person to another.

2.21. Importance of communication: The importance of communication raised from the fact that earlier business was considered only a technical and formal structure. But by Hawthorne's experiments it was realized that every organization requires structure is a social system involving the interactions of the people working at different levels and proper communication is required to the goals of the organization, organizations existence from the birth to continuing life. When communication stops, organized action comes to an end.

2.22. Purposes of communication:

- i. Communication is needed in the recruitment process to persuade potential employees of the merits of working for the enterprise.
- ii. Communication is needed in the area of orientation to make people acquainted with peers, superiors with company's rules and regulations.
- iii. It is needed to enable employees to perform their functions effectively.
- iv. It is needed to acquaint the subordinates with the evaluation of their contribution to enterprise activity.
- v. It is needed to teach employees about personal safety on the job.
- vi. It is of vital importance in projecting the image of an enterprise in the society.
- vii. It helps the manager in his decision process.
- viii. It helps in achieving coordination.
- ix. It promotes cooperation and industrial peace.
- x. It increases managerial efficiency.

2.23. Meaning of Leadership :

- The will to do is triggered by leadership and lukewarm desires for achievement are transformed into burning passion for successful accomplishment by the skillful use of leadership. Leadership is the lifting of man's visions to higher sights, the raising of man's performance to a higher standard, the building of man's personality beyond its normal limitations. It's the ability to secure desirable actions from a group of followers voluntarily without the use of coercion. It can also be defined as the ability to persuade others to seek defined objectives enthusiastically.
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2.24. Characteristics of leadership

- **Leadership implies the existence of followers:** the quality of a person's leadership in practice by studying his followers. We ask: how many and what kind of followers does he have? How strong is their commitment as a result of his leadership? How long will

their commitment last? By answering these questions, we get to know the quality of leadership.

- **Leadership involves a community of interest between the leader and his followers:** the objectives of both the leader and his men are one and the same.
 - **Leadership involves an unequal distribution of authority among leaders and group members:** leaders can direct some of the activities of group members, that is the group members are compelled or are willing to obey most of the leader's directions.
 - **Leadership implies that leaders can influence their followers or subordinates in addition to being able to give their followers or subordinates legitimate directions:** leaders not only tell their subordinates what to do by way of command but also influence their behavior and conduct.
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2.25. Behavioral approach of leadership

Under behavioral approach, leadership behavior is studied from three points of view: motivation, authority and supervision.

Motivation:

- From motivation point of view leadership behavior can be either *positive or negative*.
- In positive behaviour the leader's emphasis is on rewards to motivate the subordinates.
- In negative behavior the leader's emphasis is on penalties and punishments. The leader tries to frighten the subordinates into higher productivity.

Authority: from this point view, leadership style can be autocratic, democratic or free-rein.

- a. **Autocratic leadership:** in this type, leader alone determines policies and makes plans. He tells others what to do and how to do it. He demands strict obedience and relies on power. He may be sometimes paternalistic.

Merits:

- It can increase efficiency, save time and get quick results.
- It works well with employees who have a low tolerance for ambiguity.
- Chain of command and division of work are clear and fully understood by all.

Demerits:

- One-way communication leads to misunderstanding, communication breakdowns and costly errors.
 - He is alone in his decision making. He receives little information and ideas from his people as inputs into his decision-making.
 - Most people resent authoritarian rule.
- b. **Democratic leadership:** in this type, the entire group is involved in and accepts responsibility for goal setting and achievement. Subordinates have considerable freedom of action. The leader shows greater concern for his people than for high production.

Merits:

- When people participate in and help formulate a decision , they support it and work hard to make it work, because it is their idea and now a part of their life and their ego.
- Leader consistently receives the benefit of the best information, ideas , suggestions and talents of his people.
- This style of leadership permits and encourages people to develop, grow and rise in the organization.

Demerits:

- The participative style can take enormous amounts of time, and may lead to loss of leader's control.
 - Some leaders may use this style as a way of avoiding responsibility.
- c. **Free rein or Laissez-faire leadership:** in this, leader exercises absolutely no control. He only provides information, materials and facilities to his men to enable them to accomplish group objectives. This type can be a disaster if the leader does not know well, the competence and integrity of his people and their ability to handle this kind of freedom.

Supervision: from this point of view, leadership style can be either employee-oriented or production oriented. An employee oriented leader is one who cares more for the welfare of his subordinates than for production. Similarly a production oriented leader is one who cares more for production than for the welfare of his subordinates.

2.26. Coordination

- **Coordination** is the management of interdependence in work situations. It is the orderly synchronization or fitting together of the interdependent efforts of individuals to attain a common goal.

2.27. Types of coordination

It can be classified as internal or external, vertical or horizontal and procedural or substantive.

- **Internal coordination:** coordination among the employees of the same department or section, among workers and managers at different levels, among branch offices, plants, departments and sections.
 - **External coordination:** coordination with customers, suppliers, government and outsiders with whom the enterprise has business connections.
 - **Vertical coordination:** it is what exists within a department where the departmental head is called upon to coordinate the activities of all those placed below him.
 - **Horizontal coordination:** it takes place sideways. It exists between different departments such as production, sales, purchasing etc.
 - **Procedural coordination:** it refers to the specification of the organization itself- that is, the generalized description of the behaviors and relationships of the members of the organization.
 - **Substantive coordination:** it is concerned with the content of the organization's activities.
-

2.28. Techniques of coordination:

A. Basic coordinating techniques

- **Rules, procedures and policies:** the specification of rules, procedures and policies is a very common device to coordinate sub-units in the performance of their repetitive activities. Standard policies, procedures and rules are laid down to cover all possible situations.
- **Planning:** planning ensures coordinated efforts. Under planning, targets of each department dovetail with the targets of all other departments.
- **Hierarchy:** by putting interdependent units under one boss, some coordination among their activities is ensured.

B. Increasing coordination potential

- **Direct contact:** in order to prevent top executives from becoming overloaded with problems as many problems as possible are resolved by the affected employees at lower levels by informal contacts.
- **Task force:** this is a temporary group made up of representatives from those departments which are facing a problem. When a solution is reached each participant returns to his normal tasks.
- **Committees:** this device greatly eases the rigidity of the hierarchical structure, promotes effective communication and understanding of ideas, encourages the acceptance of the commitment to policies and makes their implementation more effective.
- **Induction:** inducting the new employee into the new social setting of his work is also a coordinating mechanism.
- **Indoctrination:** the major task of a leader is not only to make a policy but to build it into the organisation's social structure. This can be achieved when the leader succeeds in transforming by indoctrination and other means the neutral body of men into a committed body.
- **Incentives:** providing interdependent units with an incentive to collaborate such as a profit-sharing plan, is another mechanism.
- **Liaison departments:** where there is a large volume of contact between two departments, a liaison department evolves to handle the transactions. This typically occurs between sales and production department.
- **Workflow:** a workflow is the sequence of steps by which organisation acquires inputs and transforms them into outputs and exports these to the environment.

2.29. Controlling :

- It is the process through which managers assure that actual activities conform to planned activities. Control is checking current performance against predetermined standards contained in the plans with a view to ensuring adequate progress and satisfactory performance. Controlling is determining what is being accomplished that is evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans.

2.30. Need for control system:

- **To measure progress:** there is a close link between planning and controlling the

organization's operations. The control process continually measures progress towards goals.

- **To uncover deviations:** once a business organization is set into motion towards its specific objectives, events occur that tend to pull it "off target". Major events that pull an organization "of target" are
 - ✓ **Change:** it is an integral part of almost an organization's environment. The control function enables managers to detect changes that are affecting their organization's products or services.
 - ✓ **Complexity:** today's vast and complex organizations with geographically separated plants and decentralized operations make control a necessity. Diversified product lines need to be watched closely to ensure that quality and profitability are being maintained.
 - ✓ **Mistakes:** managers and their subordinates very often commit mistakes. A control system enables managers to catch these mistakes before they become serious.
 - ✓ **Delegation:** when managers delegate authority to subordinates, their responsibility to their own superiors is not reduced. The only way managers can determine if their subordinates are accomplishing the tasks that have been delegated to them is by implementing a system of control.
- **To indicate corrective action:** controls are needed to indicate corrective actions. They may reveal for example, that plans need to be redrawn or goals need to be modified or there is need for reassignment or clarification of duties etc.
- **To transmit corrective action to the operation:** controls are needed to transmit corrective action to the operation while it is progressing so that the transformation subsystem modifies its inputs or its production plan to reduce any discrepancy or error and keeps the output on course.

2.31. Benefits of control system

- Increases productivity
- Reduces defects and mistakes
- Helps meet deadlines
- Facilitates communication
- Improves safety
- Lowers cost
- Gives the workers control over their environment.

2.32. Essentials of effective control system

- **Suitable:** the control system should be appropriate to the nature and needs of the activity. Controls used in the department will be different from those used in finance and personnel.
- **Timely and forward looking:** a control system should be able to detect deviations before they occur. The feedback system should be as short as possible and the information should reach the superior before it is too late to head off failures.
- **Objective and comprehensible:** the control system should be both objective and

comprehensible. Objective controls specify the expected results in clear and definite terms. When the precise purposes are not understood it is difficult to establish criteria for its evaluation and review.

- **Flexible:** control system should be flexible so that it can be adjusted to suit the needs of any change in the basic nature of the inputs.
 - **Economical:** the benefit derived from a control system should be more than the cost involved in implementing it.
 - **Prescriptive and operational:** a control system in order to be effective and adequate must not only detect deviations from the standards but should also provide solutions to the problem that cause deviations.
 - **Acceptable to organization members:** the system should be acceptable to organization members. When standards are set unilaterally by upper level managers, there is a danger that employees will regard those standards as unreasonable or unrealistic.
 - **Reveal exceptions at strategic points:** A control system should be such as to reveal exceptions at strategic points. Small exceptions in certain areas have greater significance than larger deviations in other areas.
 - **Motivate people to high performance:** a control system is most effective when it motivates people to high performance.
 - **Should not lead to less attention to other aspects:** control over one phase of operations should not lead to less attention to other aspects.
 - **Should be periodically reviewed and evaluated:** every control system should be periodically reviewed and evaluated in relation to its objectives to see how effective and efficient the design proved to be or why it failed .
-

2.33. Steps in control process

1. *Establishing standards:*

- This is the first step against which results can be measured.
- Since entire operations cannot be observed, each organisation must develop its own list of key result areas for the purpose of control.
- Some of the key areas are- profitability, market position, productivity, personnel development, employee attitude and public responsibility.
- An executive who wishes to control a particular key area must determine the **level of performance** or **par**.
- Pars should be accepted by the individuals involved.
- Pars need to be flexible in order to adapt to changing situations.
- Pars should emphasize the achievement of results more than conformity to rules and methods.

2. *Measuring and comparing actual results against standards*

- The second step in the control process is to measure the result and compare it with the predetermined pars.
- Measurement can be done at various stages in the process or at the end.
- If the purpose of control is to catch trouble while it is forming, then this should be done at various strategic points.

3. *Taking corrective action*

- After comparing the actual performance with the prescribed standards and finding the deviations, the next step that should be taken by the manager is to correct these deviations.
 - Corrective action should be taken without wasting time so that the normal position can be restored.
 - The manager should also determine the correct causes for deviation.
-

MODULE 3

Social Responsibilities Of Business

3.1.Meaning of social responsibility:

Social responsibility is the manager's responsiveness to public consensus. It can also refer to two types of business obligations, a) the socio-economic obligation b) the socio-human obligation.

The socio-economic obligation is to see that the economic consequences of its actions do not adversely affect public welfare. This includes obligations to promote employment opportunities, to maintain competition, to curb inflation etc. the socio-human obligation of every business is to nurture and develop human values.

3.2.Social responsibilities of business towards different groups:

a. Towards the consumer and the community

- i. production of cheap and better quality goods and services by developing new skills, innovations and techniques, by locating factories and markets at proper places and by rationalizing the use of capital and labour.
- ii. Leveling out seasonal variations in employment and production through accurate forecasts, production scheduling and product diversification.
- iii. Deciding priorities of production in the country's interest and conserving natural resources.
- iv. Providing for social audit
- v. Honoring contracts and following honest trade practices.
- vi. Making real consumer needs as the criteria for selecting messages to be given by product advertisements.
- vii. Preventing the creation of monopolies.
- viii. Providing for after-sale servicing.
- ix. Ensuring hygienic disposal of smoke and waste and voluntarily assisting in making the town environment aesthetically satisfying.
- x. Achieving better public relations
- xi. Supporting education, slum clearance and similar other programmes.

b. towards employees and workers

- i. a fair wage to the workers
- ii. just selection, training and promotion
- iii. social security measures and good quality of work life.
- iv. good human relations
- v. freedom, self-respect and self-realisation.
- vi. Increase in productivity and efficiency by recognition of merit, by providing opportunities for creative talent and incentives.

c. Towards shareholders and other businesses

- i. promoting good governance
- ii. fairness in relations with competitors.

d. towards the State

- i. Shunning active participation in and direct identification with any political party.
- ii. Observing all the laws of land which may have the following objectives:
 - To provide direction to the economic and business life of the community
 - To bring about harmony between the limited enterprise interest and the wider social interest of the country.
 - To provide safeguard against errant business practices.
 - To compel business to play fair to all participants in the economy
 - To prevent oppression or exploitation of the weaker partners in business
 - To enforce maximum production according to the priority of sectors and production lines laid down by the government
 - To allocate limited resources according to social priorities and preferences
 - To enforce distributive justice, especially to weaker sections of the community

- To implement rural uplift and secure balanced development of the country.
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3.3.Social audit

- A social audit is a systematic study and evaluation of the organisation's social performance as distinguished from its economic performance.
- It can be made either by internal experts, outside consultants or a combination of the two.

Benefits:

- It supplies data for comparison with the organisation's social policies and standards.
- It develops a sense of social awareness among all employees.
- It provides data for comparing the effectiveness of different types of programmes.
- It provides data about the cost of social programmes so that management can relate this data to budgets, available resources etc.
- It provides information for effective response to external groups which make demands on the organization.

Limitations:

- A social audit is a process audit rather than an audit of results. This means that a social audit determines only what an organization is doing in social areas and not the amount of social good that results from these activities.
-

3.4.Business ethics

- It is the application of moral principles to business problems.
- However ethics extend beyond the question of legality and involve the goodness or badness of an act.
- Therefore an action may be legally right but ethically wrong.
- Sexual harassment, discrimination in pay and promotion and the right to privacy are some other issues relevant to the study of ethics.

- There are 4 factors that affects manager's decision on what is ethical or unethical. They are
 - i. Government legislation
 - ii. Business codes
 - iii. Pressure groups
 - iv. Personal values of manager himself
-

3.5.Corporate governance

- it is used to denote the extent to which companies run in an open and honest manner in the best interest of all-stake holders.
- The key elements of good governance are transparency and accountability.

Benefits of good corporate governance:

- It creates overall market confidence and long term trust in the company.
 - It leads to an increase in company's share prices.
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- It ensures the integrity of company's financial reports.
- It maximizes corporate security.
- It limits liability of top management.
- It improves strategic thinking at the top.

Entrepreneurship

3.6. Definition of entrepreneurship:

- **Entrepreneur** is a person who undertakes an enterprise. The process of creation is called **entrepreneurship**. An **entrepreneur** can be considered as a person who bears the risk of operating a business in the face of uncertainty about the future conditions, Who innovates and introduces something new in the economy, Who shifts resources out of an area of lower and into an area of productivity and greater yield Who plays a critical role in economic development and an integral part of economic transformation To conclude an entrepreneur can be considered as an agent who buys the four factors of production at certain prices in order to combine them into product with a view to selling it at uncertain prices in future.

3.7. Importance of entrepreneurship:

- It's the key to economic development
- The objectives of industrial development, regional growth and employment generation depend upon entrepreneurial development.
- They provide greater employment opportunities to unemployed youth, increase in per capita income, higher standard of living and increased individual saving, revenue to the government in the form of income tax, sales tax, export duties, import duties and balanced regional development.
- Entrepreneurs introduce leaps in technology and more productive uses.
- India needs entrepreneurs. It needs them for two reason: to capitalize on new opportunities and to create wealth and new jobs.
- Entrepreneurs will create these new jobs and opportunities.

3.8. Concepts of entrepreneurship:

- **An entrepreneur** is an economic leader who possesses the ability to recognise opportunities for the successful introduction of new commodities, new techniques and new sources of supply and to assemble the necessary plant and equipment and organize them into a running concern.
- **Entrepreneurship** can be defined as doing things in a new and better way and decision-making under the condition of uncertainty.
- **Entrepreneurship** is the function of foreseeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital etc.

3.9. Characteristics of successful entrepreneurs:

Characteristics of successful entrepreneur:

- a) **Creativity:** creativity is the ability to bring something new into existence. Innovation is the process of doing new things but creativity is a prerequisite to innovation.

Creativity consists of 5 stages:

- **Germination:** the exact manner in which idea germinates is a mystery. However most creative ideas can be traced to an individual's interest in or curiosity about a specific problem.
 - **Preparation:** once the seed of curiosity has taken form as a focused idea, creative people embark on a conscious search for answers.
 - **Incubation:** incubation is the stage of "mulling it over" while the subconscious intellect assumes the control of the creative process.
 - **Illumination:** this stage occurs when the idea resurfaces as a realistic creation.
 - **Verification:** an idea once illuminated in the mind of an individual continues to have little meaning until verified as realistic and useful. Verification is a stage of development that refines knowledge into application.
- b) **Innovation:** entrepreneurs innovate. It is the act that endows resources with a new capacity to create wealth.
- c) **Dynamism:** innovation together with dynamism constitutes a potential combination for prosperity. Dynamism revises the target of the enterprise again and again.
- d) **Leadership:** it is the basic quality of an entrepreneur. This spirit keeps him paces forward in any field.
- e) **Teambuilding:** entrepreneur should have the ability to build a team. A good team will be able to share knowledge, core competency and goals.
- f) **Achievement motivation:** entrepreneurs have high need for achievement and are guided by their inner self, motivating their behavior towards accomplishment.
- g) **Problem solving:** it is important that an entrepreneur should be able to solve problems and not avoid them.
- h) **Goal orientation:** goal setting is the achievement of targets and objectives for successful performance of an entrepreneur both long run and short run.
- i) **Risk taking and decision-making ability:** entrepreneurs are persons who take decisions under conditions of uncertainty and therefore are willing to bear risks.
- j) **Commitment:** one of the subtle qualities of an entrepreneur is his willpower.
-

3.10. Classification of entrepreneurs

Classification of entrepreneurs:

- a) Based on functional characteristics
- i. **Innovative entrepreneur:** such entrepreneurs introduce new goods or new methods of production or discover new markets or reorganize their enterprises.
 - ii. **Imitative or adoptive entrepreneur:** such entrepreneurs do not innovate themselves but imitate techniques and technology innovated by others.
 - iii. **Fabian entrepreneur:** such entrepreneurs display great caution and skepticism

- in experimenting with any change in their enterprise. They change only when there is an imminent threat to the very existence of their enterprise.
- iv. **Drone entrepreneur:** such entrepreneurs are characterized by a die-hard conservatism and may even be prepared to suffer the loss of business.
- b) Based on the developmental angel
- i. **Prime mover:** this entrepreneur sets in motion a powerful sequence of development, expansion, and diversification of business.
 - ii. **Manager:** such an entrepreneur does not initiate expansion and is content just staying in business.
 - iii. **Minor innovator:** this entrepreneur contributes to economic progress by finding better use for existing resources.
 - iv. **Satellite:** this entrepreneur assumes a supplier's role and slowly moves towards a productive enterprise.
 - v. **Local trading:** such an entrepreneur limits his enterprise to the local market.
- c) Based on types of entrepreneurial business
- i. **Manufacturing:** an entrepreneur who runs such a business actually produces the products that can be sold using resources and supplies.
 - ii. **Wholesaling:** an entrepreneur with such a business sells products to the middle man.
 - iii. **Retailing:** an entrepreneur with such a business sells products directly to the people who use or consume them.
 - iv. **Service:** an entrepreneur in this business sells service rather than products.
- d) Based on the nine personality types of entrepreneur
- i. **The improver:** he uses his company as a means to improve the world.
 - ii. **The advisor:** this personality type will provide an extremely high level of assistance and advice to customers.
 - iii. **The superstar:** here the business is centered on the charisma and high energy of the superstar CEO.
 - iv. **The artist:** this personality type is reserved but a highly creative type.
 - v. **The visionary:** a business built by a visionary will often be based on the future vision and thoughts of the founder.
 - vi. **The analyst:** if you run the business as an analyst your company focus is on fixing problems in a systematic way.
 - vii. **The fireball:** a business owned and operated by a fireball is full of life, energy and optimism.
 - viii. **The hero:** you have an incredible will and ability to lead the world and your business through any challenge.
 - ix. **The healer:** you provide nurturing and harmony to your business.
- e) Based on schools of thought on entrepreneurship
- i. **The great person school of entrepreneurship:** this school believes that an

entrepreneur is born with an intuitive ability. This great person has exceptional belief in himself and his abilities. Attention is paid to traits like energy, vision, single mindedness, popularity etc.

- ii. **The psychological characteristics school of entrepreneurship:** this school of thought focuses on personality factors and believes entrepreneurs have unique values and attitudes towards work and life.
 - iii. **The classical school of entrepreneurship:** innovation, creativity or discovery are the key factors underlying the classical body of thought on entrepreneurship.
 - iv. **The management school of entrepreneurship:** the management school suggests that an entrepreneur is a person who organizes or manages a business undertaking assuming the risk for the sake of profit.
 - v. **The leadership school of entrepreneurship:** it suggests that entrepreneurs need to be skilled in appealing to join the cause. Entrepreneur must be a leader able to define a vision of what is possible and attract people to rally around that vision and transform it into reality.
 - vi. **The intrapreneurship school of entrepreneurship:** it assumes that encouraging people to work as entrepreneurs.
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3.11. Myths of entrepreneurs

a. *Entrepreneurs are born, not made*

According to this, the characteristics of entrepreneurs cannot be taught or learned, they are traits with which a person is born. Today the recognition of entrepreneurship as a discipline is helping to dispel this myth.

b. *Entrepreneurs are academic and social misfits*

The belief that entrepreneurs are academically and socially ineffective is born of some business owners having started successful enterprises after dropping out of school or quitting a job. Today the entrepreneur is considered a hero socially, economically and academically. The entrepreneur is now viewed as a professional.

c. *All you need is money to be entrepreneur*

It is true that a venture needs capital to survive. However failure due to a lack of proper financing is often an indicator of other problems: managerial incompetence, lack of financial understanding and so on.

d. *All you need is luck to be an entrepreneur*

Being in “the right place at the right time” is always an advantage but “luck happens when preparation meets opportunity” is wrong. Prepared entrepreneurs who seize an opportunity when it arises often appear to be “lucky”. They are in fact, simply better prepared to deal with situations and turn them into successes.

e. *Entrepreneurs fit an ideal profile*

Researchers have presented checklists of characteristics of a successful entrepreneur. These lists were neither validated nor complete, they were based on case studies. Today, we realize that a standard entrepreneurial profile is hard to compile.

f. *A great idea is the only ingredient in a recipe for success.*

A great idea may stay just that if it is not backed by adequate finance, demand for the product and most importantly, good management. Venture capitalists say bad management is the main cause of failures among small businesses.

g. My best friend will be a great business partner

Teaming up with your best friend just because you share an idea and a drink every weekend may not be a good idea. Sure, you may agree on most issues but misunderstandings can erupt over insignificant aspects like who should be in the office first, who's in charge of supervising the office staff and so on.

h. Having no boss is great fun

If you thought your boss was way too demanding, watch out vendors, bankers, suppliers and customers. They are more demanding than the boss.

i. I can make lots of money

j. I'll definitely become successful

k. Life will be much simpler if I work for myself

Working for yourself is definitely more strenuous than working for others at least when starting off.

3.12. Entrepreneurial development models

The models suggested for the development of entrepreneurship fall in the following categories.

- a. Psychological models
- b. Sociological models
- c. Integrated models

Psychological models:

- After identifying achievement orientation as the key variable in the development of entrepreneurship, McClelland suggests motivation-training programme as the policy measure, which will make entrepreneurs really willing and eager to exploit the new opportunities provided.
- Everett Hagen's theory lays emphasis on "creative personality" as casual link in entrepreneurial behavior and "status withdrawal" as the determinant of the creative personality.
- John Kunkel's model suggests that entrepreneurial behavior is a function of the surrounding social, structure, both past and present, and can really be influenced by manipulating economic and social incentives. Thus, this model is based upon experimental psychology which identifies sociological variables as the determinants of entrepreneurial supply.

Sociological models:

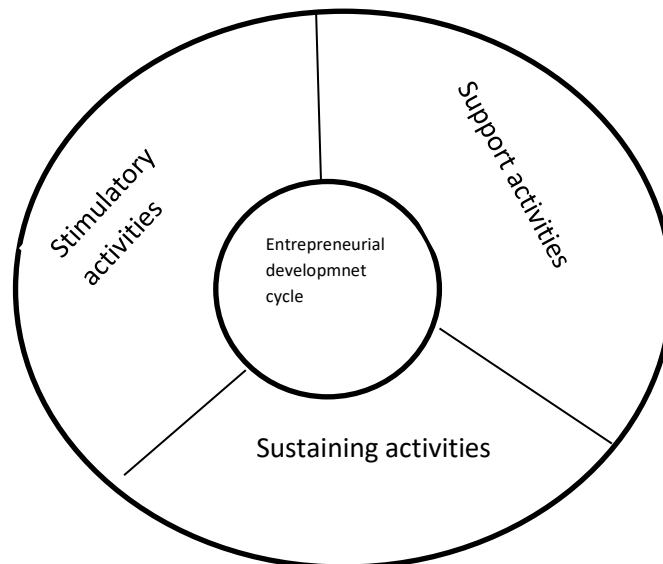
- Frank W Young's theory of entrepreneurship is a theory of change based upon society's incorporation of relative sub-groups.
- This model suggests the creation of supporting institutions in society as the determinant of entrepreneurship.

Integrated models:

- According to T.V Rao following factors lead to the entry point of entrepreneurship:
 - i. Need for motive
 - ii. Long term involvement
 - iii. Personal, social and material resources

- iv. Socio-political system
- B.S Venkata Rao described the following five stages for promoting small entrepreneurship.
 - i. **Stimulation** : this stage includes the creation of an industrial atmosphere, policy statement emphasizing the role of small industry, wide publicity of industrial development programmes and formation of special schemes and creation of support institutions.
 - ii. **Identification**: this stage is necessary to identify prospective entrepreneurs.
 - iii. **Development**: this stage would include organization of motivation and managerial training programmes along with advice on technology , formulation of project and so on.
 - iv. **Promotion**: this stage would include government policy initiatives for promoting small entrepreneurship.
 - v. **Follow-up**: this stage includes reviewing the policies and programmes of the government and seeking follow up with a view to making them more effective.

3.13.Entrepreneurial development cycle



Entrepreneurial development cycle consists of the following components:

1. Stimulatory activities

- These activities ensure the emergence of entrepreneurs in the society.
- They prepare the background for the entrepreneurship to sprout and for people to start looking for entrepreneurial pursuits.
- They generate initial motivation and offer opportunity to acquire skill.
- These can be achieved by the following activities
 - i. Entrepreneurial education
 - ii. Planned publicity for entrepreneurial opportunities
 - iii. Identification of potential entrepreneurs through scientific methods
 - iv. Motivational training to new entrepreneurs
 - v. Help and guidance in selecting products and preparing project reports

- vi. Making techno-economic information and product profiles

2. Support activities

- These activities help a person to develop into an entrepreneur.
- They nurture and help entrepreneurship to grow.
- The various support activities are given below:
 - i. Registration of unit
 - ii. Arranging finance
 - iii. Providing land, shed, power, water and so on.
 - iv. Supply of raw materials
 - v. Providing common facilities

3. Sustaining activities:

- These activities are all those that help in the continuous and efficient functioning of entrepreneurship.
 - The various sustaining activities are as follows
 - i. Help modernization
 - ii. Help diversification/expansion/substitute production
 - iii. Additional financing for full capacity utilization
 - iv. Quality testing and approving services
 - v. Need based common facilities centres
-

3.14.Problems faced by entrepreneurs and capacity building for entrepreneurship

- The problems of entrepreneurs may be divided into two groups- external and internal.
- External problems are those which results from factors beyond the control of entrepreneurs.
- Internal problems are those which are not influenced by the external factors.

Internal problems of entrepreneurs:

1. Planning
 - a. Technical feasibility
 - Inadequate technical know-how
 - Locational disadvantage
 - Outdated production process
 - b. Economic viability
 - High cost of inputs
 - Break-even point too high
 - Uneconomic size of project
 - Choice of idea
 - Feeble structure
 - Faulty planning
 - Poor project implementation
 - Lack of strategies
 - Lack of vision
 - Inadequate connections

- Lack of motivation
- Underestimation of financial requirements
- Unduly large investments in fixed assets
- Overestimation of demand

2. Implementation

Cost over-runs resulting from delays in getting licences, sanctions and so on and inadequate mobilization of finance.

3. Production

a. Production management

- Inappropriate product mix
- Poor quality control
- Poor capacity utilization
- High cost of production
- Poor inventory maintenance and replacement
- Lack of timely and adequate modernization and so on
- High wastage
- Poor production

b. Labour management

- Excising high wage structure
- Inefficient handling of labour problems
- Excessive manpower
- Poor labour productivity
- Poor labour relations
- Lack of trained skilled labour or technically competent personnel

c. Marketing management

- Depending on a single customer or a limited number of customers/single or a limited number of products
- Poor sales realization
- Defective pricing policy
- Booking of large orders at fixed prices in an inflationary market
- Weak market organization
- Lack of market feedback and market research
- Unscrupulous sale purchase practises

d. Financial management

- Poor resource management and financial planning
- Faulty costing
- Dividend policy
- General financial indiscipline and application of funds for unauthorized purposes
- Deficiency of funds
- Overtrading
- Unfavourable gearing or keeping adverse debt equity ratio
- Inadequate working capital

- Absence of cost consciousness
- Lack of effective collection machinery
- e. Administrative management
 - Over centralization
 - Lack of professionalism
 - Lack of feedback to management
 - Lack of timely diversification
 - Excessive expenditure on R and D.

External problems of entrepreneurs

- a. Infrastructural
 - Location
 - Power
 - Water
 - Post office and so on
 - Communication
 - Non-availability or irregular supply of critical raw materials or other inputs
 - Transport bottlenecks
- b. Financial
 - Capital
 - Working capital
 - Long-term funds
 - Recovery
- c. Marketing
- d. Taxation
- e. Raw material
- f. Industrial and financial regulations
- g. Inspection
- h. Technology
- i. Government policy
- j. Administrative hurdles
- k. Rampant corruption
- l. Lack of direction
- m. Competitive and volatile environment

Specific management problems:

- **Management deficiency:** the new entrants in the field of small industries do not have any prior training or background in the management of their units. With growing sophistication and modernization of market requirements for their products, it is very important for entrepreneurs to employ modern methods of management.
- **Finance:** financial inadequacy is also reported to be one of the most important causes leading to sickness of small-scale units.
- **Manufacturing and technical problems:** most units face production problems due to lack of raw material availability, skilled labor shortage, underutilization of capacity

and time and cost overrun. Manufacturing and technical problems arise right at the stages of project planning and feasibility report preparation.

- **Product planning:** the selection of product depends on technical know-how, infrastructure facilities available and technical and managerial abilities of entrepreneurs to complete a project successfully.
- **Selection of equipment, plant and machinery:** no detailed scrutiny is done before selecting equipment, plant and machinery. However this needs to be done and while doing so, entrepreneurs should give importance to production capacity, process capacity and other facilities.
- **Human resource development:** most SSI units do not give any consideration to human resource development. Selecting the right person for the right job would contribute for smooth and efficient working.
- **Technical know-how:** most SSI units are neither technically equipped nor do they possess technical know-how. While there are numerous ways of doing a job, there is only one way of doing it in a manner that is most effective, efficient and highly productive.
- **Preparation of project- report:** a project report is usually not prepared on scientific lines. Very often project feasibility reports are prepared for availing loans.

3.15. Capacity building for entrepreneurship

India must commit to creating the right environment to develop successful business builders. To do so, India must focus on four areas:

1. **Create the right environment for success:** entrepreneurs should find it easy to start a business.
2. **Ensure that entrepreneurs have access to the right skill:** most Indian start-ups face two skill gaps- entrepreneurial (how to manage business risks, build a team, identify and get funding) and functional (product development know-how, marketing skills). India should ensure that the curriculum in universities is modified to address today's changing business landscape,
3. **Ensure that entrepreneurs have access to “smart” capital:** for a long time, Indian entrepreneurs have had little access to capital. In the last few years, several venture funds have entered the Indian market. VCs are providing capital as well as critical knowledge and access to potential partners, suppliers and clients across the globe.
4. **Enable networking and exchange:** entrepreneurs learn from experience-theirs and that of others.