MANAGEMENT AND ENTREPRENEURSHIP

B.E., V Semester, Electronics & Communication Engineering / Telecommunication Engineering

[As per Choice Based Credit System (CBCS) scheme]

Subject Code	15ES51	IA Marks	20
Number of Lecture Hours/Week	04	Exam Marks	80
Total Number of Lecture Hours	50 (10 Hours / Module)	Exam Hours	03
CREDITS – 04			

Modules

Module-1

Management: Definition, Importance – Nature and Characteristics of Management, Management Functions, Roles of Manager, Levels of Management, Managerial Skills, Management & Administration, Management as a Science, Art & Profession (Text 1).

Planning: Nature, Importance and Purpose of Planning, Types of Plans, Steps in Planning, Limitations of Planning, Decision Making – Meaning, Types of Decisions- Steps in Decision Making. (Text 1)

Module-2

Organizing and Staffing: Meaning, Nature and Characteristics of Organization – Process of Organization, Principles of Organization, Departmentalisation, Committees – meaning, Types of Committees, Centralization Vs Decentralization of Authority and Responsibility, Span of Control (Definition only), Nature and Importance of Staffing, Process of Selection and Recruitment. (Text 1)

Directing and Controlling: Meaning and Nature of Directing-Leadership Styles, Motivation Theories, Communication – Meaning and Importance, Coordination- Meaning and Importance, Techniques of Coordination. Controlling – Meaning, Steps in Controlling (Text 1)

Module-3

Social Responsibilities of Business: Meaning of Social Responsibility, Social Responsibilities of Business towards Different Groups, Social Audit, Business Ethics and Corporate Governance. (Text 1)

Entrepreneurship: Definition of Entrepreneur, Importance of Entrepreneurship, concepts of Entrepreneurship, Characteristics of successful Entrepreneur, Classification of Entrepreneurs, Intrapreneur – An Emerging Class, Comparison between Entrepreneur and Intrapreneur, Myths of Entrepreneurship, Entrepreneurial Development models, Entrepreneurial development cycle, Problems faced by Entrepreneurs and capacity building for Entrepreneurship. (Text 2)

Module-4

Modern Small Business Enterprises: Role of Small Scale Industries, Concepts and definitions of SSI Enterprises, Government policy and development of the Small Scale sector in India, Growth and Performance of Small Scale Industries in India, Sickness in SSI sector, Problems for Small Scale Industries, Impact of Globalization on SSI, Impact of WTO/GATT on SSIs, Ancillary Industry and Tiny Industry (Definition only). (Text 2)

Institutional Support for Business Enterprises: Introduction, Policies & Schemes of Central–Level Institutions, State-Level Institutions. (Text 2)

Module-5
Project Management: Meaning of Project, Project Objectives & Characteristics, Project Identification- Meaning & Importance; Project Life Cycle, Project Scheduling, Capital Budgeting, Generating an Investment Project Proposal, Project Report-Need and Significance of Report, Contents, Formulation, Project Analysis-Market, Technical, Financial, Economic, Ecological, Project Evaluation and Selection, Project Financing, Project Implementation Phase, Human & Administrative aspects of Project Management, Prerequisites for Successful Project Implementation. (Text 2) **New Control Techniques**- PERT and CPM, Steps involved in developing the network, Uses and Limitations of PERT and CPM (Text 1)
Question paper pattern: • The question paper will have ten questions. • Each full question consists of 16marks**.** • There will be 2 full questions (with a maximum of four sub questions) from each module. • Each full question will have sub questions covering all the topics under a module. • The students will have to answer 5 full questions, selecting one full question from each module.
Text Books: 1. Principles of Management – P.C Tripathi, P.N Reddy, McGraw Hill Education, 6th Edition, 2017. ISBN-13:978-93-5260-535-4. 2. Entrepreneurship Development & Small Business Enterprises- Poornima M Charantimath, Pearson Education 2008, ISBN 978-81-7758-260-4.
Reference Books: 1. Dynamics of Entrepreneurial Development and Management by Vasant Desai. HPH 2007, ISBN: 978-81-8488-801-2. 2. Essentials of Management: An International, Innovation and Leadership perspective by Harold Koontz, Heinz Weihrich McGraw Hill Education, 10th Edition 2016. ISBN- 978-93-392-2286-4.

Index Sheet

Reference / Text Book Details

Sl.No.	Title of Book	Author	Publication	Edition
1	Principles of Management	Tripathi P C and P N Reddy	TMH	2015
2	Entrepreneurship	Poornima charinthimath	HPH	2011
3	Projects planning: Analysis, Selection, Financing, Implementation and Review	Prasanna Chandra	TMH	2011
4	Fundamentals of Financial Management	Sheeba Kapil	Pearson	2015
5	Essentials of management: An international and leadership perspective	Harold Koontz, Heinz Weihrich	TMH	2011
6	Project Management and Control	Narendra Singh	HPH	2013
7	Financial Management	Prasanna Chandra	TMH	2011

Module 1

Management & Planning

Syllabus:
Management: Introduction-Meaning-Nature and Characteristics of Management, Management & Administration, Roles of Management, Levels of Management, Functions of Management.

Planning: Nature, importance and purpose of planning process Types of plans, steps in planning, Decision Making, Steps in Decision making.

Text Book: Principles of Management by Tripathi P C and P N Reddy, 2/e, TMH.

Management:

IMPORTANCE OF MANAGEMENT:

- Management is a critical element in the economic growth of a country.
- Management is essential in all organized efforts.
- Management is the dynamic, life-giving element in every organisation.

DEFINITION OF MANAGEMENT:

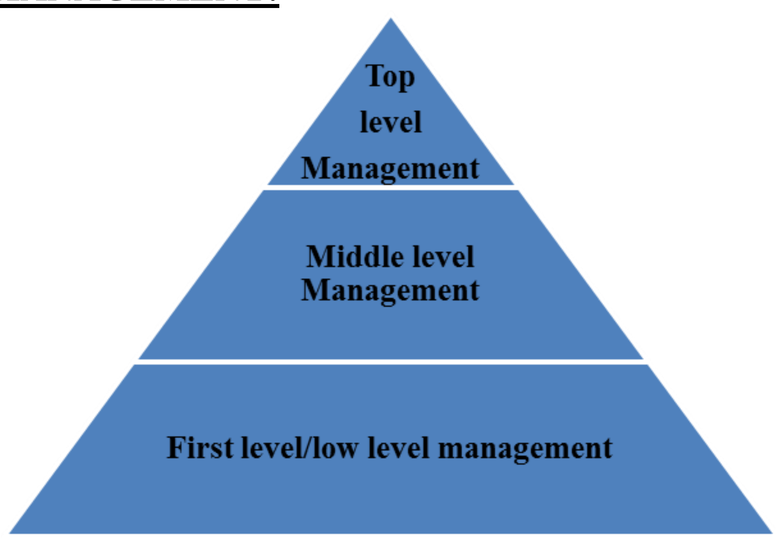
- According to ***Mary Parker Follett*** "Management is the art of getting things done through people."
- According to ***George Terry*** "Management as a process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objective by the use of people and resources."
- According to ***F.W.Taylor*** " Management is knowing exactly what you want, meant to do and see to it so that they do it in the best and cheapest ways."
- According to ***Peter Ducker*** "Management is a multipurpose organ that manages a business, manages a manger, workers and work."
- According to ***Claude S. George*** " Management is the central core of our national as well as personal activities, and the way we manage

ourselves and our institutions reflects with alarming clarity what we and our society will become."

NATURE AND CHARACTERISTICS OF MANGEMENT:

- Management is a universal process.
- Goal oriented.
- Social process.
- Co-ordinating process.
- Intangible (i.e. cannot be measured).
- Dynamic (i.e. always changes).
- Multidisciplinary.
- Creative activity.
- Decision making.
- Profession.

LEVELS OF MANAGEMENT:



Levels of management

Top level management:

Examples: Board of directors, Managing director, CEO, General manager etc.,.

Middle level management:

Examples: Production, Financial, Personal managers, Department managers etc.,.

Low level management:

Examples: Foreman, Supervisor, Superintendent etc.

ROLES OF MANAGEMENT:

- **Interpersonal roles:**
    1. Figure head
    2. Leadership
    3. Liaison
- **Informational roles:**
    1. Monitor
    2. Disseminator
    3. Spokesperson
- **Decisional roles:**
    1. Entrepreneur
    2. Disturbance Handler
    3. Resource Allocator
    4. Negotiator

SCOPE OF MANAGEMENT:

- As an economic resource.
- As a system of authority.
- As a class.

FUNCTIONAL AREAS OF MANAGEMENT:

- Production Management
- Financial Management
- Personal Management
- Marketing
- Maintenance
- Materials
- Transport
- Systems
- Rural
- Office

FUNCTIONS OF MANAGEMENT:

- Forecasting
- Planning
- Organizing
- Staffing
- Directing and Controlling
- Motivating
- Co-ordination
- Communication
- Leadership
- Decision making

MANAGEMENT AS A SCIENCE, ART OR PROFESSION:

MANAGEMENT AS SCIENCE	MANAGEMENT AS ART
1. Defines 2. Proves 3. Predicts 4. Objective 5. Measures 6. Impresses 7. Advances by knowledge	1. Describes 2. Feels 3. Guesses 4. Subjective 5. Opinions 6. Expresses 7. Advances by experience(practice)

MANAGEMENT AS PROFESSION:

- Well defined body of knowledge
- Formal education and training
- Representative body
- Service motto

DIFFERENCE BETWEEN ADMINISTRATION AND MANAGEMENT:

ADMINISTRATION	MANAGEMENT
1. Process of determining objective to be achieved	1. Planning the work as per the objective

2. Lays down the policies and principles 3. Prepares the framework 4. Plan of paper 5. Provides direction, guidance and leadership 6. Provides guideline to management and organization	2. It executes the policies and programs 3. Supervises and controls the execution of assigned work 4. Plan on hands 5. It co-ordinates all the resources and activities 6. derives strength and freedom from administration to plan and execute the work

DEVELOPMENT OF MANAGEMENT THOUGHTS:

- **Management in antiquity (earliest management practices)**
- **Early classical approaches**
  1. Scientific Management(F.W.Taylor)
  2. Administrative Management(Henri Fayol)
  3. Bureaucracy Management(Max Weber)
- **Neo-classical approaches**
  1. Human relational movement
  2. Behavioural approach
- **Modern approaches**
  1. Quantitative approach
  2. Systems approach
  3. Contingency approach

CONTRIBUTION OF F.W.TAYLOR:

- Analysis of job.
- Careful selection and systematic training.
- Standardization of tools and equipment.
- Functional organization.
- Classification under scientific management as follows:
  1. Time and motion study.
  2. Differential payment.
  3. Drastic reorganisation of supervision.
  4. Scientific recruitment and training.

5. Intimate friendly cooperation between management and workers.

CONTRIBUTION OF HENRI FAYOL:

- General and industrial administration.
- Division of work.
- Authority and responsibility.

CONTRIBUTION OF MAX WEBER:

- Leader oriented
- Tradition oriented
- Bureaucratic

IMPORTANT FEATURES OF BUREAUCRATIC ADMINISTRATION:

- Insistence on following standard rules.
- Systematic division of work.
- Knowledge of training in application of rules.
- Administrative acts decision and rules recorded in writing.
- Rational personal administration.

NEO- CLASSIC APPROACHES:

- **Human relational movement:** Based on human aspects
  1. Illumination experiments.
  2. Relay assembly test room.
  3. Interview program.
  4. Bank wiring observation group.
- **Behavioural approach:**
  1. All motivational theories derived behavioural approach.
  2. Recognizes the practical and situational constraints for making optimal decisions.
  3. Group of individuals with certain goals.

MODERN APPROACHES:

- **Quantitative approach:** Also called as Management science approach
  1. Gained momentum during II world war.

2. Quantitative tools and techniques.
3. Engineering economy.
4. MIS (Management Information System)

- **System approach:**
  1. Set of interdependent parts.
  2. Open or closed[Open- interact with environment; closed- independent of environment]
  3. Every system has boundary or limitations.
- **Contingency approach:**
  1. Methods and techniques for different situations.
  2. Both analytical and situational.

PLANNING

Koontz and O'Donnell - Planning is deciding in advance what to do, when to do, how to do and who is to do.
Planning bridges a gap from where we are and where we want to go.
Harley - Planning is deciding in advance what is to be done. It involves the selection of objectives, polices, procedures, programs from alternatives.
Haimann - Planning is informed anticipation of future. Planning is decision making in anticipation.

NATURE AND CHARACTERISTICS OF PLANNING

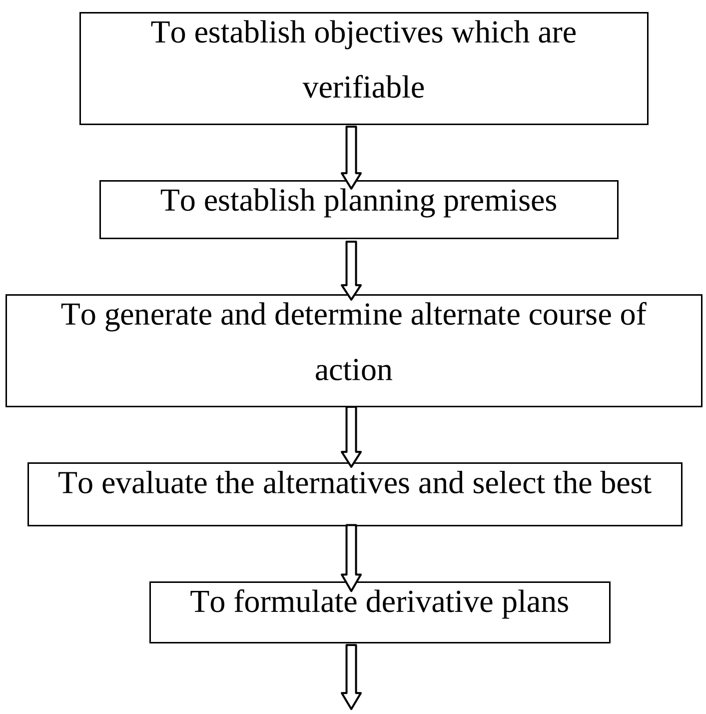
- Goal oriented
- Primary function (primacy)
- Thinking process (intellectual process)
- Continuous process
- All pervasive (belongs to all)
- Involves choice
- Flexible

- Rational
- Integrated process
- Futuristic

IMPORTANCE

- Provides direction
- Minimises risk (game theory) and uncertainty (natural calamity)
- Ensures coordination
- Leads to economy
- Facilitates decision making
- Reduces overlapping and wastage of efforts
- Encourages innovation and creativity
- Facilitates control
- Improves moral

STEPS IN PLANNING



To secure cooperation and participation of all the employees

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Measure and control the progress through periodic follow up

PLANNING PREMISES

- Internal and external premises
- Tangible and intangible premises
- Controllable, semi controllable and uncontrollable

OBJECTIVES

- End points towards which all business activities are directed
- Guides the efforts and energies of company and each of its components towards particular results
- Commit the employees and organisation to its variable accomplishments

CHARACTERISTICS OF OBJECTIVES OR REQUIREMENTS OF SOUND OBJECTIVES

- Multiple in nature
- Have hierarchy

Objectives arranged at different hierarchy

OVERALL OBJECTIVE

DIVISIONAL OBJECTIVE

DEPARTMENTAL OBJECTIVE

INDIVIDUAL OBJECTIVE

- Form/ Creates a network
- May be long or short range
- Either tangible or intangible

IMPORTANCE OF OBJECTIVE

- Provides direction
- Strong basis for deriving policies, procedures, strategies, programs, budgets and other plans
- Help achieving personal goals
- Effective delegation of authority
- Serves as a standard for evaluation of actual performance
- Coordinating efforts of various departments and people

TYPES OF PLANS

PLANS

STANDING/RECURSIVE PLANS
- OBJECTIVE
- POLICIES
- STRATEGIES
- PROCEDURE

SINGLE USE/NON RECURSIVE PLANS
- BUDGETS
- PROJECTS
- PROGRAMS
- SCHEDULES

→ METHODS
→ RULES

STANDING PLANS

1. **OBJECTIVES** (as discussed)

2. **<u>POLICIES</u>**

Policies are the guidelines set up by the company for managerial decision making.
A policy is a verbal, written, or implied over all guide setting up boundaries, the supply, the general limits and directions in which managerial action will takes place.

3. **<u>STRATEGIES</u>**

Strategies specify the route taken to achieve the objective, companies and policies.
It consists of 3 factors

- Course of action
- A commitment of resources
- A dedicated outline of all initiatives

4. **<u>PROCEDURES</u>**

Procedures are action guidelines usually written which specifies how particular activities are to be carried out. Step by step sequence of required actions in order to achieve a certain goal or policy.

A good procedure has to be:

- Purposeful and functional
- In written form
- Simple and clear
- Flexible
- Should be exposed to periodic reviews

5. METHODS

- Methods are subunits of procedure
- Break up of each step of a procedure
- Indicates the simplified and standardised techniques to be employed in procedure

6. RULES

Rules are standard guidelines to perform or govern the methods or activities in the organisation.

SINGLE USE PLANS

1. PROGRAMS

- A program is a precise plan which lays down the operations to be carried out

- Generally an aggregate of several related action plans
- It includes a complex set of goals, procedures, methods, strategies etc

2. SCHEDULES

- A schedule is an extension of program which answers "when?", for every action specified in the program
- When, what and where , each element of the work is carried out
- A detailed day to day planning of operations

3. PROJECTS

Usually programs divided into separate parts with a clear end point creates a project

4. BUDGETS

- Written plan of future activities of the company in monitory terms
- Usually set out the targets to be achieved also specifies the expenditures
- Managerial tools for planning, programming and controlling business activities

- Allocates the resources of organisation such as man power, tools and facilities in the best possible manner

Strategic v/s tactical v/s operating plans

DIFFERENCES

Strategic planning	Tactical planning	Operation planning
Long range plan	Intermediate plan	Short range plan
Time frame is three or more years	Time frame is two to three years	Time frame is less or equal to one year
Top level management	Middle level management	Low level management
Concerned with objectives, policies and programs	Concerned with procedures, projects and strategies	Concerned with schedules and methods
Overall progress of the company	Integrates the work of various departments	Day to day or routine operations and implementing and internal goals
Focus on planning and forecasting	Focus on coordination	Focus on directing and controlling

STRATEGIES

Two important activities involved in strategic formulation

1. Environment appraisal

Political, legal, economic, competitive, social and cultural

2. Corporate appraisal

    SWOT analysis

MODES OF STRATEGIC FORMULATION

- Planning mode (systemic and rational)
- Entrepreneurial mode (inside out, proactive, new opptur tunities)
- Adaptive mode (outside in, changing environments)

POLICIES

ADVANTAGES OF POLICIES

- Uniformity in action
- Speeds up decision
- Delegates authority
- Directs and gives shapes to the objectives

TYPES OF POLICIES

1. Based on function

    Production, finance, marketing, sales, HR, research and development, travelling, transportation, patent.

2. Based on sources

Originated policy (formally)

Appealed (appeal made by subordinates)

Implied policy (watching, neither written nor in oral),

Externally imposed (external agencies).

3. Levels

   Major & Minor policies

GUIDELINES FOR EFFECTIVE POLICY MAKING

- Written
- Clearly understood
- Should be clear
- Methods, action and responsibilities
- Participation in formulation
- Reasonable balance between stability and flexibility
- Should support one another, should be comphrensive
- Periodic reviews must be there

Policy v/s Procedure

Policy	Procedure
General guidelines to think and action	Genaral guidelines to action only
High levels	Low levels

Helps fulfilling objectives	It implement policies
It is broader with high latitude	No latitude
Established without any study or analysis	Based on study and analysis of work

STRATEGIC PLANNING PROCESS

Steps in strategic planning process

- Evaluate and improves last year strategic plan process
- Reaffirm organisation, vision, mission, values and objective
- Review organisation performance of prior year
- Evaluate the external environment
- Conduct SWOT analysis
- Identify evaluate and select alternatives
- Deploy the plan
- Update and track

LIMITATIONS OF PLANNING

- Expensive and time consuming
- Scope is limited in case of rapidly changing environment
- Inflexible in administration
- Difficulty in formulating accurate premises

- Restricts organisation to most rational and risk free opportunities
- Sometimes face people's resistance

MAKING PLANNING EFFECTIVE

- Coordination
- Communication
- Participation of employees
- Proper premises etc

PLANNING SKILLS

- Ability to think ahead
- Ability to define company objectives
- Ability to forecast future environmental trends
- Ability to frame correct strategies to monitor implement strategies
- Ability to provide an appropriately timed derivatives and supportive programs

DECISION MAKING

Decision making permeates through all managerial functions such as planning, organisation, direction and control.

Decision making relates to determining the course, deciding the orders and instructions to be given, and providing dynamic leadership.

STEPS IN RATIONAL DECISION

- Recognising problem
- Deciding priority
- Diagnosing the problem
- Developing alternative solutions or course of actions
- Measuring and comparing the solutions
- Selecting best solutions
- Converting decision into effective action
- Follow up

TYPES OF DECISION MAKING

- Programmed and non programmed
- Major and minor
    a) Degree of futurity of decision

b) Impact of decision on functional areas

c) Qualitative factors that enters the decision

d) Recurrence of decision

- Routine & Strategic Decisions
- Individual & Group (Nominal & Delphi technique)
- Simple & Complex (Routine, Judgemental, Analytical, Adaptive)

RATIONALITY IN DECISION MAKING

(MODELS OF DECISION MAKING BEHAVIOUR)

1. Economic man model : completely rational in decision

- Gather all information.
- Mentally store this info.
- Accurately recall info.
- Do a series of complex calculations.
- Rank all consequences on the basis of merits.

2. Administrative man model: limited rationality

Simons model:

- Set the goal to be pursued

- Establish appropriate criteria to judge the acceptability of a solution
- Use heuristic approach to narrow down the field of search
- If no flexible solution identified, lower the criteria, repeat step 3.
- If flexible solution found, evaluate it to determine its acceptability.
- It solution is found acceptable, implement it.
- If unacceptable – initiate the search for new solution.
- Evaluate and review.

3. Social Man Model: Irrational

Man being taking decisions based on the feelings, emotions & instincts.

Environment of Decision making

1. **Certainty:** can specify consequences of decisions.
2. **Risk:** cannot be specified with certainty but can be specified with known probability values.
3. **Uncertainty:** does not know the possible outcomes and their related probabilities. E.g. maximin, minimax, maximax.

Decision tree: Analyse a decision using decision tree linking a number of event – branches which when fully arranged resembles a tree.

Difficulties in decision making:

1. Lack of information.
2. Un-supporting environment.
3. Non-acceptance by subordinates.
4. Ineffective communication.
5. Incorrect timing.

6. 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.

Module-2

Organizing and Staffing & Directing and Controlling

Organizing and Staffing: Meaning, Nature and Characteristics of Organization – Process of Organization, Principles of Organization, Departmentalisation, Committees – meaning, Types of Committees, Centralization Vs Decentralization of Authority and Responsibility, Span of Control (Definition only), Nature and Importance of Staffing, Process of Selection and Recruitment. (Text 1)

Directing and Controlling: Meaning and Nature of Directing-Leadership Styles, Motivation Theories Communication – Meaning and Importance, Coordination- Meaning and Importance, Techniques of Coordination. Controlling – Meaning, Steps in Controlling (Text 1)

Organizing and Staffing

Organization:

Amitai - Social unit or human grouping deliberately structured for the purpose of attaining specific goals.

Sehein – Rational coordination of the activities of a number of people for the achievement of some common explicit purpose or goal through division of labour and function, and through a hierarchy of authority and responsibility.

Allen – The process of identifying and grouping of the work to be performed , defining and delegating responsibility and authority and establishing the relationships for the purpose of enabling people to work most effectively together in accomplishing their objectives.

Nature:

1. Made up of group
2. Aims at common goals.
3. Have both vertical and horizontal relationships.
4. Establishes authority or chain of command.
5. Dynamic.

Characteristics:

1. Goal , a purpose.
2. A clear concept of the major duties or activities require to achieve the purpose.

3. Classification of activities into jobs.
4. Establishment of relationships between these jobs.

Importance

1. Facilitates Administration
2. Helps optimum utilization of resources.
3. Facilitates co-ordination and direction.
4. Facilitate growth and diversification.
5. Stimulates creativity.
6. Enlarge abilities of employees.

Typology of Organisations:

1. Organizations benefit their owners – all business.
2. Benefit their members – unions, co-operatives and clubs.
3. Benefit their clients – insurance companies, private schools.
4. Benefit the whole society – governmental depts., armed services, police.

Process of Organising:

Consideration of Objectives
Deciding organizational boundaries
Grouping of activities into departments.
Deciding Key-departments.
Determining levels at which various types of decisions are to be made.
Determining the span of management.
Setting up a coordination mechanism.

Principles of Organising:

Objectives, Specialisation, Span of Control, MBE, Scalar Principle, Unity of Command, Delegation, Responsibility, Authority, Flexibility, efficiency, simplicity, balance, unity of direction, personal ability, acceptability.

Span of Management

Number of subordinates who report directly to a manager.

Reason: Efficient utilization of managers and the effective performance of their subordinates.

Too wide span: overstraining of the managers, too little guidance/control.

Too narrow span: underutilization of managers, over-controlled.

Factors governing the span of control

1. Ability of the manager.
2. Ability of the employees.
3. Type of work.
4. Well defined authority and responsibility
5. Geographic location.
6. Sophisticated information and control system.
7. Level of management.
8. Economic considerations.

Formal V/s Informal organization

Formal: Well defined positions, authority, responsibility, policies, principles etc.., governed by rules and regulations, built based on principles.

Informal: formed by people spontaneously, basis – friendship, not based on rules, procedures and regulations, activities may or may not be related their work.

Types of Organisation:

Factors: size, nature of the product, complexity of the problems faced.

Main types:

1. Line, Military, Staff.
2. Functional.
3. Line & Staff.
4. Product/project or Departmentalisation
5. Matrix or Grid.
6. Committee.

Line

Advantage: simple, flexible, clear cut division of authority, quick & speedy decisions, strong in discipline, all round executive.

Disadvantages: overload of work. Lack specialization, dictorial way, scope of favourism, lack of growth, unsuitable for large concern.

Functional

Advantages: specialization, cost reduction, mass production, no need for all round executives.

Disadvantage: Indiscipline, difficult to fix up responsibility, kills initiatives, indifference of foreman, no all round executives.

Line and staff

Advantages: expert advice, relieving line executive, well defined authority and responsibility, specialization, less wastage, improved quality, no conflicts.

Disadvantages: expensive, misinterpretation, friction, loss of initiatives, accountability.

Product/Project organization or Departmentation

Horizontal differentiation of activities.

Criteria: By product, By Project, By Process, By territory/Geography.

Advantages: specialization, efficient, no interference, competitive, initiative to managers, easy evaluation, ease of budgeting, flexibility.

Disadvantages: duplication of work, inadequate centralization, narrow thinking, suitable only for big organization, under utilization

Matrix

Product + Functional organizations (Horizontal + Vertical)

Advantages: flexible and versatile, result oriented, clearly defined and fixed, cost effective, professional.

Disadvantage: chances of conflict, no unity of command, work may get piled up, require extreme planning, professional management skills are required.

Committees – Think tanks

A small group of individuals formed together to discuss, decide and recommend solutions towards its own objectives.

Types:

1. Ad-hoc committees – temporary committees.

2. Standing or permanent committees.
3. Advisory Committees – studies and suggests courses of actions for problems.
4. Educational committees – guards the company policy and procedures.

Characteristics:

1. It consists of optimal number of members.
2. Problem oriented.
3. Duties, authorities and responsibility of committee should be clear.
4. Chairman is formed and have more authority.
5. Members belong to the different department.
6. Committees should be timely.

Advantages:

1. Collective wisdom based decisions.
2. Integration of ideas.
3. Acceptable decisions from all departments are taken (since committee members belong to various departments).
4. New ideas, motivations and new schemes.
5. Mutual understanding between various dept.

Disadvantages:

1. Time consuming.
2. No individual held responsible for decision.
3. Decisions may not be fully acceptable sometimes.
4. Aggressive members may influence decision.
5. Costly.

Authority and Responsibility

Authority:

Henry fayol - "Right to give orders and power to demand obedience" – Authority.

Functions of authority:

1. Demands and ensures obedience from the subordinates.
2. Helps in implementations of decisions.
3. Helps co-ordinating and maintaining uniformity.

Responsibility:

Refers to the accountability of one's action.

Authority	Responsibility
Power of command	Refers to accountability
Comes with the position in organization	Matches the authority conferred on any position
Can be delegated	Never be delegated
Right to give orders	Defined
Power to extract obedience	Obligation to perform

Makes person – demanding, arrogant and autocratic	Accommodative, humble, democratic.

Centralization v/s Decentralization

Centralization refers to the extent to which decision making process rests with top management.

Centralizaton	Decentralization
Preferred if education and experience is concentrated at the top.	Preferred if education and experience are spread over the hierarchy.
More appropriate in simple and stable organizations.	More appropriate in complex and uncertain organizations.
Preferred if low level management are not competent enough to take decisions.	Preferred if low level management are competent enough to take decisions.
Preferred when low level managers are not interested in decision making process.	Preferred when low level managers are keen in decision making process.
Decision are significant and far reaching.	Insignificant and relatively minor ones.
Tends to be centralized if environment is threatening and ditrustful	Environment is free and friendly.
Better in vertical organization.	Better in horizontal organization.
Better in single location facilities.	Better in multi-location facilities.
Autocratic	Democratic

Recent trends in management:

1. Management by objective. (process, advantages, disadvantages)
2. Management by Exception. (process, advantages, disadvantages)

3. Management of change. (process, advantages, disadvantages)
4. Management of conflict. (process, advantages, disadvantages)

Staffing

Fill and keep filled all the positions of the organization structure.
Staffing is the process of attracting and developing human resources to work for an organization and also to evaluate their work.
It involves:

1. Human resource planning.
2. Recruitment of employees.
3. Selection & Placement.
4. Training & development.
5. Decision on remuneration packages.
6. Performance appraisal.
7. Promotion & Transfer.

Nature or features of Staffing

1. Staffing is continuous.
2. Staffing involves people.
3. Staffing is development-oriented.
4. Staffing involves mulit-disciplinary knowledge.
5. Step by step process.

Importance

1. Biggest factor for organization success.
2. Identifies and nurture talent.
3. Helps building a strong organization.
4. Helps optimum utilization of resources.
5. Helps deciding compensation and packages.

Recruitment

The process of searching for prospective employees and stimulating them to apply for jobs in the organization.

Enables management to select suitable employees for its different jobs.

Sources of Recruitment :

Internal sources: recruitment within the organization.

Promotion or transfers.

Advantages:

1. Goodwill
2. Provides chance to develop financially and socially.
3. Adjust faster to new positions.
4. Less time consuming and less expensive.
5. Encourages employees to work harder.
6. A know employee is always better.

Disadvantages:

1. May not be possible to find the required talent or skills.
2. May be a limited choice for promotion.
3. Less chances for new ideas and talents.
4. Employees get de-motivated if not promoted.
5. 'Every man raises to his level of incompetence!'.

External Sources: recruitment outside the organization.

1. Former employees.
2. Recommendations.
3. Employment exchange.
4. Campus interviews.
5. Advertisements.

6. Walk-in/Voluntary interviews.
7. Private employment agencies/HR consultants.
8. Labour unions.

Selection

1. Receipt of job applications
2. Preliminary interviews.
3. Employment tests – proficiency tests, Aptitude tests (intelligent, attitude, interest, and movement tests), personality tests.
4. Group discussion.
5. Final Interview.
6. Checking references.
7. Medical examination.
8. Job offer/ employment contract.
9. Placement
10. Induction.

DIRECTING AND CONTROLLING

DEFINITION:

Direction may be defined as a function of management which is related with instructing, guiding and inspiring human factor in the organization to achieve organizational mission and objectives.

Koonz O Donnel - Direction is a complex function that includes all those activities which are designed to encourage subordinates to work effectively and efficiently in both the short and long term.

The functions of direction involve two major activities:
(1) Giving orders to employees.
(2) Leading and motivating them.

PRINCIPLES OF DIRECTING:

Harmony of objectives
Unity of direction or command
Direct supervision
Effective communication
Follow through

LEADERSHIP AND LEADERSHIP STYLES

Koontz and O'Donnel - "leadership is generally defined as influence, the art of process of influencing people so that they will strive willingly towards the achievement of group goals".

Alford and Beatty - "Leadership is the ability to secure desirable actions from a group or followers voluntarily without the use of coercion".

Leadership Styles:

Leadership styles are the patterns of behavior which a leader adopts in influencing the behavior of his followers (subordinates in the organizational context).

Based on behavioural approach:
(1) Power generation
(2) Leadership as a continuum
(3) Employee-production orientation
(4) Likert's management system
(5) Managerial grid
(6) Tri-dimensional grid

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

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

1. **Autocratic leadership**:
    - An autocratic leader is one who dominates and drives his subordinates through coercion, command and the instilling of fear in his followers.
    - An autocratic leader alone determines policies, plans and makes decisions
    - He demands strict obedience. Such leaders love power and love to use it for promoting their own ends.
    - They never like to delegate their power for they fear that they may loose their authority.
    - The merits of this type of leadership is that, it can increase efficiency, save time, and get quick results under emergency conditions, chain of command and division of work are clear.
    - The demerits are people are treated machine-like cogs without human dignity, one way communication without feedback and the leader receives little or no input from his sub-ordinates for his decision-making which is dangerous in the current dynamic environment.
2. **Democratic leadership**:
    - This style of leadership is also known as participative leadership. As the name itself indicates, in this style, the entire group is involved in goal setting and achieving it.
    - A democratic leader follows the majority opinion as expressed by his group. Subordinates have considerable freedom of action.
    - The leader shows greater concern for his people's interest, is friendly and helpful to them. He is always ready to defend their subordinates individually and collectively.
    - This type of leadership encourages people to develop and grow, receives information and ideas from his subordinates to make decisions, and boosts the morale of employees.
    - The demerits of this type of leadership are (1) Some leaders may use this style as a way of avoiding responsibility, (2) Can take enormous amount of time for making decisions.
3. **Free-rein:**
    - In this type of leadership, the leaders exercise absolutely no control.
    - He only provides information, materials and facilities to his subordinates.
    - This type of leadership is employee centered and the subordinates are free to establish their own goals and chart out the course of action.

- This type of leadership can be disaster if the leader does not know well the competence and integrity of his people and their ability to handle this kind of freedom.

MOTIVATION:

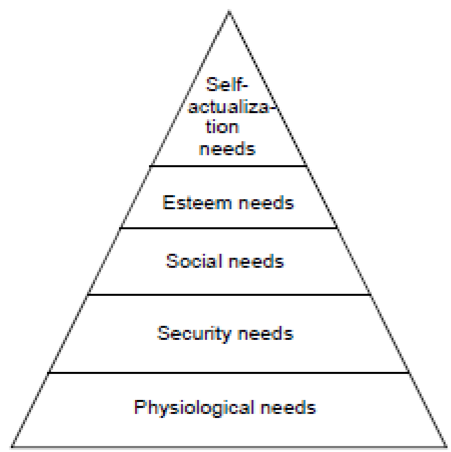
Motivation is inspiring the subordinates to contribute with zeal and enthusiasm towards organizational goals.

Motivational Theories

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

1. **Maslow's Need Hierarchy Theory**

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



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

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

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

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

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

2. **Hertzberg's Two Factors Theory**

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

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

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

3. **Vroom's Expectancy Theory**

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

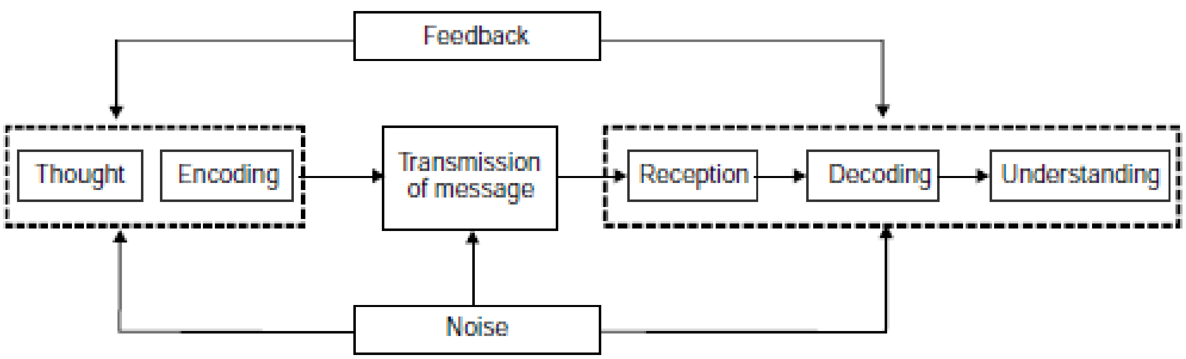
$$\text{Force} = \text{Valence} \times \text{Expectancy}$$

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

4. **Adam's Equity Theory**
5. **McClelland's Need Theory**
6. **Carrot and Stick Approach**
7. **Skinner's Reinforcement Theory**

COMMUNICATION

The process of exchange of information, ideas and opinions which bring about integration of interests aims and efforts among the members of a group organized for achievement of predetermined goals.



IMPORTANCE OF COMMUNICATION:

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

(2) Nothing contributes so much to managerial effectiveness as effective communication. Managers do not deal with 'things' but with 'information about things'.
(3) However, the decision at the top are, they will serve no purpose unless the manager successfully communicate the implications of these decisions to the subordinates who are to implement them.
(4) Communication is the essence of organized activity. It is the basis of direction and leadership. The managers have to communicates to give instructions, orders, to assign jobs and to fix responsibility.
(5) Communication renders the complexity of business intelligible and workable.
(6) The better the communication, the more efficient the work performance. Good communication not only obtains manager's effectiveness but organizational effectiveness too.

TYPES OF COMMUNICATION:

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

1. Downward communication: Downward communication flows from people at higher level to those at the lower levels in the organizational hierarchy. The purpose of downward communication is to communicate policies, procedures, programs and objectives and to issue orders and instructions to subordinates.
2. Upward communication: Upward communication travels from subordinates to superiors. Upward communication is generally nondirective. Typical means of upward communications are suggestion systems, appeal and grievance procedures, complaint systems etc.
3. Horizontal communication: It refers to transmission of information among positions of the same level. Horizontal communication helps to coordinate the activities of different departments. The production foreman and the maintenance foreman communicate directly without going through their managers. In this way horizontal communication avoids the much slower procedure of directing communication through a common superior.

FORMS OF COMMUNICATION

Broadly speaking there are three forms of communications: Oral, written and nonverbal.

1. **Oral communication**: In oral or verbal communication, information is given directly, either face to face or through a telephone or intercom system. Generally in meeting, lecturers, interviews, conferences etc., the communication is oral. The oral communication saves time and money, involves personal touch, doubt can be clarified immediately. The demerits of oral communications are there is no permanent record of communication and is not suitable for lengthy communication.
2. **Written communication**: Written communication is always in black and white and may be in the form of a report, statement, circular, manual, handbook, letter or memo. The merits of written communication are:
   (a) It is a permanent record.
   (b) It is suitable for lengthy communication.
   (c) If the parties are far away beyond telephonic range, written communication is the only way.

The demerits of written communications are it is not flexible and secrecy cannot be maintained and time consuming. Non-verbal communication: Non-verbal communication is expressed through the body
– the facial expression, posture, gestures etc.

COORDINATION:

Management of interdependence in work situations

Coordination deals with the task of blending efforts in order to ensure successful attainment of an
Objective. It is accomplished by means of planning, organizing directing and controlling.

Distinction between coordination and cooperation

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

Importance:

- Differential perceptions, orientation, interests and attitudes of individual members of the organization.
- Intended to channelize cooperative efforts and behaviour of people along organizationally determined lines and to contain the possibilities of conflict within tolerable limits.
- Pooling of diverse resources and facilities
- Need for consistency and compatibility among the various elements

Requisites for excellent Coordination:

- Direct Contact
- Early Start
- Continuity
- Dynamism
- Clear-cut Objective
- Simplified organization
- Clear definition of authority & responsibility
- Effective Communication
- Effective leadership and supervision

Techniques of coordination:

1. Basic Coordinating techniques:
    a. Rules, Procedures and Policies
    b. Planning
    c. Hierarchy
2. Increasing coordinating potential
    a. Direct contact
    b. Task force
    c. Committees
    d. Induction
    e. Incentives
    f. Liaison departments

   g. Workflow
3. Reducing need for coordination

Difficulty in coordination:
1. Differences in orientation towards particular goals
2. Differences in time orientation
3. Differences in interpersonal orientation
4. Differences in formality of structure

Controlling:

Control is checking current performance against predetermined standards contained in the plans, with the 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

STEPS IN A CONTROL PROCESS
1. ***Establishment of standards***
   a. Physical standards such as units of production per hour.
   b. Cost standards, such as direct and indirect cost per unit.
   c. Revenue standards such as sales per customer.
   d. Capital standards such as rate of return of capital invested.
   e. Intangible standards such as competency of managers and employees.
2. ***Measuring and comparing actual performance with standards***
3. ***Taking corrective action***

ESSENTIALS OF A SOUND CONTROL SYSTEM

Suitable, Timely and forward looking, Objective and comprehensive, Flexible, Economical, Control by exceptions, Prescriptive and operational, Acceptable to organization members, Motivation.

Recommended questions:

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?

Module-3

Social Responsibilities of Business & Entrepreneurship

Social Responsibilities of Business: Meaning of Social Responsibility, Social Responsibilities of Business towards Different Groups, Social Audit, Business Ethics and Corporate Governance. (Text 1)

Entrepreneurship: Definition of Entrepreneur, Importance of Entrepreneurship, concepts of Entrepreneurship, Characteristics of successful Entrepreneur, Classification of Entrepreneurs, Intrapreneur – An Emerging Class, Comparison between Entrepreneur and Intrapreneur, Myths of Entrepreneurship, Entrepreneurial Development models, Entrepreneurial development cycle, Problems faced by Entrepreneurs and capacity building for Entrepreneurship. (Text 2)

Social Responsibilities of Business

1. **Meaning:**

Adolph Berle – Manager's responsiveness to public consensus (determined as customs, religons, traditions, level of industrialization etc.).
Two types of business obligations:
1. Socio-economic obligation (economic consequences and public welfare)
2. Socio-human obligation (nurtures and develops human values)

2. **Different views on social responsibility:**

Communist View: Imposition of social responsibilities **through legislation of force**.
Capitalist View: Business is an uncontrolled right to make money **free from all sorts of social responsibilities.**
Pragmatic View: This view acknowledges the importance of profits but simultaneously stresses the need for social responsibility. **Company makes contribution only it is profitable**.
Trusteeship View: Enjoy the wealth by renouncing it. Earn your crores by all means but understand that **your wealth is not yours**.

3. **Social Responsibilities of Business towards Different Groups:**

1. Towards the consumer and the community:
    1. Production of cheap and better quality goods and services.
    2. Leveling out seasonal variations in employment and production.
    3. Deciding priorities of production in the country's interest and conserving natural resources.
    4. Providing for social audit.
    5. Honouring contracts and following honest trade practices.
    6. Making real consumer needs as the criterion.

7. Preventing the creation of monopolies.
8. Providing after sale servicing.
9. Achieve better public relationship.
10. Supporting education, slum clearance and similar other programs.

2. Towards employees and workers
    1. A fair wage to the workers.
    2. Selection, training and promotion.
    3. Social security measures and good quality of work life.
    4. Good human relations.
    5. Freedom, self-respect and self realization.
    6. Provide opportunity for creative talent and incentives.

3. Towards shareholders and other Business
    1. Promoting good governance through internal accountability and transparency.
    2. Fairness and ethical in relations with competitors.

4. Towards the state
    1. Active participation in and direct identification with any political party.
    2. Observing the laws of land:
        a. To provide direction to economic and business life of the community.
        b. To bring harmony enterprise and social interest.
        c. To provide safeguard against errant business practices.
        d. To play fair to all participants.
        e. To prevent exploitation of weaker partners in business.
        f. To enforce maximum production to the priority of sectors and production lines laid by government.
        g. To allocate limited resources with social priorities and preferences.
        h. To enforce distributive justice, especially to weaker sections of the community.
        i. To implement rural uplift and secure balanced development of the country.

Assignment: Briefly explain social performance of business in India

4. **Social Audit:**

"Systematic study and evaluation of the organisation's social performance as distinguished from its economic performance".

Benefits:

1. It supplies data for comparison with organization social policies and standards. And can determine how well it is living upto its social objectives.
2. Develops a sense of social awareness.
3. It provides data for comparing the effectiveness of different types of programmes.
4. It provides data about the cost of social programmes.
5. Provides information for effective response to external groups which makes demands on the organization.

Limitations:

1. Difficult to measure
2. Classification under good and bad is not universally accepted.
3. Most of them occur outside the organization, and making it difficult for the organization to secure data from these outside sources.

5. **Business Ethics & Corporate Governance:**

5.1 Business ethics:

Applications of moral principles to business problems.

Sexual harassment, discrimination of pay and promotion, right to privacy are some other issues especially relevant to ethics.

Four factors to affect the decision of manger about ethics:

1. Government legislations
2. Business codes
3. Pressure groups
4. Personal values of manager himself

Ethics and corruption in international business:

Arrival of global economy has made ethics and corruption a major concern in international management.

Difficult to clearly define due to different cultural understandings, laws and norms which various societies operate.

Smuggling, money laundering, piracy, counterfeiting and bribery – forms of corruption.

There exist 40 code of conducts but not legally enforced.

Developing and transitional economies are more prone to corruption partly because of the inadequate framework, weak enforcement, and lack of open and independent media.

5.2 Corporate Governance:

Corporate governance is used to denote the extent to which companies run in an open and honest manner in the best interest of all stake holders.
Key elements: transparency and accountability
Benefits of good corporate governance:

1. It creates overall market confidence and long term trust in the company.
2. It Leads to an increase in company's share price.
3. It ensures the integrity of company's financial reports.
4. It maximizes corporate security by acting as a whistle blower.
5. It limits the liability of top management by carefully articulating the decision-making process.
6. It improves strategic thinking at the top.

Assignment: Explain corporate governance in India

Entrepreneurship

Definition:

An entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise.

Peter F. Drucker - defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.
E.E.Hagen: "An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems".

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

Frank Young defined entrepreneur as a change agent

Joseph – An entrepreneur in any given economy is an individual who introduces something new in the economy.
Vasant desai – An entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organization going with his ability to identify them.

Evolution of Concept of Entrepreneur:

- Derived from French word 'Entreprendre' which was used to designate an organizer of musical or other entertainments. French word Entreprendre – to undertake.
- 16th century - it was used for army leaders.
- 16th century – people who organized and led military expeditions in france.
- Middle ages – person incharge of large scale production projects.
- 17th century – person bearing risk of either profit or loss.
- 18th century – risk taker and different from the person who supplies capital.
- 19th – distinct from a financier as well as a manager.
- 20th – innovator.
- Civil engineering activities such as construction in 17th century.
- Richard Cantillon, an Irishman living in France who first used the term entrepreneur to refer to economic activities.
- Cantillon "An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices".

Concept of Entrepreneur

The process of creating something new and assuming the accompanying risks and rewards.

It includes:

1. Initiative taking.
2. Organizing of social and economic forces to convert resources and situations to practical goods.
3. The acceptance of risk and failure.
4. Innovator.
    a. Introduction of new product in the market.
    b. Use of new method of production, which is not yet tested.
    c. Opening of new market.
    d. Discovery of new source of raw materials.
    e. Bringing out of new form of organisation.

Manager v/s Entrepreneur:

Parameters	Entrepreneur	Manager
Motive	To start a business to earn profit and to also to achieve personal satisfaction.	To provide services to an enterprise in order to earn salary and also to achieve growth in company.

Status	Owner of the enterprise.	Employer of the enterprise.
Risk – bearing	Assumes all risks and uncertainty in running the enterprise.	Does not bear any risk in running of the enterprise.
Rewards	Driven by profit and self-satisfaction.	Driven by salary and probable growth.
Innovation	Tries to innovate to meet the changing demands of customers. *"Change-agent"*	Simply works and executes the plan.
Qualification	No formal qualification needed.	Formal qualification preferred.
Itellectual	Highly motivated, originality in thinking, foresight, risk bearing ability	Good experience, sound knowledge in theory and practice, commitment.

Functions of an Entrepreneur

1. Entrepreneur as an innovator.
   (New product, new method of production, new market, new source of supply, new form of organization)
2. Entrepreneur as a risk taker.
   (Assumes possible risk, uncertain about the selling prices of finished goods, uncertainty can neither be insured nor be calculated. tries to reduce risk by experience, foresight and professionally. tries to reduce uncertainties by his initiatives, skill and decision making)
3. Entrepreneur as an organizer.
   (Raise capital. plan delegates and executes all facets of business. distribution of the profit wisely)

Detailed Functions of an Entrepreneur:

1. Idea generation**:** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

2. ***Determination of business objectives*****:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The Entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

3. ***Rising of funds*****:** All the activities of the business depend upon the finance and hence fund rising is an important function of an Entrepreneur. An Entrepreneur

can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

4. ***Procurement of machines and materials*****:** Another important function of an Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.

5. ***Market research*****:** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.

6. ***Determining form of enterprise*****:** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investmentetc. The forms of ownership are sole proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

7. Recruitment of manpower: To carry out this function an Entrepreneur has to perform the following activities.

   (a) Estimating man power requirement for short term and long term.
   (b) Laying down the selection procedure.
   (c) Designing scheme of compensation.
   (d) Laying down the service rules.
   (e) Designing mechanism for training and development.

8. Implementation of the project: Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur.

Characteristics of successful Entrepreneur

E – Effective communicator.
N – Negotiator.
T – Time & Tactical manager
R – Risk taker, Resourceful and responsible.
E – Ethical & Emotional.

P – Perseverance & problem solving.
R – Realistic & Result oriented.
E – Energetic / Endurance.
N – Networking ability.
E – Excellence in Economics.
U – Understanding & Unambiguous
R – Real Innovator.

Types of Entrepreneurs:

1. **According to stages of economic development:**
    1. Innovative entrepreneur.
    2. Imitative entrepreneur.
    3. Fabian entrepreneur.
    4. Drone entrepreneur.
2. **According to the types of business:**
    1. Business entrepreneur.
    2. Trading entrepreneur.
    3. Industrial entrepreneur.
    4. Corporate entrepreneur.
    5. Agricultural entrepreneur.
    6. Retail entrepreneur.
    7. Service entrepreneur.
3. **According to the use of technology:**
    1. Technical entrepreneur.
    2. Non-technical entrepreneur.
    3. Professional entrepreneur.
    4. High-tech entrepreneur.
    5. Low-tech entrepreneur.
4. **According to the area:**
    1. Urban entrepreneur.
    2. Rural entrepreneur.
5. **According to the gender:**
    1. Men (young, old, middle aged)
    2. Women (young, old, middle aged)

Innovator:

1. One who introduces a new product?
2. Generally aggressive.
3. Converting attractive possibilities.

4. Choosing right employees and set organizing.
5. More commonly found in developed countries.

Imitative / Adaptive:
1. Adopt or copy successful innovations created by innovative entrepreneurs.
2. Innovates and changes themselves, imitate techniques and technology innovated by others.
3. Found in developing countries.

Fabian:
1. Very cautious and skeptical about any changes.
2. Neither introduce nor desire to adopt new methods.
3. Generally driven by custom, religion, tradition and past practices.
4. Change only when it's a question of survival.

Drone:
1. Highly resistant to changes.
2. Refuse to adopt, imitate, or make changes, come what may.
3. Sink rather than imitate or bring in changes.
4. Ready to suffer from losses prefer to stick to traditional ways.
5. E.g. Jawa Motorbike Company.

Intrapreneur – An emerging class

Sudden resignation of their top executives and these executives tend to become entrepreneur.

To overcome such situations – large corporations create smaller systems within organization and allow certain executives to operate like entrepreneurs - Intrapreneurs.

Entrepreneur	Intrapreneur
Independent business man	Semi-independent
Bears full risks of business he develops and operates.	Does not fully bear the risk.
Himself raises the necessary capital from various sources.	Neither raises nor guarantees the return of capital.
Operates from outside. Creates the organization.	Operates within the organization. Part of the organization.
Difficult to withdraw from his business.	Relatively easier to totally withdraw from his business.

Stages in Entrepreneurial process

1. Identification and evaluation of the business opportunity.
2. Development of the business plan.
3. Determination of the resource required.
4. Creation and actual management of the enterprise.

Role of Entrepreneurs in Economic Development (Importance)

1. Helps creating business organizations by mobilizing the savings of public.
2. Provides large scale employment.
3. Promote industrialization in rural areas and reduces regional imbalances.
4. Equitable distribution of wealth and income.
5. Reduces overdependence on agriculture by rural people.
6. Reduces concentration of wealth in few hands.
7. Encourage learning and usage of skills which otherwise unutilized.
8. Increases export.
9. They are basically a change-agent and bring vast changes.
10. They inspire young and budding entrepreneurs.

Entrepreneurship in India

Kharkhanas
Indian handicrafts
Textile manufacturing
Jamshedjee Tata - followed by Birla family
Swadeshi campaign – Mahatma Gandhi , Azim Premji, Narayan Murthy etc

Barriers to Entrepreneurship

1. Environmental Barriers:
   1. Raw materials.
   2. Labour.
   3. Machinery.
   4. Land, Building and Infrastructure.
2. Financial Barriers
3. Personal Barriers:
   1. Lack of self-confidence.
   2. Lack of motivation.
   3. Lack of patience.
   4. Inability to invest in R&D and innovate.

4. Societal Barriers
   Religious and conservatives attitudes of the society

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.

Module – 4

Modern Small Business Enterprises & Institutional Support for Business Enterprises

Modern Small Business Enterprises: Role of Small Scale Industries, Concepts and definitions of SSI Enterprises, Government policy and development of the Small Scale sector in India, Growth and Performance of Small Scale Industries in India, Sickness in SSI sector, Problems for Small Scale Industries, Impact of Globalization on SSI, Impact of WTO/GATT on SSIs, Ancillary Industry and Tiny Industry (Definition only). (Text 2)

Institutional Support for Business Enterprises: Introduction, Policies & Schemes of Central–Level Institutions, State-Level Institutions. (Text 2)

Modern Small Business Enterprises

Meaning:

SSI defined in three ways:

Conventional: Industry which employs traditional labour intensive methods to produce traditional products, largely in village households.

Operational: All undertaking having an investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or by hire purchase, not exceeding rupees 1 crore. (Ancillary and Tiny industries also comes under the SSI)

"All manufacturing and processing activities, including maintenance and repair services undertaken by both household and non-household manufacturing units, which are not registered uunder factory act".

Ancillary units

An industrial undertaking:

1. Engaged in manufacturing parts, accessories, components, sub-assemblies, toolings, etc.
2. Supplies at least 50% of its production to other industries.
3. If it is service industry – 50% of its service volumes to other organization
4. Fixed asset not exceeding 10 million

Tiny Industries

If the investment in plant and machinery is limited to Rs. 25 million, irrespective of location.

Characterisitics of SSI

1. One man show at most SSI's.

2. Capital investment is low.
3. Most SSI's employs less than 10 workers.
4. Can be found in rural and semi-urban areas.
5. Generally involved in production of light consumer goods, specific industrial components etc.
6. Proprietorship and partnership are the dominant forms of ownership.
7. Use local resources.
8. Generally labour intensive.
9. Organization structure of an SSI would be very simple.
10. Tendency to fold-up soon.
11. No standards w.r.t human and environmental safety.
12. Human resources, especially women and children are exploited.
13. Market share is usually very small.
14. No R&D and hence depend upon known technology.
15. Division and specialization of labour is low.

Need and Rationale of SSI

1. Need for employment
2. Need for equity
3. Need for decentralization
4. Need for more entrepreneurs.

Objectives of SSI

1. Large scale employment opportunities.
2. Reduces unemployment and underemployment problems.
3. Improves local economy.
4. Improves backward areas.
5. Ensures better and equitable distribution of national income and wealth.
6. Mobilize untapped capital and human resources.
7. Improves standard of living.
8. Encourages small and budding entrepreneurs.

Scope

1. Manufacturing activities.
2. Public utilities.
3. Financial activities.
4. Wholesale business.

5. Construction activities.
6. Service industries.
7. Retailing activities.

Few amongst 114 reserved items exclusive for small scale production:
Leather, rubber, natural essential oils. Stationary, sports, ceramics, electroplasting, food processing, cotton, auto ancillary, electrical goods, printing, wooden, ice-creams, khadi products e.t.c

Role of SSI in Economic Development:

1. Providing employment.
2. Mobilizing resources.
3. Feeding large scale industries.
4. Promotion of exports.
5. Equitable distribution of wealth.
6. Promotional regional development.
7. Capital optimization.
8. Inspiring new entrepreneurs.

Advanteges of SSI:

1. Provides self-employment with relative investments.
2. Don't require high-end technology.
3. Use local resources and manpower.
4. Improves local economy.
5. Can be located anywhere (as it appears to be small).
6. Help earn and save foreign exchange.
7. Viewed favourably by society.
8. Large semi-skilled labours are used.
9. Introduce world to the local craftsmanship.
10. Simple in technology and less managerial skills.
11. Assist large and medium industries.
12. Inspire more entrepreneurs and promote them to have new ventures.

Weaknesses of SSI

1. Raw material. (absolute scarcity, poor quality, high costs)
2. Finance.
3. Marketing.
4. Capacity underutilization.

5. Outdated technology.
6. Overprotection.
7. Inefficient entrepreneurs.
8. Zero R&D.
9. Lack of successors.

Steps to start a SSI:

1. Product/project identification.
2. Selecting the form of ownership.
3. Location of the unit.
4. Preparation of project report.
5. Registration of the project report.
6. Arrangement of finance – fixed and working.
7. Procuring licenses and clearances.
8. Creating physical infrastructure.
9. Recruitment of staff.
10. Procuring raw materials.
11. Power and water supply.
12. Starting production.
13. Marketing the product.

Government policies towards SSI:

Industrial Policy Resolutions (IPR) – to encourage SSI.

IPR 1948 – protect cottage industries and nurture them.

Solve actual problems face by SSI towards raw materials, skilled labor, capital, transportation, marketing, etc,

IPR 1956 – "Protection plus development "

128 products were reserved for SSI production.

Five year plans started. Aimed at integrating efforts of SSI towards LSI.

IPR 1977 – Protection + Development + Promotion

Classified small sectors into 3 categories –

1. Cottage and household
2. Tiny
3. Small scale industries

IPR 1980 –

Investment ceiling for SSI – rose from 35 lakhs to 60 lakhs.

836 items reserved for SSI

SIDO – Small Industries Development organization was started.

SIDBI was started.

Special cells were created in SIDO

IPR 1991

The new small enterprise policy was introduced.
Increased vitality and growth in SSI.
Reduced licenses required to start SSI
Deregulate and debureaucratized SSI
Better market.
Export development centre was opened in SIDO
Partnership act was amended.

Government Policy Resolution 1991

Improved investment limits.
Facilitate foreign participation.
Promote exportds.
Enhanced turnover limit (4 crores to 5 crores)
Boosted rural industrialization.

Government Policy Resolution 2003

75 more items were de-reserved from SSI.
Lending rates were reduced to open SSI.
More SIDBI branches were opened.
All india census of SSI was carried out.

Government support for SSI during the five year plans

Steps for the development of the small scale and cottage industry was taken up immediately after independence Government attached greater importance of small scale sector in the successive five year plans as shown in the table given below:

Plan	Total expenditure	Percentage of total expenditure	
		On industry	In plan
1	2	3	4
First(1951-1956)	48.00	47.8	2.1
Second(1956-61)	187.00	18.7	4.1
Third(1961-66)	248.00	12.2	2.8
Fourth(1969-73)	242.00	7.7	1.5
Fifth(1974-78)(	592.00	6.2	1.5
Sixth(1980-85)	1945.00	11.3	1.8
Seventh(1985-1990)	3249.00	10.7	1.5
Eighth(1992-97)	6334	7.8	1.5

Observations from the plans: 1) The plan expenditure for small scale sectors have been continuously increasing of which 48 crores were invested for the SSI alone which constituted 47.8% of the total plan expenditure industry

Government attached greater importance of small scale sector in the successive five year plans as shown in the table given below

Government policies for each of the above five year plans is as described below

First five year plan(1951-1956)

1)the plan expenditure for small scale sectors have been continuously increasing of which 48 crores were invested for the SSI alone which constituted 47.8% of the total plan expenditure industry was spent in small sector alone during the first five year plan 2)by the end of the first plan there were a total of six boards were formulated namely (1)all India handloom board(ii)all India handicrafts board (iii)All Khadi and village industries board(iv)small-scale industries board (v)coir board(vi)central silk board

Second five year plan(1956-61)

1)followed the karve committee recommendations 2)focused on dispersal of industries 3)60 industrial areas were established for providing basic facilities likepower, water,transport at one place 4)certain items were reserved for the exclusive production of small scale industries 5)the total plan expenditure for the second year reached 187 crores.

Third five year plan (1961-1966)

1)stressed on the extension the coverage of small scale industries 2)out of the 264 crores exclusively meant for the development of small-scale and cottage industries 240.76 crores were actually incurred in the third plan

Fourth five year plan (1969-73)

1)witnessed significant diversification and expansion during this period 2)on the eve of the fourth five year plan as many as 346 industrial estates had been completed to provide employment to about 82,700 persons 3)annual incme was stimated at 99.25 crores

Fifth five year plan (1974-78)

1)the fifth plan out;lay was 611 crores and the cataul expenditure incurred was about 592 crores 2)main thrust was to remove poverty and inequality stalking the land

Sixth five year plan (1980-85)

on account of massive development programmes initited the actual plan expenditure surpassed the outlay of 1780 crores as aginst the expenditure of 1945 crores` Major programmes during this plan were i)the number of reserved items increased to 836 ii)409 items were reserved for the exclusive purchase from small-scale industries iii)Technical, managerial and marketing consultancy services were started through SIDO iv) Establishment of Council for Advancement of Rural Technology (CART) in October 1982 were started to provide technical input to rural areas. v)the production from small and cottage industries increased to 65,730 crores and export touched to 4557 crores vi)employment reached to 315 lakh persons by the end of the sixth plan which accounted for 80 percent of the total industrial employment which comes after agriculture

Seventh five year plan (1985-1990)

1)main thrust of this plan was upgradation of technology to increase compettiveness 2)plan outlay being 2752.74 crores as expenditure were 3249 crores 3)due to various development programmes the small sector witnessed significant developments in all fronts.

Eighth five year plan (1992-97)

1)number of small scale industries increased from 13.56 lakhs to 18.27 lakhs
2)Value of production increased from 57100 to 91681 crores 3)employment increased from 96 lakh persons to 119.6 lakhs
4)the main advocation has been the employment generation for the economic growth

The important plan proposals made during this period are :
i)focused on providing timely and adequate credit and providing composite loans through the establishment of SIDBI
ii)concession loans to state corporations for infrastructure development and factoring services have been introduced
iii)the eighth plan proposes to provide appropriate tool rooms and training institutes to upgrade technology
iv)the growth centre approach was accepted and as many as 70 growth centers was completed the functional industrial estates with substantial vegetables and

horticultural products was laso proposed v)in the eight plan integrated infrastructure development centers for tiny units were proposed to be set up

New policy initiatives in 1999-2000 for the Small Scale Sector

1)Announcement of new credit insurance scheme in the budget(1999-2000) for providing adequate security to banks and improving the flow of investment credit to SSI units

2)the working capital limit for SSI units is determined by the bank son the basis of 20 percent of their annual turnover the limit being raised from 4 core to 5 crores. 3)bank lending schemes for tiny sectors lending by banks to non banking financial companies(NBFCS) have been introduced

4)exemption from excise duty was extended for goods bearing a brand name of another manufacturer in rural areas

5)a National program to set up 100 rural clusters every year for rural industrialization has been announced.

6)A cell has been set up in the office of DC(SSI) to disseminate information about the latest developments in the WTO.

7)General exemption scheme for the cotton yarn has been introduced 8)small job workers engaged in printing the glazed tiles also have been exempted from excise duty

9)the investment limit for small scale and ancillary undertakings has been reduced from existing 3 crores to 1 crore

Impact of globalization and liberalization on SSI in India

Prior globalization scenarios:

1) Before the introduction of economic reforms in 1991 the SSI sector was overprotected

2) The small scale industry had never a strong desire to grow to medium and large scale because of the benefits of protection given to it.

3) Many of the policies also discouraged the growth of the small units to larger ones.

The effect of globalization can be summarized as below.

(1) The new policies of the government towards liberalization and globalization without ensuring the interest or priority of small-scale sector resulted in poor growth rate of SSI sector. The SSI sector has suffered because of the lending institutions and promotional agencies, whose main agenda is to serve big units and multinationals.

(2) The problems of SSI in liberalized environment have become multidimensional delay in implementation of project, inadequate availability of finance and credit, marketing problems, cheap and low quality products, technological obsolescence, lack of infrastructural facilities, deficient managerial and technical skills, to name some.

(3) Globalization resulted in opening up of markets, leading to intense competition. For example, the World Trade Organization (WTO) regulates multilateral trade, requiring its member countries to remove its import quotas, restrictions and reduce import tariffs. India was also asked to remove quantitative restrictions on import by 2001 and all export subsidies by 2003. As a result every enterprise in India whether small-scale or large scale has to face competition. The process was initiated for small-scale units by placing 586 of its 812 reserved items on the open general license list of imports.

(4) With the removal of restrictions of foreign direct investment, multinational companies entered India which further intensified the competition in the domestic market. The 1990's witnessed the entry of multinational companies in areas such as automobiles, electronics and IT based sectors.

Steps taken by the central government in order to protect, support and promote small enterprises.

The following were the steps taken by the central government in order to protect, support and promote small enterprises.

1)Providing industrial extension services

2)credit facilities in respect of institutional support

3)developed sites for construction of sheds

4)training facilities

5)supply of machinery on hire-purchase terms

6)assistance for domestic marketing as well as exprts

7)special incentives for setting up enterprises in backward areas

8)technical consultancy and financial assistance for technological upgradation

IMPACT OF WTO/GATT ON SSI:

The challenges to the small-scale sector are due to the impact of agreements under WTO. The setting up of the WTO in 1995 has altered the framework of international trade towards non-distortive, market oriented policies. This is in keeping with the policy shift that occurred world-wide in favour of the free market forces and tilt away from state regulation/intervention in economic activity.

- This is likely to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows.
- The main outcome of WTO stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.
- There will also be tighter patent laws through regulation of intellectual property rights under Trade-Related Intellectual Property Rights (TRIPS) Agreements, which laid down what is to be patented, for what duration and on what terms.
- Increased market access to imports will mean opening up the domestic market to large flows of imports.
- The removal of quantitative restrictions on imports of these items will soon be freed from all restrictions as announced in the recent import-export policy.
- Increased market access will also mean that our industries can compete for export markets in both developed and developing countries. But the expected surge in our exports can come about only if SSI sector is restructured to meet the demands of global competitiveness, which is the key to the future of small industries in present contest.
- SSIs have to face threats and also avail opportunities owing to the WTO and its agreements.

The main opportunities of the WTO are classified into three.

- Firstly, national treatment of exportable items across the countries all over the world, with better market access through the internet.
- Second, enlightened entrepreneurs have greater opportunities to benefit from their comparative advantages due to lowering of tariffs and dismantling of other restrictions.
- Finally, industries that are in constant touch with government, which in turn negotiates in their best interests in the on-going dialogue with the WTO, are going to benefit. India has real chance of becoming superpower in the service sector, particularly IT. It has already captured about 25 percent of world exports.

<u>List of Supporting Agencies of Government for SSI</u>

1. **<u>Central Level of Institutions:</u>**

   SSI Board – Small Scale Industry Board

   KVIC – Khadi and Village Industries Commission

   SIDO – Small Industries Development Organization

   NSIC – National Small Industries Corp. ltd.

   NSTEDB – National Science and Technology Entrepreneurship Development Board.

   NPC – National Productivity Council.

   IIE – Indian Institute of Entrepreneurship

   EDII – Entrepreneurship Development Institute of India

2. **<u>State Level Institutions:</u>**

   DI – Directorate of Industries

   DIC – District Industries centres

   SFC – State Financial Corp.

   SIDC – State Industrial Development Corp.

   SSIDC – State Small Industrial Development Corp.

3. **<u>Other Agencies:</u>**

   SIDBI – Small Industrial Development Bank of India

NABARD – national bank for agricultural and rural development

HUDCO – housing and urban development corp ltd.

NGO

WASME – World association for small and medium enterprises.

LUB, ICSI, CSIR, FICCI etc..

Institutional Support for Business Enterprises

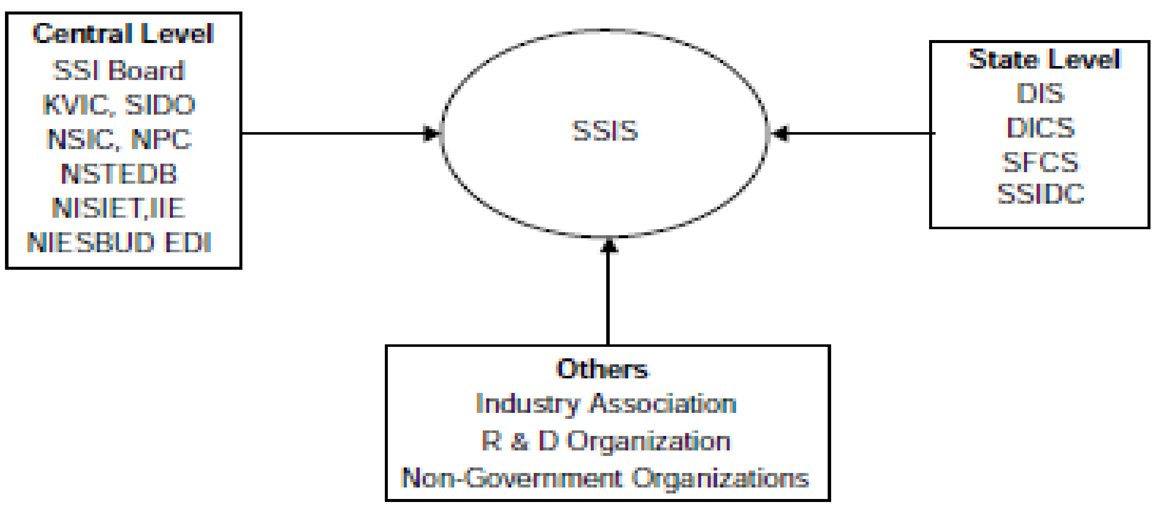
Introduction:

The institutional network can be broadly classified as under and is shown in fig

(1) Central level institutions/agencies

(2) State level institutions/agencies

(3) Other agencies



Nature and Types of Supports:

Policy Support

(1) The investment limit for the tiny sector will continue to be Rs. 25 lakh.

(2) The investment limit for the SSI sector will continue to be at Rs. 1 crore.

(3) The ministry of SSI and ARI will bring out a specific list of hi-tech and export oriented industries which would require the investment limit to be raised upto Rs. 5 crore to admit suitable technology upgradation and to enable them to maintain their competitive edge.

(4) The Limited Partnership Act will be drafted quickly and enacted. Attempt will be made to bring the bill before the next session of parliament.

Fiscal Support

To improve the competitiveness of small-scale sector the exemption for excise duty Limit rose from Rs. 50 lakhs to Rs. 1 crore.
(1) The composite loans limit rose from Rs. 10 lakh to Rs. 25. lakh.
(2) The Small-Scale Service and Business (Industry Related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.
(3) In the National Equity Fund Scheme, the project cost limit will be raised from Rs 25 lakh to Rs 50 lakh. The soft loan limit will be retained it 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistanceunder the NEF will be provided at a service charge of 5 percent per annum.
(4) The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.
(5) The Department of Economic Affairs will appoint a Task Force to suggest revitalization/restructuring of the State Finance Corporations.
(6) The Nayak Committee's recommendations regarding provision of 20 percent of the projected turnover as working capital is being recommended to the financial institutions and banks.

Infrastructure Support
(1) The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 percent reservation for rural areas.
(2) Regarding upgrading Industrial Estates which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.
(3) A plan scheme for cluster Development will be drawn up.
(4) The Funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centers, for cluster Development and for setting up of IIDs in the North-East including Sikkim.

Technological Support and Quality Improvement
(1) Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter-ministerial committee of Experts will be set up to define the scope of technology upgradation and sectorial priorities.
(2) To encourage Total Quality Management, the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e., till the end of the 10th plan.
(3) Setting up of incubation centers in Sunrise Industries will be supported.
(4) The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET programme) and APCTT.
(5) SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology elated information. Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.
(7) One-time capital grant of 50 percent will be given to Small-Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

Marketing Support
(1) SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.
(2) The vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

Informational Support
(1) General information.
(2) Technical/Marketing expertise in specific areas.

(3) Technical and financial expertise.
(4) Implementation assistance for turn-key projects.

Incentives and Subsidies
(1) Export-import subsidies.
(2) Interest free loans.
(3) Subsidy for R & D work.
(4) Capital investment subsidy.
(5) Transport subsidy.
(6) Interest subsidy.
(7) Subsidy for power generation.
(8) Exemption from property tax.
(9) Incentives for NRI.
(10) Exemption from income tax.
(11) Sales tax exemptions.
(12) Price preference to SSIs.
(13) Subsidy/assistance for technical consultancy.
(14) Exemptions from stamp duty.
(15) Provisional for seed capital.
(16) Allotment of controlled or subsidized raw materials.
(17) Subsidy for cost of market study/feasibility study or reports.
Other Types of Support
(1) Streamlining Rules and Regulations.
(2) Entrepreneurship development training.
(3) Rehabilitation of sick units.

Policies & Schemes of Central–Level Institutions:

1. **NSIC – National Small Industries Corp. ltd.**

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 fulfills 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.

2. **SIDO – Small Industries Development Organization**

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.

3. **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.

4. **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.

Policies & Schemes of State-Level Institutions:

1. **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.

2. **SSIDC – State Small Industrial Development Corp.**

(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.

3. **DIC – District Industries centres**

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.

4. **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 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.

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.

5. 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.

6. **Karnataka State Financial Corporation** (KSFC)

The KSFC was established by the government of Karnataka in 1956 under the state financial corporation act 1951 for extending financial assistance to set up tiny, small and medium scale industrial units in Karnataka. Since 1956 it is working as a regional industrial development bank of Karnataka. KSFC has a branch office in each district; some districts have more than one branch.

KSFC extends lease financial assistance and hire purchase assistance for acquisition of machinery/equipment/transport vehicles. KSFC has merchant banking department which takes up the management of public issues underwriting at shores, project report preparation, deferred payment guarantee, and syndication of loans, bill discounting and similar tasks.

KSFC give preference to the projects which are

(i) Promoted by technician entrepreneur.

(ii) In the small-scale sector.

(iii) Located in growth centers and developing areas of the state;

(iv) Promoted by entrepreneurs belonging to scheduled castes and scheduled tribes, backward classes and other weaker sections of society.

(v) Characterized by high employment potential.

(vi) Capable of utilizing local resources; and

(vii) In tune with the declared national priorities.

The eligible industrial concerns for financial assistance from KSFC are those engaged/to be engaged in manufacture, preservation, processing of goods, mining, power generation transport, industrial estate, hotels, R & D of any product or process of industrial concern, weigh bridge facilities, power laundries, photocopying, hiring of heavy material handling equipment, cranes and other earth moving equipments, hospitals, nursing homes, medical stores, computers, tourism related activities, construction of roads, tissue and horticulture software development, software parks, block board vehicles, office construction, go down and warehouse construction, mobile canteens, commercial complexes, training institutes, office automation and so on.

Loan Schemes of KSFC

KSFC has evolved loan schemes for extending financial assistance to industrial concerns promoted by rural artisans, weaker sections of society, disabled entrepreneurs, ex-servicemen, women entrepreneurs and others.

T***he various loan schemes of KSFC are given below:***

(1) Composite loan scheme
(2) Disabled entrepreneurs loan scheme.
(3) Scheduled cast and scheduled tribe's loan scheme.
(4) Ex-service men loan scheme.
(5) National equity fund scheme.
(6) Mahila Udyama nidhi loan scheme.
(7) Single window loan scheme.
(8) Transport loan scheme.
(9) Computer loan scheme.
(10) Modernization loan scheme.
(11) Diesel generator loan scheme.
(12) Equipment finance loan scheme.
(13) Tourism related activities loan scheme.
(14) Hospital/nursing / medical store loan scheme.
(15) Electro-medical equipment loan scheme.
(16) Assistance for acquiring indigenous or imported second-hand machinery.
(17) Qualified professionals loan scheme.
(18) Scheme of assistance for acquisition of ISO 9000 series of certification.
(19) Hotel /mobile canteen loan scheme.
(20) Industrial estate loan scheme.
(21) Loan scheme for office automation.
(22) Loan scheme for training institution.
(23) Loan scheme for private software technology parks.
(24) Loan scheme for commercial complexes.
(25) Industrial estate loan scheme.
(26) Loan scheme for ready-built office/construction of new office building.
(27) Loan scheme for acquisition of land/building/commercial space.
(28) Loan schemes for marketing related activities.

***Equity lease finance*:** Industrial concerns engaged in production for the preceding two years, earning profits and regular in repayment to financial institutions/banks, can avail the services of plant and machinery/equipment on lease without making investment or incurring debt obligation and become more competitive and efficient. The minimum assistance is Rs 5 lakh.

***Hire purchase*:** This scheme provides for a fast, easy alternative to ready cash. Industrial concerns in commercial production for two years and earning profits and regular in repayment to financial institutions/banks can avail assistance of Rs. 1 lakh. Professionals and commercial operators can also avail hire purchase assistance.

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

Module – 5

Project Management & New Control Techniques

Project Management: Meaning of Project, Project Objectives & Characteristics, Project Identification- Meaning & Importance; Project Life Cycle, Project Scheduling, Capital Budgeting, Generating an Investment Project Proposal, Project Report-Need and Significance of Report, Contents, Formulation, Project Analysis-Market, Technical, Financial, Economic, Ecological, Project Evaluation and Selection, Project Financing, Project Implementation Phase, Human & Administrative aspects of Project Management, Prerequisites for Successful Project Implementation. (Text 2)

New Control Techniques- PERT and CPM, Steps involved in developing the network, Uses and Limitations of PERT and CPM (Text 1)

Project Management

Meaning of Project:

Newman: A project has typically has a distinct mission that it is designed to achieve and clear termination point, the achievement of the mission

Gillinger: A whole complex of activities involved in using resources to gain benefits

"A project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time".

Project can differ in their size, nature of objectives, time duration and complexity. However projects partake of the following three basic attributes:
(i) A course of action
(ii) Specific objectives and
(iii) Definite time perspectives.

Meaning & Importance:
A scheme, design a proposal something intended or devised.

Assignment

Project Objectives & Characteristics:

- A scheme, design a proposal of something intended or devised to be achieved.
- Decisions to convert his business idea into a running concern.
- Whole complex of activities involved in using resources to gain benefits.
- To achieve a specific objective within a specified period of time.
- A distinct mission that it is designed to achieve and clear termination point, the achievement of the mission.

Project Identification:

"Well began is half done"

The project selection is the first corner stone to be laid down in setting up an enterprise.

Entrepreneurs always are in search of project having a good market but how without knowing the product coat they determine market whose market they find out without knowing the item i.e. product?

Idea generation about a few projects provides a way to come out of the above tangle.

These may include:

(i) Knowledge of potential customer needs.

(ii) Personal observation of emerging trends in demand for certain products.

(iii) Scope for producing substitute product.

(iv) Trade and professional magazines which provide a very fertile source of project
ideas.

(v) Departmental publications of various departments of the government.

(vi) Success stories of known entrepreneurs or friends or relatives.

(vii) A new product introduced by the competitor.

(viii) Ideas given by knowledgeable persons.

Project Life Cycle:

1. Project Initiation
2. Project planning
3. Project execution
4. Project monitoring and control
5. Project closure

Project Scheduling:

The project schedule is the tool that communicates what work needs to be performed, which resources of the organization will perform the work and the timeframes in which that work needs to be performed.

The following are the steps needed to schedule a project:

Define Activities

What are the activities that you have to do in the project? By using a Work Breakdown Structure (WBS) and a deliverables diagram, you can begin to take these activities and organize them by mapping out the tasks necessary to complete them in an order than makes sense.

Do Estimates

Now that you have the activities defined and broken down into tasks, you next have to determine the time and effort it will take to complete them. This is an essential piece of the equation in order to calculate the correct schedule.

Determine Dependencies

Tasks are not an island, and often one cannot be started until the other is completed. That's called a task dependency, and your schedule is going to have to reflect these linked tasks. One way to do this is by putting a bit of slack in your schedule to accommodate these related tasks.

Assign Resources

The last step to finalizing your planned schedule is to decide on what resources you are going to need to get those tasks done on time. You're going to have to assemble a team, and their time will need to be scheduled just like the tasks.

Capital Budgeting:

Capital budgeting is a company's formal process used for evaluating potential expenditures or investments that are significant in amount. It involves the decision to invest the current funds for addition, disposition, modification or replacement of fixed assets.

FEATURES OF CAPITAL BUDGETING

1) It involves high risk

2) Large profits are estimated

3) Long time period between the initial investments and estimated returns

CAPITAL BUDGETING PROCESS:

A) Project identification and generation:

The first step towards capital budgeting is to generate a proposal for investments. There could be various reasons for taking up investments in a business. It could be addition of a new product line or expanding the existing one. It could be a proposal to either increase the production or reduce the costs of outputs.

B) Project Screening and Evaluation:

This step mainly involves selecting all correct criteria's to judge the desirability of a proposal. This has to match the objective of the firm to maximize its market value. The tool of time value of money comes handy in this step.

Also the estimation of the benefits and the costs needs to be done. The total cash inflow and outflow along with the uncertainties and risks associated with the proposal has to be analyzed thoroughly and appropriate provisioning has to be done for the same.

C) Project Selection:

There is no such defined method for the selection of a proposal for investments as different businesses have different requirements. That is why, the approval of an investment proposal is done based on the selection criteria and screening process which is defined for every firm keeping in mind the objectives of the investment being undertaken.

Once the proposal has been finalized, the different alternatives for raising or acquiring funds have to be explored by the finance team. This is called preparing the capital budget. The average cost of funds has to be reduced. A detailed procedure for periodical reports and tracking the project for the lifetime needs to be streamlined in the initial phase itself. The final approvals are based on profitability, Economic constituents, viability and market conditions.

D) Implementation:

Money is spent and thus proposal is implemented. The different responsibilities like implementing the proposals, completion of the project within the requisite time period and reduction of cost are allotted. The management then takes up the task of monitoring and containing the implementation of the proposals.

E) Performance review:

The final stage of capital budgeting involves comparison of actual results with the standard ones. The unfavorable results are identified and removing the various difficulties of the projects helps for future selection and execution of the proposals.

Generating an Investment Project Proposal:

Ideas for new capital investments can come from many sources, both inside and outside a firm. Proposals may originate at all levels of the organization —from factory workers up to the board of directors.

1. **Classifying Investment Projects**
2. **Projects Generated by Growth Opportunities**
3. **Projects Generated by Cost Reduction Opportunities**
4. **Projects Generated to Meet Legal Requirements and Health and Safety Standards**
5. **Project Size and the Decision-Making Process**

Project Report-Need and Significance of Report:

A project report or a business plan is a written statement of what an entrepreneur proposes to take up.

A project report can be defined as a well evolved course of action devised to achieve the specified objectives within a specified period of time.

Need and Significance of Report:

- The preparation of project report is of great significance for an entrepreneur.
- The project report is like a road map it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there.
- It enables the entrepreneur to know that he is proceeding in the right direction.
- Purpose of the project report is to attract lenders and investors.
- To obtain financial assistance from the financial institutions and commercial banks.

Contents:

A good project report should contain the following.

(1) ***General information***: Information on product profile and product details.

(2) ***Promoter***: His/her educational qualification, work experience, project related experience.

(3) ***Location***: exact location of the project, lease or freehold, location advantages.

(4) ***Land and building***: land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.

(5) ***Plant and machinery***: Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.

(6) ***Production process***: Description of production process, process chart, technical know how, technology alternatives available, production programme.

(7) ***Utilities***: Water, power, steam, compressed air requirements, cost estimates sources of utilities.

(8) ***Transport and communication***: Mode, possibility of getting costs.

(9) ***Raw material***: List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.
(10) ***Man power***: Man power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
(11) ***Products***: Product mix, estimated sales distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.
(12) ***Market***: End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.
(13) ***Requirement of working capital***: Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.
(14) ***Requirement of funds***: Break-up project cost in terms of costs of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.
(15) ***Cost of production and profitability of first ten years.***
(16) ***Break-even analysis***.
(17) ***Schedule of implementation.***

Formulation:

According to Gupta, project formulation divides the process of project development into eight distinct and sequential stages as below:
(1) General information
(2) Project description
(3) Market potential
(4) Capital costs and sources of finance
(5) Assessment of working capital requirements
(6) Other financial aspects
(7) Economical and social variables
(8) Project implementation

(1) General Information

The information of general nature given in the project report includes the following:

Bio-data of promoter: Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

Industry profile: A reference analysis of industry to which the project belongs, e.g., past performance; present status, its organization, its problems etc.

Constitution and organization: The constitution and organization structure of the enterprise; in case of partnership firm its registration with registrar of firms, certification from the directorate of industries /district industry centre.

***Product details*:** Product utility, product range, product design, advantage to be
offered by the product over its substitutes if any.

(2) Project Description

A brief description of the project covering the following aspects should be made in the project report.

Site: Location of the unit; owned, rented or leasehold land; industrial area; no objection certificate from municipal authorities if the enterprise location falls in the residential area.

Physical Infrastructure: Availability of the following items of infrastructure should be mentioned in the project report.

(a) ***Raw material*:** Requirement of raw material, whether inland or imported, sources of raw material supply.

(b) ***Skilled labour*:** Availability of skilled labour in the area i.e., arrangements for training labourers in various skills.

(c) ***Utilities***: These include:

(i) ***Power*:** Requirement of power, load sanctioned, availability of power

(ii) ***Fuel*:** Requirement of fuel items such as coal, coke, oil or gas, state of their availability and supply position.

(iii) ***Water*:** The sources of water, quality and quantity available.

(d) ***Pollution control*:** The aspects like scope of dumps, sewage system, sewage treatment plant, infiltration facility etc., should be mentioned.

(e) ***Communication and transportation facility*:** The availability of communication facilities, e.g., telephone, fax, telex, internet etc., should be indicated. Requirements for transport, mode of transport, potential means of transport, approximate distance to be covered, bottlenecks etc., should be stated in the
business plan.

***(f) Production process*:** A mention should be made for process involved in production and period of conversion from raw material into finished goods.

(g) ***Machinery and equipment*:** A complete list of machines and equipments required indicating their size, type, cost and sources of their supply should be enclosed with the project report.

(h) ***Capacity of the plant*:** The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.

(i) ***Technology selected*:** The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.

(j) ***Other common facilities*:** Availability of common facilities like machine shops, welding shops and electrical repair shops etc should be stated in the project report.

(k) ***Research and development*:** A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

(3) Market Potential

While preparing a project report, the following aspects relating to market potential of the product of the product should be stated in the report.

(a) ***Demand and supply position*:** State the total expected demand for the product and present supply position, what is the gap between demand and supply and how much gap will fill up by the proposed unit.

(b) ***Expected price*:** Expected price of the product to be realized should also be mentioned.

(c) ***Marketing strategy*:** Arrangements made for selling the product should be clearly stated in the project report.

(d) ***After sales service*:** Depending upon the nature of the product, provisions made for after-sales should normally be stated in the project report.

(4) Capital Costs and Sources of Finance

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report. The sources should indicate the owners funds together with funds raised from financial institutions and banks.

(5) Assessment of Working Capital

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will reduce the objections from banker's side.

(6) Other Financial Aspects

To adjudge the profitability of the project to be set up, a projected profit and loss account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected balance sheet and cash flow statement should also be prepared to indicate the financial position and requirements at various stages of the project. In addition to this, the break even analysis should also be presented. Break even point is the level of production at which the enterprise shall earn neither profit nor incur loss. Breakdown level indicates the gestation period and the likely moratorium required for repayment of the loans. Break-even point is calculated as

$$\text{Break-Even Point (BEP)} = F/S–V$$

Where F = Fixed Cost

S = Selling Price/Unit

V = Variable Cost/Unit

The break-even point indicates at what level of output the enterprise will break even.

(7) Economical and Social Variables

Every enterprise has social responsibility. In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project. Arrangements made for treating the effluents and emissions should also be mentioned in the report. In addition the following socio-economic benefits should also be stated in the report.

(i) Employment Generation
(ii) Import Substitution
(iii) Ancillaration
(iv) Exports
(v) Local Resource Utilization
(vi) Development of the Area

(8) Project Implementation

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost overrun. Delay in project implementation jeopardizes the financial viability of the project, on one hand, and props up the entrepreneur to drop the idea to set up an enterprise, on the other. Hence there is need to draw up an implementation schedule for the project and then to adhere to it.

<u>Project Analysis-Market, Technical, Financial, Economic, Ecological</u>

Project feasibility analysis is carried out to ensure viability of project. The important
project feasibility study is

1. Market feasibility
2. Technical feasibility
3. Financial feasibility
4. Economic feasibility
5. Ecological feasibility

Market feasibility:

Market feasibility is concerned with two aspects the aggregate demand for the proposed product/service, the market share of the project under consideration. For this market analysis requires variety of information and appropriate forecasting methods. The kind of information required is

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints

- Imports and exports
- Structure of competition
- Cost structure
- Elasticity of demand
- Consumer behavior, intentions, motivations, attitudes, preferences and requirements
- Distribution channels
- Administrative, technical and legal constraints

Technical Analysis:

Technical analysis seeks to determine whether prerequisites for successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size, and so on. The important questions raised in technical analysis are:

- Has the availability if raw material, power, and other inputs been established?
- Is the selected scale of operation optimal?
- Is the production process chosen suitable?
- Are the equipment and machines chosen appropriate?
- Have the auxiliary equipment and supplementary engineering works been provided for?
- Has provision been made for treatment of effluents?
- Is the proposed layout of the site, buildings and plant sound?
- Have work schedules been drawn up realistically?
- Is the technology proposed to be employed appropriate from the social point of view?

Financial Analysis:

Financial analysis is necessary as ascertain whether the propose project is financially viable in the sense of being able to meet the burden of servicing dept and whether the propose project will satisfy the return expectations of those who provide the capital. The aspects to be looked into while conducting financial appraisal are as follows.

- Investment outlay and cost of project
- Means of financing.
- Project profitability
- Break-even point
- Cash shows of the project
- Investment worthiness judged in terms of various criteria of merit
- Project financial position
- Level of risk

Economic/Social Cost-benefit Analysis:

This is concerned with judging a project from the larger social point of view, where in the focus if on social costs and benefits of a project, which may often be different from its monitory costs and benefits. The questions to be answered in social cost-benefit analysis are as follows.

- What are the direct economic benefits and costs of the project measured in terms of shadow (efficiency) prices and not in terms of market prices?
- What would be the impact of the project on the distribution of income in the society?
- What would be the impact of the project on the level of savings and investment in the society?
- What would be the contribution of the project towards the fulfillment of certain like self-sufficiency, employment and social order?

Ecological Analysis:

Today, environmental concerns assured a great deal of significance and hence ecological analysis should be done, particulars for project which have significant ecological implications like power plants and irrigation schemes and for environmental polluting industries like chemicals, leather processing etc. The key questions to be answered in ecological analysis are as follows.

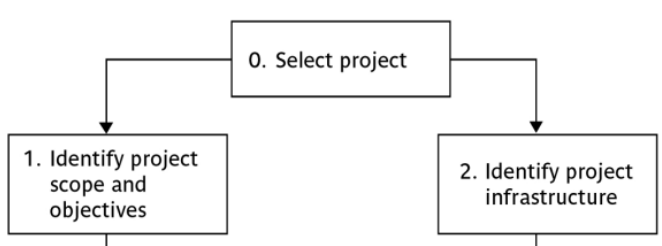
- What is the likely damage caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable?

<u>Project Evaluation and Selection</u>

Success of a project, both technically and in business terms, is clearly built upon a sound initial evaluation of the technical, organization and financial feasibility of the project. In Some cases managers will be able to justify a commitment to a single project as the financial benefits will clearly exceed the costs of the implementation and operation of the new application. In other cases, managers would not be able to approve a project on its own, but can see that it enables the fulfillment of strategic objectives when combined with the outcomes of other projects.

Strategic assessment Programme is defined as ‘ a group of projects that are managed in a co-ordinate way to gain benefits that would not be possible were the projects to be managed independently’

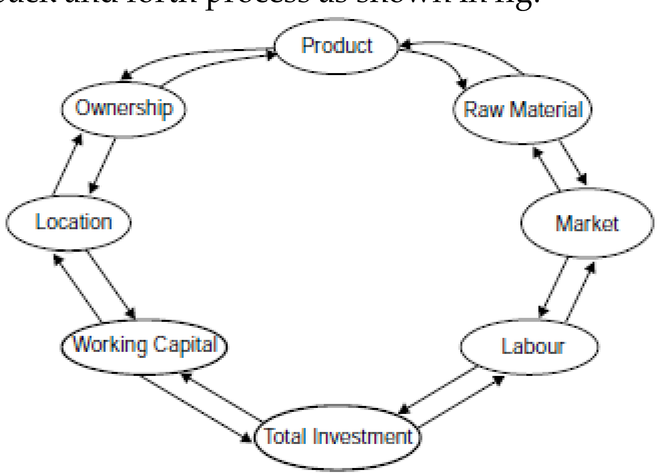
Programme management It is being increasingly recognized that individual projects need to be seen as components of programme and should be evaluated and managed as such.



Project Evaluation

PROJECT SELECTION

Project selection starts once the entrepreneur has generated few ideas of project. After having some ideas, these project ideas are analyzed in the light of existing economic conditions, market conditions, and the government policy and so on. For this purpose a tool is generated used what is called SWOT analysis. The intending entrepreneur analyses his strengths and weaknesses as well as opportunities/competitive advantages
and threats/challenges offered by each of the project ideas. In addition the entrepreneur
needs to analyze other related aspects also like raw material, potential market, labor, capital, location and forms of ownerships etc. Each of these aspects has to be evaluated independently and in relation to each of these aspects. This forms a continuous and back and forth process as shown in fig.



Project Financing:

Financing of long term infrastructure and/or industrial projects using debt and equity.

Main Features:

- Economically separable capital investment
- Cash Flow of the project the main source of the capital recovery
- Assets of the project is the only source used as collateral
- No recourse to the assets of sponsoring companies. Unless specifically required in the contracts
- Debt serving has priority over investors equityDebt equity
- During construction, interests on debt is accumulated as part of the debt.

Company Finance Vs. Project Finance

	Company Finance	Project Finance
Capital Formation	Will impact debt capacity	Will not impact debt capacity, because it is off balance sheet
Risk Exposure	Could impact overall risk structure or the cost of capital	Limited
Tax Shield	Hard to take advantage of	Easier to bundle
Cash Flow	To corporate treasurer: subject to corporate policy on dividend	Directly to the investor
Cost of Project Financing	None	High due to setting up cost
Capital Cost	Company's track record	High Due to no history
Oversight by the Sponsors	None	Very Demanding

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enterprise, on the other.

Hence there is need to draw up an implementation schedule for the project and then to adhere to it.

PERT and CPM discussed later in this chapter can be used to get better insight into all activities related to implementation of the project.

Human & Administrative aspects of Project Management:

Human aspects:

Project management is the art of directing and coordinating human and material resources throughout the life of a project by using modern management techniques to achieve predetermined objectives of scope, cost, time, quality and participation satisfaction.

Project managers were also responsible for managing human capital

The knowledge areas of human resource that enable the project objectives to be achieved through various processes.

Projects also involve a set of resources. These resources can include human capital, technology infrastructure, or other assets. (create harmony between these resources)
Beyond technology uncertainty, however, is human uncertainty. Managing the human element of every project sometimes proves to be the most difficult task.
Administrative aspects:
Deals with: Motivation, Authority, Responsibility, orientation, group functioning, coordinating, controlling

Prerequisites for Successful Project Implementation:
The planning Commission has issued guidelines for preparing/formulating industrial projects. The guidelines/prerequisites have been summarized as follows:

1. ***General information*:** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, i.e., the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should contain information about the enterprise submitting the feasibility report.
2. ***Preliminary analysis of alternatives***: This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and their level of production actually attained, a list of all projects for which letters of intent licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project and its implications should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options shou1d also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-à-vis return should be presented.
3. ***Project description*:** The feasibility report should provide a brief description of the technology/process chosen for the project. Information relevant for determining the optimality of the location chosen should also be included. To assist in the assessment of the environmental effects of a

project every feasibility report must present the information on specific points, i.e., population, water, land, air, flora, fauna, effects arising out of the project's pollution, other environmental destruction, etc. The report should contain a list of important items of capital equipment and also the list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organizational structure envisaged, transport costs, activity wise phasing of construction and factors affecting it.

4. ***Marketing plan*****:** It should contain the following items: Data on the marketing plan, demand and prospective supply in each of the areas to be served. The methods and the data used for making estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.
5. ***Capital requirements and cost*****:** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.
6. ***Operating requirements and costs*****:** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating cost should be collected. Operating costs relate to cost of raw, materials and intermediaries, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.
7. ***Financial analysis*****:** The purpose of this analysis is to present some measures to assess the financial viability of the project. A Performa balance sheet for the project data should be presented. Depreciation should be allowed for on the basis specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyze the sensitivity of the rate of return on the level and pattern of product prices.
8. ***Economic analysis*****:** Social profitability analysis needs some adjustments in the data relating to the costs and return to the enterprise. One important type of adjustment involves a correction in input and cost, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign, trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified they should be analyzed and their importance emphasized.

New Control Techniques

A project consists of a number of constituted activities. It is examined in detail and the details are utilized to compile the sequential narration of the constituent activities of a project. The compilation is known as the project logic. When it is represented in the form of a graphical portrayal it is called as network. Network in simple words is defined as the graphical representation of interrelated activities of the project.

A network generally comprises a set of symbols connected with each other in a sequential relationship with each step making the completion of an event. The network diagram and scheduling computations enable the project formulation team to identify the longest series of activities through the project implementation phase which determines the project duration.

A number of network techniques have been developed and some of them are discussed below:

***Critical Path Method* (CPM):**

The CPM is a logical mathematical model of the project based upon the optimal duration required for each activity and optimal use of available limited resources. It is a deterministic model.

Program Evaluation and Review Technique (PERT): The PERT is primarily a scheduling technique. It shows any job or project as a set of processes of operations called 'activities' which must take place in a certain sequence. All activities have to be compelled in order to accomplish the project. It is a probabilistic model and introduces uncertainties in project network.

However, the most commonly used techniques are PERT and CPM.

Use of PERT: The following steps are used in PERT:

(1) The activities of the project are identified along with their interrelationships and graphically represented using networks.

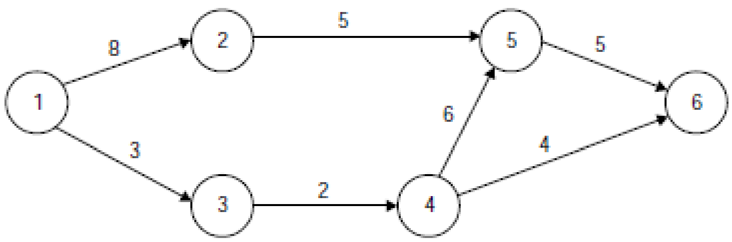
(2) The time required for completing each activity is estimated and noted on the network.

(3) The minimum time required for completing the entire project is estimated.

(4) The critical activities are identified for the efficient allocation of resources in order to complete the project earlier, if necessary.

(5) Closer watch on critical and other activities so as to complete the project on time.

The following table gives the activities and the time required to complete each activity
of the project.



Activity	Time required to complete activity (days)
1-2	08
1-3	03
3-4	02
2-5	05
4-5	06
4-6	04
5-6	05

Path 1-2-5-6 = 8+5+5 = 18 days
Path 1-3-4-6 = 3+2+4 = 09 days
Path 1-3-4-5-6 = 3+2+6+5 = 16 days

Since the path 1-2-5-6 consumes longest time, it is known as critical path and the activities 1-2, 2-5 and 5-6 are known as critical activities. Hence the project completion time is 18 days.

***Use of CPM*:**
The CPM is almost similar to the PERT. However it is activity oriented and focuses on cost and not time. The CPM is generally used to find the optimum project cost and time. The optimum project cost is the minimum cost at which the project can be completed. This can be determined by using the concept of crashing of activities. Crashing of activity is nothing but reducing the time required to complete an activity, by allocations additional resources, which adds cost. CPM is also used to find minimum time at which a project can be completed, irrespective of cost, which may be necessary under crisis situations.

Advantages of PERT
(1) It determines the expected duration of activities and consequently of the project duration.
(2) It incorporates risk analysis in project network.
(3) It determines critical activities in the project.
(4) It determines the most economical scheduled for fixed project duration.
(5) It enables optimal allocation of limited resources.

Limitations of PERT

(1) The time estimates to perform activities constitutes a major limitation of this technique.

(2) The probability distribution of total time is assumed to be normal which in real life situations may not be true.

(3) The simple PERT technique does not consider the resources required at various stages. If a certain resource must be used to perform more than one activity and at the same time if it can be used for only one activity at a time then the network diagram will become infeasible.

Advantages of CPM

(1) CPM allows for a comprehensive view of the entire project. Because of the sequential and concurrent relationships, time scheduling becomes very effective.

(2) Identifying critical activities keeps the project manager alert and in a state of preparedness, with alternative plans ready in case these are needed.

(3) Selective management principle may be used in project management. In the network analysis, the critical activities become item 'A' the sub-critical activities item 'B' and all others, item 'C'. Breaking down the project into smaller components permits better and closer control.

(4) Through the plan schedule derived from CPM, delegation can be effectively practised.

Limitations of CPM

(1) CPM is deterministic model based on certainty assumptions as regards time. But it may not be true in practice.

(2) CPM does not use statistical analysis in making time estimates.

(3) It cannot be used as a controlling device since any changes introduced will alter the entire structure of network.

Differences between PERT and CPM

Though both PERT and CPM are used for managing projects, yet there are differences between them. These are listed in table:

PERT	CPM
1. It is event oriented approach	It is an activity oriented approach
2. It allows uncertainty	It does not allow uncertainty
3. It is probabilistic model	It is deterministic model
4. It is time based	It is cost based
5. It averages time	It does not average time
6. It has three estimates of time	It has single estimate of time
7. It is suitable when high precision is required.	It is suitable where reasonable precision is required.

COMMON MISTAKES BY ENTREPRENEURS IN PROJECT FORMULATION

Entrepreneurs do make mistakes while selecting and formulating their projects and evolving business plans. Some of the common errors found in project formulation are:

1. ***Selection of project area*:** Entrepreneurs select wrong area of product or service by studying wrong or exaggerated data of particular industries. This happens particularly when entrepreneur gets data from the presentations and projections made by experts in the field or exhibitions or from trend analysis. The selection of a product without detailed study of product market, demand patterns, competition in the industry, change of customer taste and perceptions or mistaken overview of the demand pattern. Usually an entrepreneur selects a product which he knows best or where he has worked for long years. Example: A marketing man in textile is likely to choose textile as his product.

2. ***Market study and analysis*:** Market research, study and analysis is a critical aspect for an entrepreneur in selection of a product and market segment. Any decision based on scanty, wrong or un-organized data will give a distorted demand picture leading to wrong choices. An entrepreneur should also choose products' based on the objective studies and not go by his previous experience, avoiding likes and dislikes in his personal capacity.

3. ***Selection of technology*:** An appropriate technology is necessary for any new enterprise for its survival and growth. A wrong selection of technology leads to problems of costs, profit margins and feasibility issues of the entire project.

4. ***Optimistic estimate*s:** Over optimistic estimates by the entrepreneurs in the area of productivity, capacity utilization, prevailing marketing conditions, under estimation of competitors and pricing give wrong selection of products. Any business plan made by an entrepreneur based on wrong data, financial jugglery will give problems in selection and implementation of the project.

5. ***Ownership form*:** A suitable ownership form be evolved for the project to avoid stoppages and disputes.

6. ***Selection of location*:** An entrepreneur should not be tempted select locations that are not viable. A location is almost permanent to any project and as such plays an important role in cost competitiveness and viability

of the organization throughout its life. An entrepreneur is tempted usually on three counts, first the cheapness on and second love of the native place of the entrepreneur and third the incentives offered by the government agencies for location of industries. It could be seen that all the three alternative give a broad idea of the costs whereas the selection be made only on the basis of techno-economic analysis and overall benefits to the proposed projects. In order to process investment proposals and arrive at investment decisions, of the Planning Commission has issued guidelines for preparing formulating industrial projects.

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.