



# **BMS** Institute of Technology and Management

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# **MODULE- 1**

## **MANAGEMENT**

### **INTRODUCTION**

- Management is a function of guidance and leadership control of efforts of a group or individuals in order to achieve goals/objectives of an organization.

### **MEANING**

- Management is a critical element in the **economic growth** of a country. Management is the dynamic, life-giving element in every organization. The managing has become essential to ensure the coordination of individual efforts. The definitions of the management are:
  - Management is the **art of getting things done** through people.
  - Management is a process consisting of **planning, organizing, actuating and controlling, performed to determine and accomplish** the objectives by use of people and resources.

### **NATURE AND CHARACTERISTICS OF MANAGEMENT**

- The production process involves land, labour, capital, organization and entrepreneurship.
- The production is the result of their combined efforts.
- The success of production depends on their effective combination and cooperation.
- The effective balance is a challenging task. Proper skills and knowledge is the management.
- The important characteristics of management are:
  - Stable
  - Applicable to all kinds of organizations
  - Transparent
  - Approaches to be clear and goal oriented
  - Simple and effective
  - It should be responsive to many external elements like economic, technological, social, political and ethical factors.
  - Well defined goals and effective means to accomplish the goals.
  - Good planning, organizing, staffing, directing and controlling functions.
  - Provide conducive atmosphere of work.

### **SCOPE OF MANAGEMENT**

- The management is a must for every organization.
- Management plans the activities, coordinates and utilizes the available resources effectively and efficiently at minimum cost.
- The scope of management is not limited only to business organization but it is extended to Business establishments
- The scope can be extended to important areas of life such as:
  - Development management
  - Distribution management
  - Financial management
  - Marketing management
  - Personnel management
  - Production management
  - Office management
  - Transport management
  - Purchase management
  - Sales management
  - Supply chain management
  - Business management

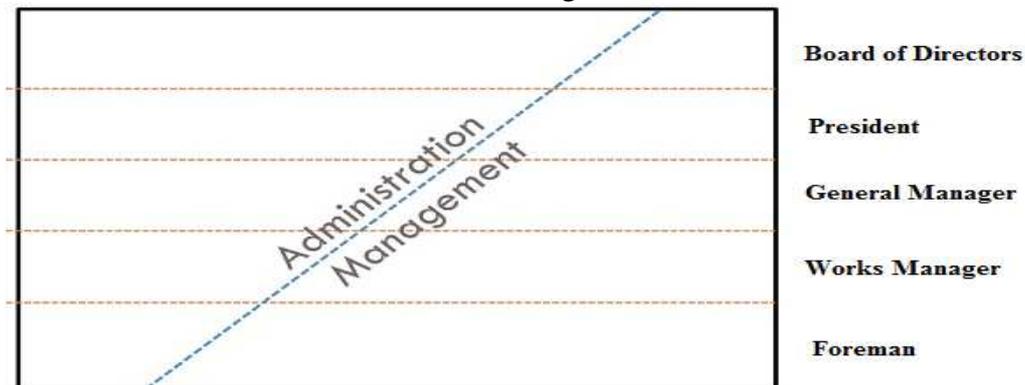
- Its scope starts from self management to home management and to the management of organizations.

### MANAGEMENT AS A SCIENCE, ART OR PROFESSION

- The art is doing things in the light of the realities of a situation under “art” one normally learns the “how” of a phenomenon.
- It is the art of getting things done through others in dynamic and mostly non- repetitive situations.
- The science is an organization knowledge.
- The essential feature of any science is the application of scientific methods to the development of knowledge.
- So management is partly an art and partly a science. Management does not possess the characteristics of a profession.
- A profession is expected to have organized and systematic knowledge, formalized methods of acquiring training and experience.
- But nowadays, management has become a profession than art or science.

### MANAGEMENT AND ADMINISTRATION

- People feel that administration involves “thinking”. It is a top level function that centers around the preparation of plans, rules, policies and objectives of an organization.
- Whereas management involves “doing” and is a lower level function, concerning with execution and direction of policies and operations.
- So administration is more important at lower levels. The time spent in administrative and managerial function at different levels is as in fig.



- Management is regarded as comprehensive generic function covering entire process of planning, organizing, directing and controlling.
- Administration is regarded as a branch of management that has two functions- planning and controlling.
- The function of management is divided into two categories the upper level management called as administrative management and lower level management termed as operative management.
- This can also be defined as managing of business enterprises is called management and managing non-business organizations is called administration.
- Administration determines the policies upon which the enterprise is to be conducted while the function of management is to carry out the policies that are laid down by the administrative group.
- Differences between administration and management

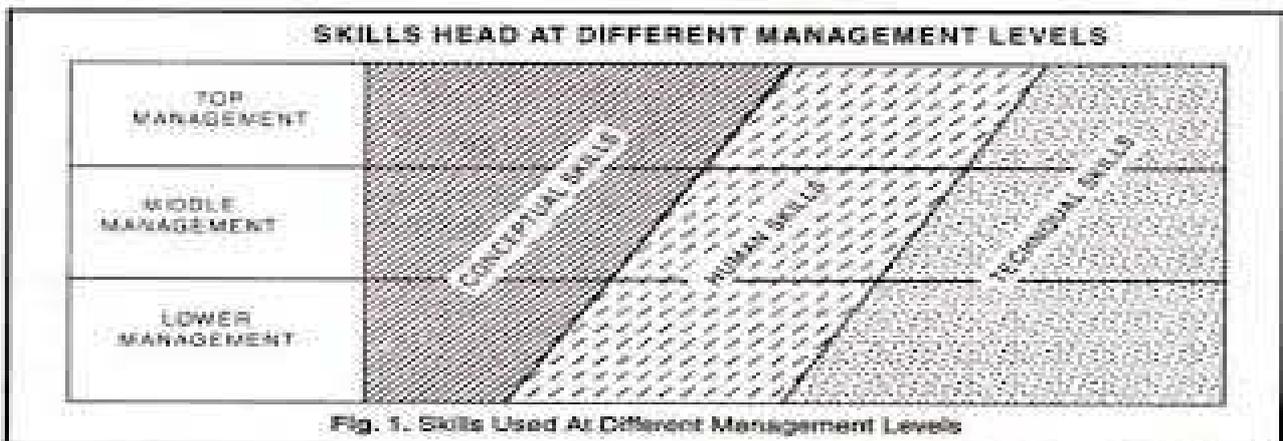
Characteristics	Administration	Management
Main Function	Planning ,Organising and staffing	Leading & Controlling
Status	Act as owner	Act as an agency
Skills	Good Administrative skills	More technical skills
Level in the organization	Top level	Middle/Lower level
Position	MD, Owner, CEO	Manager , Supervisor, foremen etc...
Objective	Makes the polices & objective to be achieved	Implements the plans and policies
Involvement	No direct involvement in production or service	Directly involves in the execution of plans and achieving objectives

## ROLES OF MANAGER

- The three important roles played by a manager are
  - Interpersonal Roles
  - Informational Roles
  - Decisional Roles
- **Interpersonal Roles**
  - Figure head: The manager has to perform some duties that are casual and informal such as attending the functions, taking for lunch etc.
  - Leader: Manager must motivate and encourage his employees. He must try to reconcile their individual needs with the goals of the organization.
  - Liaison: Manager must cultivate contacts outside to collect information useful for his organization.
- **Informational Roles**
  - Monitor: The manager monitors his environment and collects information through his personal contacts.
  - Disseminator: The manager passes some of his information directly to his subordinates.
  - Spokesman: The manager communicates the information/goals of organization to his superiors. He also communicates the performance of company to shareholders and the rules and responsibility to his subordinates.
- **Decisional Roles**
  - Entrepreneur: For the improvement of the organization the manager continuously looks for new ideas, which may result in the development of new products or service or finding a change in work environment.
  - Disturbance Handler: manager works as a problem solver. He finds solutions of various un-anticipated problems both within and outside the organization.
  - Resource Allocator: The manager must divide work and delegate authority among his subordinates. He must decide who will get what.
  - Negotiator: The manager has to spend considerable time in negotiations. Must try to resolve any internal problems like trade agreements, strikes and solve the problems of employees.

## LEVELS OF MANAGEMENT

- Almost all managers perform the same functions of management like planning, organizing, directing and controlling there are levels among them.
  - Top management
  - Middle management
  - First line or supervisory or Lower level management
- Top management consists of Chairman, Directors, Company Presidents, Vice- Presidents, CEO's. These are the people who make policies for the company, set goals and targets. They should possess conceptual and design skills.
- Middle management include finance manager, sales manager, marketing manager, personnel manager, department heads etc.
- Lower level managers are supervisors and foremen.
- Skills at different levels of management or managerial skills
  - Conceptual skills: The ability to view of organization and its future, think in abstract, analyze the forces working in a situation, creative and innovative ability and the ability to assess the environment and changes taking place.
  - Human relations skill: Ability to interact effectively with people at all levels. This skill develops the ability to recognize the feelings and sentiments, to judge the possible reactions, to examine his own concepts and values to develop more useful attitudes.
  - Technical skill: The person's knowledge and proficiency in any type of process or technique.



## **FUNCTIONS OF MANAGEMENT OR PROCESS OF MANAGEMENT**

- The five functions of management are:
  - Planning
  - Organizing
  - Staffing
  - Directing (leading)
  - Controlling
- **Planning:** Determines in advance what should be done. Planning is the function that is referred to as decision making. It involves mission and objectives and action to achieve them.
- This involves the following:
  - Setting short and long term goals for organization.
  - Selecting objectives , strategies and polices for accomplishing the planned goals.
  - Deciding in advance what to do, how to do, who has to do, when to do and where to do.
  - Planning bridges the gap from where we are now to where we want to be in future.
- **Organizing :** Organizing is a part of management that involves in establishing an intentional structure of roles for people to fill in an organization. To organize a business well, it is required

to provide all the useful things for its proper functioning. They are raw materials, tools, capital and personnel. This involves :

- Determination of activities required to achieve goals.
- Grouping these activities into department.
- Assigning groups of activities to manager.
- Forming delegation of authority.
- Making provisions for coordination of activities.
- **Staffing:** This makes the provision for man power to fill different positions. This is done by identifying work-force requirements, recruiting new staff, selecting, placing, promoting, appreciating, planning their career, training the staff to accomplish their tasks effectively and efficiently. This involves:
  - Finding the right person for right job.
  - Selecting the personnel.
  - Placement, training and developing new skills required for present and future jobs.
  - Creating new positions.
  - Apprising the staff and planning their growth and promotions etc.
- **Directing:** Directing involves three sub functions namely communication, leadership and motivation.
- Communication is the process of passing information and understanding from one person to another.
- Leadership is the process by which a manager guides and influences the work of his subordinates.
- Motivation means encouraging the minds of employees of an organization to perform their best.
- **Controlling:** Controlling is measuring and correcting of activities of subordinates to make sure that the work is going on as per the plans. Controlling relates to the measurement of achievement. This involves:
  - Establishing standards of performance.
  - Measuring performance and comparing with established standards.
  - Taking necessary corrective action to meet the set standards.

### Management Cycle

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## PLANNING

- **NATURE OF PLANNING**
- Planning is the most basic function of management. It is “deciding in advance” what to do, how to do, when to do and who has to do it etc.
- It is an intellectual process, which requires a manager to think before acting. It is nothing but thinking in advance. A manager should continuously watch the progress of the plans like a

navigator. Planning involves selection of objectives and goals and determines the ways and means of achieving them.

- Planning bridges the gap from where we are to where we want to be. Planning is vital at all levels of an organization.
- Planning involves four essential qualities:
  - It must contribute to accomplish purpose and objectives.
  - It must be considered as parent exercise in all processes.
  - It must spread through all management functions.
  - It must be efficient in such a manner so as to achieve the designed goals at the least cost.

### **IMPORTANCE OF PLANNING**

- Planning is important because:
  - It overcomes uncertainty and change and minimizes risk.
  - It facilitates effective control.
  - It focuses attention and concentration only on the objectives of enterprise.
  - It makes economic operation and leads to success.
  - It forms the bridge between the present and the future.
- Uncertainty and minimize risk: Planning provides logical facts and procedure to managers for making decisions. This logical decision making based on plans to organization minimizes uncertainty and risk.
- Effective control: Planning sets goals, targets and means to accomplish these goals. These goals and plans become standards or bench marks against which performance can be measured. Thus good plans help effective control on the activity.
- Focuses attention and concentration on the objectives of the enterprise: Planning helps the managers to focus their attention on the goals and activates of organization. This makes entire organization to accomplish the goals.
- Economic operation and leads to success: Planning does not ensure success, but leads to success. If the work is planned in advance, there will be no confusion and things will happen as per plan and can even reduce uncoated expenditure.
- Bridge between the present and the future: There is a vast gap between what we are today and what we want to be in future. A proper and systematic plan forms the bridge between the present and future. Hence planning is important for the success of any organization.

### **PURPOSE OF PLANNING**

- The purpose of planning are:
  - To select from many available alternatives so as to achieve the objectives of the enterprise, economically, effectively and efficiently.
  - To direct all other functions of management.
  - To set up the goals of an enterprise in perspective, within the environment.
  - To help planned goals of an enterprise to break-up into more easily hand able additive-segmented goals.
  - To form the basis for budget.
  - To forecast the future to avoid uncertainty and change.
  - To provide effective control.
  - To search for alternatives and adopt the best way of accomplishing the work.
  - To focus the vision on the objectives and goals.

### **TYPES OF PLANS**

- Based on nature of planning, the planning is classified as strategic planning (Long range planning) and tactical planning (short range planning). The difference between them are:

## Forms of Planning

Strategic Planning	Tactical Planning
It is long term.	It is short term.
Done at top management.	Done at lower levels of management.
It decides the major goals and policies of allocation of resources to achieve these goals.	It decides the detailed use of resources for achieving each goal.
It is generally based on long-term forecasts about technology, political environment etc. and is more uncertain.	It is generally based on the past performance of the organization and is less uncertain.
It is less detailed because it is not involved with the day-to-day operations of the organization.	It is more detailed because it is involved with the day-to-day operations of the organization.

- The hierarchy of organizational plans are:



- Objectives are the broad end of the organization which are achieved by means of strategies. Strategies has two major groups plans – single-use plans and standing plans. Single-use plans, are developed to achieve a specific end; when end is reached the plan is dissolved. The plans are programmes and budgets. Standing plans are designed for situations that recur often.
- Objectives**
  - Objectives are goals or aims which the management wishes the organization to achieve. These are end points towards which all business activities like organizing, staffing, directing and controlling are directed.
  - The objectives should have “vision” “purpose” and “mission”.

- The vision is the dream that an entrepreneur creates and the root for all objectives.
- The purpose of an organization is its primary role defined by the society.
- The mission is the unique aim that sets the organization apart from others.
- Objectives are the specific target to be reached by an organization.
- Characteristics of Objectives:
  - Objectives are multiple in number.
    - These are market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility.
  - Objectives are either tangible or intangible.
  - Objectives have a priority.
  - Objectives are generally arranged in a hierarchy.
  - Objectives sometimes clash with each other.
- Requirements of sound objectives:
  - Objective must be both clear and acceptable.
  - Objectives must support one another.
  - Objectives must be precise and measurable.
  - Objectives should always remain valid.
- Advantages of objectives:
  - Provide a basis for planning
  - They act as motivators
  - They eliminate haphazard action
  - They facilitate coordinated behavior.
  - Function as a basis for managerial control.
  - They facilitate better management.
  - They lessen misunderstanding and conflict.
  - They provide legitimacy to organization's activity.

### **Strategies**

- Strategies is a plan which account the environmental opportunities and threats and the organizational strengths and weaknesses and provides an optimal match between the firm and the environment.
  - Environment Appraisal: An analysis of the relevant environment result in the identification of threats and opportunities. Some of the key factors are:
    - Political and legal factors
    - Economic factors
    - Competitive factors
    - Social and cultural factors
  - Corporate Appraisal: This involves an analysis of the company's strengths and weaknesses.

### **Standing Plans**

- Policies: A policy is general guideline for decision-making. It sets up boundaries around decisions, including those that can be made and shutting out those that cannot.
- Policy is verbal, written or implied overall guide, setting up boundaries that supply the general limits and directions in which managerial action will take place.
- Policy deals with "how to do" the work.
- Advantages of polices
  - Policies ensure uniformity of action and makes action more predictable.
  - Policies speed up decisions at lower levels.

- Policies make it easier for the superior to delegate more and more authority to his subordinates.
- Policies give a practical shape to the objectives.
- Types of policies: They are classified on the basis of sources, functions or organizational level.
- Classification on the basis of sources:
  - On this basis, policies are divided into originated, appealed, implied and externally imposed policies.
- Classification on the basis of organizational level:
  - On the basis of business functions, policies may be classified into production, sales, finance, personnel policies etc.
- Classification on the basis of organizational level:
  - Policies range from major company policies through major departmental policies to minor or derivative policies applicable to the smallest segment of the organization.
- Guidelines for effective policy-making:
  - Policies should be in writing
  - Policies should reflect the objectives
  - Top managers and subordinates must participate in the formation of policies.
  - Policy must strike a reasonable balance between stability and flexibility.
  - Policies in the organization should not pull in different directions.
  - Policies should not be detrimental to the interest of society.
  - Policies must be comprehensive.
  - Policies should be periodically reviewed.
- Procedures: A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work.
- Procedures are to be followed every time when activity is performed.
- Difference between policy and procedure:

Policy	Procedure
General guidelines of the organization.	General guidelines at the action level.
Top level activity.	Departmental activity.
Policies fulfill the objectives of an organization	Procedures guide the way to implement the policies.
Policies are often made without any study or analysis.	Procedures are always made after through study and analysis of work.

- Methods:
  - A method is a prescribed way in which one step of a procedure is to be performed. Thus method is a part of procedure.
  - Method help in increasing the effectiveness and usefulness of the procedure.
  - A procedure has a number of steps, each step may have number of methods to do it.
- Rules:
  - Rules are detailed and recorded instructions that a specific action must or must not be performed in a given situation.
- Single-use plans
  - Programmes

- Budgets

## STEPS IN PLANNING

- **Establishing goals/objectives**

- To determine the enterprise objectives and once the organizations objectives are determined, the section wise or department wise objectives are planned at the lower level.

- **Establishing planning premises**

- That is the conditions under which planning activities will be undertaken.

The planning premises can be classified as below:

- Internal and External premises.
- Tangible and Intangible premises.
- Controllable and non-controllable premises.

- **Deciding the planning period**

The factors which influence the choice of a period are:

- Lead time in development and commercialization of a new product.
- Time required for recovering capital investment or the pay back period.
- Length of commitment already made.

- **Identification of alternatives course of action**

- A particular objective can be achieved through various actions.

- **Evaluation and selection of course of action**

- **Developing derivative/supportive plans**

- **Measuring and controlling the process**

## LIMITATIONS OF PLANNING

- Planning is time consuming Process. It involves significant amount of money energy and risk without any assurance of the fulfillment of organization's objectives.
- Planning sometimes restricts the organization to the most rational and risk free opportunities.
- Scope of planning is said to be limited in the case of organizations with rapidly changing situations.
- Establishment of advance plans tend to make administration inflexible.
- Difficulty of formulating accurate premises.
- Planning may sometimes face people's resistance to it.

## DECISION-MAKING

### Meaning

- A decision is choice between two or more alternatives.
- Decisions are made by the managers and actions are taken by others.
- Decision- making is commitment to something, a point of view, a principle or course of action.

It implies three things:

- When manager make decisions they are choosing-they are deciding what to do on certain basis.
- Managers have alternatives available when they are making a decision. It requires wisdom and experience to select best one.
- Managers have a purpose in mind when they make decision.

## TYPES OF DECISIONS

- **Decisions are classified as:**

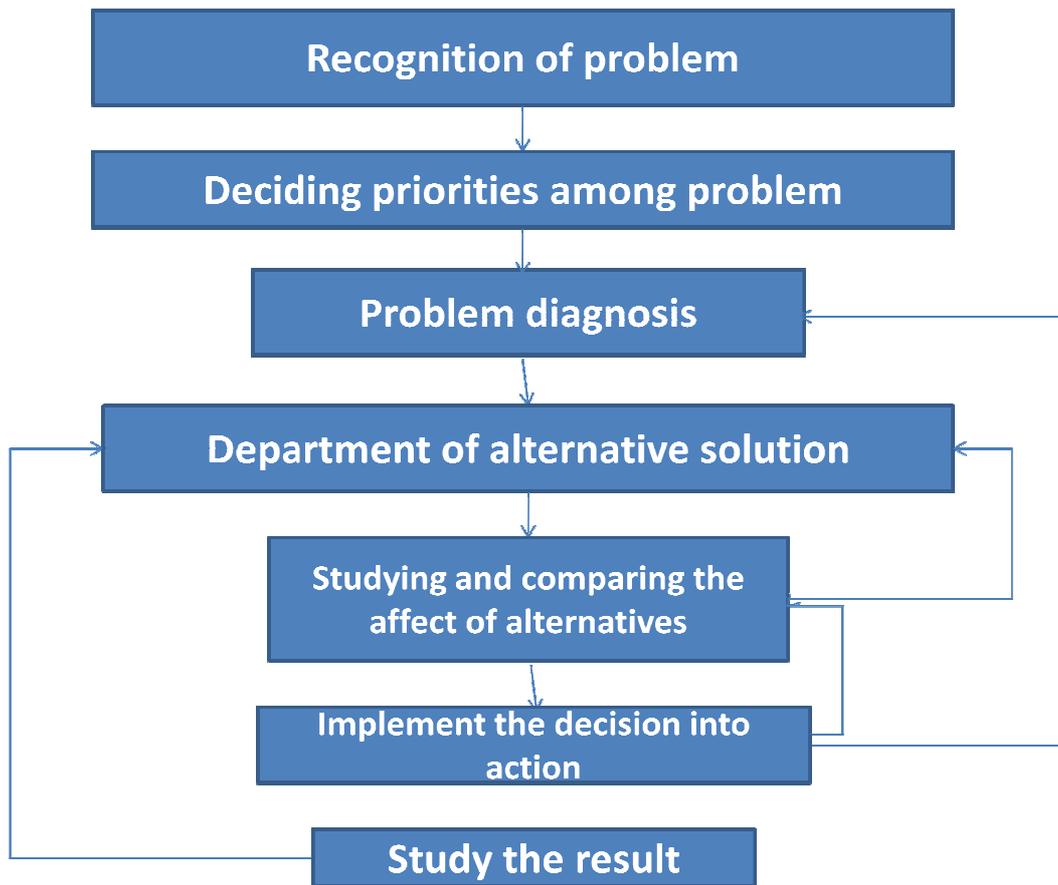
- **Programmed and non-programmed decisions:**

- Programmed or Pragmatic are those decisions taken within purview of the policies, rules or procedure. These are routine decisions or structured decisions.

- Non-programmed or non Pragmatic decisions are called as strategic decisions. These involve heavy expenditure and are generally taken by top management.
- **Individual and collective decisions**
  - Group decision-making has advantages like increased acceptance, better communication and better coordination.
- **Major and minor decisions**
  - Minor decision are related to day to day periodical occurrences.
    - Example: Purchase of stationary, granting leaves and permissions etc.
  - Major decisions generally done by top management.
    - Example purchase of new machinery, employing new technology, hiring new people etc.
- **Strategic and routine decisions**
  - Strategic decisions are generally done by top management.
  - Example price increase/ discount, Change in product range etc
  - Routine decisions are day to day decisions.
- **Simple and complex decisions**
- **Temporary (Ad-hoc) and permanent decisions.**
  - Some decisions are to be taken depending on situation till the solution is found.
  - Permanent decisions are taken on permanent basis.

#### **Decision Making Process: Steps in Rational Decision Making**

- The steps in decision making are:
  - Recognizing the problem.
  - Deciding priorities among the problems.
  - Diagnosing the problem.
  - Developing alternative solutions or courses of action.
  - Measuring and comparing the consequences of alternative solutions.
  - Converting the decision into effective action and follow up of action.



- Recognition of problem
  - A problem may exist either due to deviation from past experience, deviation from plan, when competitors outperform and when people bring problems to the manager.
- Deciding priorities among problem
  - The manager must identify the problems which he can solve, which he feels that his subordinates can solve and which are to be referred to higher officials.
- Problem diagnosis
  - Managers should follow system approach in diagnosing a problem. A thorough study need to done before arriving at solution.
- Development of alternative solutions
  - Every problem there will be some alternative solutions. Alternatives do exist. Manager has to find it out.
- Studying and comparing the affect of alternatives
  - The alternative solutions are measured and compared as well as quality and acceptability is analyzed.
- Implementation of the decision into action
  - This requires the communications of the decisions to the concerned employees in clear and simple terms.
- Study of results
  - The manager has to carry out the follow up action. If the result is not satisfactory, the manager has to take necessary corrective action or modify his decision. Some of the difficulties faced by manager are: Incomplete information, Non-conductive environment, Opposition by subordinates, improper communication, Wrong timing, Statutory regulations, Government policies, External influences and Lack of support.

## MODULE- 2

### Organizing and Staffing & Directing and Controlling

#### ORGANIZING

- **MEANING**

- Organization provides the structure, the frame on which the management of the enterprise is based.
- An organization is a social unit or human grouping deliberately structured for the purpose of attaining specific goals.
- An organization as the rational coordination of the activities of a number of people for the achievement of some common goal.
- The process of identifying and grouping of the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most efficiently together in accomplishing the objectives.

#### **Nature and Characteristics of Organization**

- Organizing is the grouping of activities necessary to attain objectives.
- An organization should be designed to clarify who is to do what and who is responsible for what results.
- Two types of organizations are:
  - **Formal Organization:**
    - It must be flexible and there should be room for discretion, for taking advantage of creative talents.
  - **Informal Organization:**
    - It is any joint personal activity without conscious joint purpose, even though possibly contributing to joint results.

#### **Characteristics**

- Every organization has a purpose, goals which are the task of planning.
- A clear concept of the major duties or activities required to achieve the purpose.
- Classification of activities into jobs.
- Establishment of relationships between these jobs.
- The organizations are classified into four categories. Organizations which benefit their **owners, members, clients and whole society.**

#### **PROCESS OF ORGANISING**

- Organizing means designing the organization structure. The manager differentiates and integrates the activities of the organization.
- Differentiation is meant the process of departmentalization or segmentation of activities on the basis of some homogeneity.
- Integration is the process of achieving unity of effort among the various departments.
- The seven-step procedure are:
  - **Consideration of objectives:** Objectives determine the various activities which need to be performed and the type of organization which need to be build for this purpose.
  - **Deciding Organizational Boundaries**

- Grouping of Activities into Departments: To identify the activities necessary to achieve them and to group the closely related and similar activities into departments and sections.
- Deciding which Departments will be Key Departments: the departmental activities essential for the fulfillment of goals.
- Determining levels at which various types of Decisions are to be made: The levels at which various major and minor decisions are to be made must be determined.
- Determining the span of management: Designing the structure is to determine the number of subordinates who should report directly to each executive.
- Setting up a Coordination mechanism: As individuals and departments carry out their specialized activities, the overall goals of the organization may become submerged or conflicts among organization members may develop so need to be checked. The activities, decision and relations analysis need to be done.

## **PRINCIPLES OF ORGANISING**

- The principals are:
- Objectives: The objectives of enterprise influence the organization structure and hence the objectives of the enterprise should first be clearly defined.
- Specialization: The activities of the enterprise should be divided according to functions and assigned to persons according to their specialization.
- Span of Control: As there is a limit to the number of persons that can be supervised effectively by one boss, the span of control should be as far as possible, the minimum.
- Management by Exception principle: only complex problems should be referred to higher level and other problems should be dealt by lower level.
- Scalar Principal (chain of command): The line of authority from the chief executive at the top to the first-line supervisor at the bottom must be clearly defined.
- Unity of Command: Each subordinate should have only one superior whose command he has to obey.
- Delegation: Proper authority should be delegated at the lower levels of organization also. The authority delegated should be equal to responsibility.
- Responsibility: The superior should be held responsible for the acts of his subordinates.
- Authority: Authority is the tool by which a manager is able to accomplish the desired objectives.
- Efficiency: The organization structure should enable the enterprise to function effectively and accomplish its objectives with the lowest possible cost.
- Simplicity: Organization structure should be as simple as possible and levels should be as far as possible, be minimum.
- Flexibility: The organization should be adaptable to changing circumstances.
- Balance: A reasonable balance in the size of various departments, between centralization and decentralization.
- Unity of Direction: One objective and one plan for a group of activities having the same objectives.
- Personal Ability: There is need for proper selection, placement and training of staff.
- Acceptability: The structure of the organization should be acceptable to the people who constitute it.

## DEPARTMENTALISATION

- The horizontal differentiation of tasks or activities into discrete segments is called departmentalization.
- There are several bases for departmentalization, each of which is suitable for particular corporate size, strategies and purposes.
- **FUNCTIONS**
  - Each major function of the enterprise is grouped into a department. Various functions are Marketing, Engineering, Production, Finance, Personnel, Purchase etc.
  - Advantages:
    - Simple form of grouping activities for small organizations which manufacture only a limited number of products or render only a limited number of services.
    - It promotes excellence in performance.
    - It leads to improved planning and control of the key functions.
    - It ensures economy, there is only one department related to one function for the entire function.
  - Drawbacks
    - De-emphasizes overall company objectives.
    - Leads to over specialization of people.
    - Reduces coordination between functions.
    - Slow adoption to changes in environment.
    - Limits development of general managers.
- **PRODUCTS**
  - This is more suitable for a large organization that manufactures a vast variety of products.
  - Under this separate groups or departments are created and each department is controlled by a manager who will be responsible for all the activities of that sub group.
  - Each subgroup will have its own facilities required for manufacture, purchase, marketing and accounting etc.
  - **Advantages:**
  - Top management is relieved of operational task enabling them to concentrate more on common goals.
  - Enables top management to compare the performances of different products and invest more resources in profitable products.
  - Managers of individual products put better effort to improve his area compared to others.
- Drawbacks:
  - This form results in duplication of staff and facilities.
  - Extra expenditure is incurred in maintaining a sales force for each product line.
  - Employment of large number of managerial personnel is required.
  - May result in under utilization of facilities and equipments.
- **CUSTOMERS**
- An enterprise may be divided into a number of departments on the basis of the customers that it services.

- The advantage is it ensures full attention to major customer groups which have a very different set of criteria governing their decision to purchase.
- The disadvantages of this form are
  - It may result in under- utilization of resources and facilities.
  - May be duplication of facilities.
- **REGIONS or TERRITORY**
- When several production or marketing units of an organization are geographically dispersed in various locations, it is logical to departmentalize those units on geographical basis.
  - **Advantages:**
    - It motivates each regional head to achieve high performance.
    - It provides each regional head an opportunity to adapt to his local situation.
    - It affords valuable top-management training and experience to middle-level executives.
    - It enables Organization to compare Regional Performances & invest more in Profitable Areas & withdraw Resources from Unprofitable Ones.
  - **Drawbacks:**
    - It gives rise to duplication of various activities.
    - Various regional units may become so engrossed in short-run competition and forget the overall interest of total organization.
- **TIME**
- In departmentalization by time, activities are grouped on the basis of timing of their performance.
  - **Advantages:**
    - Facilitates use of processes that cannot be stopped or interrupted.
    - Expensive capital equipment can be better utilized.
    - Higher and continuous production per day
  - **Drawbacks:**
    - Lacks good end efficient supervision during night shifts.
    - Lack of effective coordination and communication from people of one shift to next shift.
    - Loss of product or service may increase.
- **PROCESS**
- Departmentalization is done on the basis of several discrete process or technologies involved in the manufacture of a product.
  - **Advantages:**
    - It facilitates the use of heavy and costly equipment in an efficient manner.
    - It follows the principle of specialization.
  - **Drawbacks:**
    - Workers tend to feel less responsible for the whole product.
    - It does not provide good training and opportunity for overall development of managerial talent.
    - Top management needs to devote extra attention to maintaining inter-department co-operation.

## **COMMITTEE**

- “A committee is a group of persons performing a group task with the object of solving certain problems”.

- Complex business world, some of the administrative tasks cannot be performed by a single person alone.
- Such situations may call for two or more persons to perform such tasks.
- A committee is a group of people pooled to carry out a defined objective.
- A committee is a body of persons appointed or elected to meet on an organized basis for the consideration of matters brought before it.
- The area of operation of a committee is determined by its constitution.
- **Principles:**
- The no. of persons in a committee should depend upon need(5 to 10).
- Responsibility, authority, objectives, duties of the committee should be clearly defined.
- Agenda of the committee should be proposed or communicated to committee at least a week before they meet for discussion.
- Problems which can be taken care by individual should not be included in the agenda of the committee.
- Committee meeting should begin and end on prefixed timings.
- Problems not related to the subject should not be discussed because it will be a waste of time.
- The recommendation made by committee should be published and circulated to interested and concerned persons.
- The committee should be appraised , if this action is taken based upon its recommendation.
- A committee must be dissolved after its purpose.

Various functions of committee are:

- Collect the necessary information from different sources and arrange them in order.
- The collected information is critically examined and analyzed.
- Draft a detail report containing the recommendations for the purpose of implementation.
- Farming the policies of the organization.
- Selection of personnel, directing and controlling the officers at regular intervals to achieve the goals.

### **Types of committee :**

Classified according to the place and purpose,

- Standing or permanent committee
- Temporary committee.
- General advisory committee.
- Joint consultative committee.
- Academic committee.
- Religious committee.
- Educational.
- **Advantages of Committees**
- Committees provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds.
- Committees are excellent means of transmitting information and ideas both upward and downward.

- Committees are impersonal in action and hence their decisions are generally unbiased and are based on facts.
- When departmental heads are members of committee, people get an opportunity to understand each others problems and hence improve coordination.
- **Weaknesses of Committees**
- In case a wrong decision is taken by committee, no one is held responsible which may results in irresponsibility among members.
- Committees delay action
- Committees are expensive form of organization.
- Decisions are generally arrived at on the basis of compromise and hence they are not best decision.
- As committee consists of large number of persons, it is difficult to maintain secrecy.

### **SPAN OF CONTROL**

- The span of control indicates the number of subordinates who can be successfully directed by a supervisor.
- It is often referred to as span of management, span of supervision, span of authority.
- Span of management is important because of two reasons.
- First is span of management affects the efficient utilization of managers and the effective performance of the subordinates.
- If the span is too wide, managers are overburdened and subordinates receive little guidance. If the span of management is too narrow, the managers are under utilized and subordinates are over controlled.
- The second reason is there is relationship between span of management and organization structure.
- A narrow span results in tall organization with many levels of supervision between top management and lowest organizational levels which creates more communication and cost problems.
- On the other hand, a wide span for the same number of employees results in flat organization with fewer management levels between top and bottom.
- **Factors Affecting the Span of Management**
- Ability of the manager
- Ability of the employees
- Type of work
- Geographic location
- Well-defined authority and responsibility
- Level of management
- Economic considerations

### **Centralization Vs Decentralization of Authority and Responsibility**

- Centralization refers to systematic reservation of authority at central points within the organization.
- Centralization means retention or concentration of managerial authority in few key managerial positions at the nerve center of an organization i.e., at the top level.

- Everything that goes to reduce the subordinate’s role in decision making is centralization.
- Decentralization means dispersal of decision-making power to lower levels of the organization.
- In decentralized setup, ultimate authority to command and ultimate responsibility for the results is localized as far down in the organization.
- “Decentralization refers to the systematic effort to delegate to the lower levels all authority except that which can only be exercised at central points”.
- In decentralized setup large number of decision, important decisions in large number of areas are made consulting few people.
- Advantages in decentralization
  - It eases the burden of top level managers.
  - Decentralization permits quicker and better decision making.
  - With decentralization capable managers can be developed
  - Promotes participation in decision making and improves morale and motivation.
  - Decentralization facilitates diversification of products.
  - Disadvantages of decentralization
- It increases administrative expenses.
- It may create problems in bringing coordination among various units.
- It may bring about inconsistencies in the company, because uniform procedures may not be followed for the same type of work in various divisions.
- **DELEGATION VS DECENTRALIZATION**
  - Delegation is a process while decentralization is the end result of a deliberate policy of making delegation widespread in the organization.
  - Delegation takes place between a superior and a subordinate while decentralization is company wide delegation as between top management and the departments or division of the organization.
  - In delegation, delegator exercises supervision and control over the delegate, while in decentralization, top management exercises broad minimum control.
- Principles of Delegation
  - Receptiveness
  - Willingness to let go
  - Willingness to let others make mistakes
  - Willingness to trust subordinates
  - Willingness to establish and use broad controls
- **Authority and Power**

Authority	Power
<b>It is the institutionalized right of a superior to command and compel his subordinates to perform a certain act.</b>	<b>It is ability of a person to influence others.</b>
<b>It rests in the position</b>	<b>It rests in the individual.</b>
<b>It is delegated to an individual by his superior.</b>	<b>It is earned by individual</b>

<b>It is well defined</b>	<b>It is undefined and infinite.</b>
<b>It is what exists in the eye of law.</b>	<b>It is what exists in fact. It is a de facto concept.</b>

- **Responsibility**
- The obligation of a subordinate, to whom a duty has been assigned, to perform the duty.
- Responsibility arises from a superior- subordinate relationship.
- Responsibility is divided into two parts namely operating responsibility and ultimate responsibility.
- If the subordinate fails to perform the job (operating responsibilities) the superior is held responsible for this failure (Ultimate responsibility)

### **NATURE AND IMPORTANCE OF STAFFING**

- Staffing is filling and keeping filled, positions in the organization structure. It is human resource management.
- The staffing is important because
  - It helps in discovering talented and competent workers and developing them to move the organizational ladder.
  - Staffing is important to put the right person at right job which results in increased production.
  - It avoids sudden disruption of the production due to shortage of workers, since it plans and fills the positions.
  - It maintains harmony and creates healthy atmosphere.
  - It plans the requirement of man power at various time and levels of project.
- Elements of staffing
  - Proper placement of people.
  - Rational recruitment and selection.
  - Proper positioning and fixation of salaries.
  - Providing necessary training for the people to carry out job.
  - Good promotional policies and retirement scheme.
- Functions of staffing
  - Man Power planning
  - Development
  - Fixing employment standards
  - Source of selection
  - Selection
  - Training
  - Routine functions

### **RECRUITMENT**

- Recruitment is the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs.
- It is a linking activity that brings together those offering jobs and those seeking jobs.

- Recruitment refers to the attempt of getting interested applicants and providing a pool of prospective employees so that the management can select the right person for the right job from this pool.
- The various sources of recruitment are divided into two categories:
  - **Internal Sources.**
  - **External Sources.**

#### **Internal sources**

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

#### **External Sources**

- Direct recruitment
- Unsolicited applications
- Advertising
- Employment agencies
- Educational institutions
- Labour contractor
- Recommendations

#### **SELECTION**

- The process of selection leads to employment of persons having the ability and qualifications to perform the jobs which have fallen vacant in an organization.
- It divides the candidates into two categories; those who will be offered employment and those who will not be.
- The basic purpose of the selection process is choosing right type of candidates to man various positions in the organization.

#### **Selection process:**

- Receipt of applications
- Screening of applications
- Employment tests
- Interviews
- Background investigation and medical examination
- Final selection

#### **DIRECTING AND CONTROLLING**

##### **MEANING AND NATURE OF DIRECTING**

- Directing means issuing of orders leading and motivating subordinates as they go about executing orders.
- Direction is a function of management which is related with instructing, guiding and inspiring human factor in the organization to achieve organizational mission and objectives. There are three elements of direction, namely communication leadership and motivation.

- Directing is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively to the attainment of enterprise objectives.
- Directing consists of the process and techniques utilized in issuing instructions and making certain that operations carried on of originally planned.
- Principles of Directions
  - Harmony of objectives
  - Unit direction of command
  - Efficiency
  - Direct supervision
  - Effective communication
  - Effective control
  - Follow-through
- **LEADERSHIP**
- Leadership is the art of process of influencing people so that they will strive willingly towards the achievement of group goals.

### **LEADERSHIP STYLES**

- Traits approach
  - The leadership dealt with personal abilities
- Behavioral approach
  - The theories based on leadership behavior style are
    - Leadership based on the use of authority
    - Likert's four systems of managing
    - The managerial grid
    - Leadership involving a variety of styles and level of use of power and influence.
- Contingency approach to leadership
  - Which combines both autocratic and democratic

### **Motivational Theories**

- Maslow's Need Hierarchy Theory
- Herzberg's Two Factors Theory
- McClelland's Achievement Theory
- Victor Vroom's Expectancy Theory
- Adam's Equity Theory
- Skinner's Behavior Modification Theory
- Carrot and Stick Approach

### **Maslow's Theory of Motivation**

**Abraham Maslow** is considered the Pioneer in contributing a systematic scheme of Hierarchy.

After a proper research he came to the conclusion that there are some needs of the employees which they expect to be satisfied once they join an organisation upon which they get motivated to work.

A gap between the two may lead them to work slow or refuse to work

### **Maslow's Hierarchy of Needs**

Maslow suggested the following needs for human motivation which could be organised hierarchically as :

- Physiological needs
- Safety needs
- Social needs
- Esteem needs
- Self actualization



- **Physiological needs** : This being the lowest order includes the need for food water clothing and shelter for a person who lacks everything this could be the major motivation. This should be the first need to be satisfied.
- **Safety needs** : This is the next important after physiological needs these are the needs for protection against danger or loss of existing physiological needs.
- **Social needs** : this being III in line comprises of social needs that is giving and receiving of love friendship affection belongingness association and acceptance. If a person census the absence of his friends this will motivate him towards affectionate relations.
- **Esteem needs** : this been the fourth level can be subdivided into two categories :
  1. Need for achievement strength and freedom.
  2. Need for self esteem or self worth
- **Self actualization** : this being the highest level of hierarchy is the need to realise one's potential for continued self development and desire to become more of what one is capable of. This is known as self-realization or self attenuation.

### Motivation hygiene theory

This theory being the basis of effective utilisation of human resources was developed by **Frederick Herzberg** of the University of Utah.

He started collecting information from various interviews that What were they asked that made them unsatisfied and what made them satisfied ?

He concluded with 2 categories of people, the satisfied and dissatisfied. Satisfied peoples are concerned about the work which is called motivation factors where has the this satisfied people are concerned about the work environment which is the hygiene factor.

### Comparison between hygiene and motivation factors

#### Hygiene factors

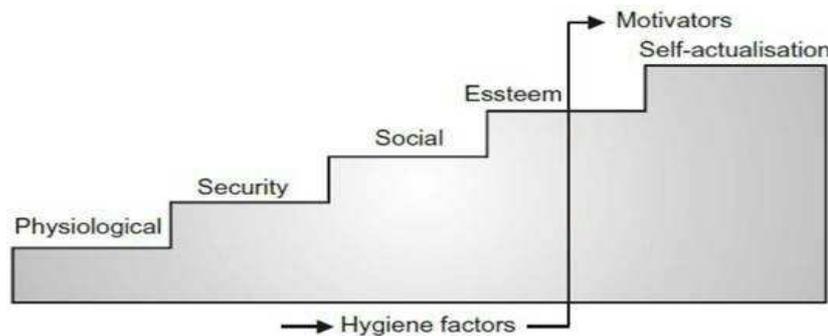
- Environment
- Policies and administration
- Supervision
- Working conditions
- Interpersonal relations
- Money status in security

#### Motivating factors

- The job
- Achievement
- Recognition for accomplishment
- Challenges and responsibility
- Growth and development



- **Motivators** : it is the feeling of achievement or recognition in jobs. These often increase productivity.
  - **Hygiene factors** : these may not be an integral part of the job, it has not produced the growth in workers output capacity But only prevent output losses in worker performance due to retraction.
- The lower of maslows hierarchy of needs came under hygiene factor while esteem in half hygiene and half motivating factor. Self actualization is completely motivating factor.



### Communication – Meaning and Importance

- Communication is an exchange of facts, ideas, opinions or emotions by two or more persons.
- Systems of communication
  - According to organizational structure
    - Formal
    - Informal
  - According to direction of expression
    - Downward
    - Upward
    - Horizontal
  - According to the way of expression
    - Oral or Verbal
    - Written

### Coordination- Meaning and Importance

- Need to coordinate the activities to achieve common objectives.
- 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.
- Importance of coordination
- Unity in diversity
- Specialization
- Team work
- Large number of employees
- Empire building
- Functional differences

- Recognition of goals
- Communication
- Interdependency
- Techniques of coordination
  - Rules, Procedures and Policies
  - Planning
  - Hierarchy
  - Direct Contact
  - Task Force
  - Committees
  - Induction
  - Indoctrination
  - Incentives
  - Liaison Department
  - Workflow

### **Controlling – Meaning**

- Controlling is to identify the variations between the set standards and actual performance and then to take necessary steps to correct it and prevent such deviations in future.
- 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 Controlling**

- Three steps in control process are
- Establishing standards
  - The standards must be established against which results can be measured. Standards may be qualitative or quantitative. Following types are :
    - Physical standards
    - Cost standards
    - Revenue standards
    - Capital standards
    - Intangible standards
    - Working practice standards
- Measuring and comparing actual results against standards
  - Measurement of performance can be done by personal observation or by a study of various figures, reports, charts and statements. Comparison is very easy if the system of control is well defined.
- Taking corrective action
  - The management has to take necessary corrective action based on the nature of causes of deviation.

## MODULE- 3

### **Social Responsibilities of Business & Entrepreneurship**

#### **Meaning of Social Responsibility**

- Social responsibility is the manager's responsiveness to public agreement.
- Two types of business obligations are:
  - Social-economic obligation
    - The economic consequences of its action do not affect public welfare.
  - Social-human obligation
    - To nurture and develop human values.
- Different views on Social Responsibility
  - Communist view
  - Capitalist view
  - Pragmatic view
  - Trusteeship view

#### **Social Responsibilities of Business towards Different Groups**

- Towards Employees and Workers
  - A fair wage to the workers
  - Just selection, training and promotion
  - Social security measures and good quality of life
  - Good human relations
  - Freedom, self-respect and self-realisation.
  - Increase in productivity and efficiency by recognition of merit, by providing opportunities for talent.
- Towards shareholders and other businesses
  - Promoting good governance through internal accountability and transparency.
  - Fairness in relations with competitors.
- Towards the state
  - Shunning active participation in and direct identification with any political party.
  - Observing all the laws of land.
  - To provide safeguard against errant business practices.
  - To allocate limited resources according to social priorities and preferences.
  - To enforce distributive justice to weaker selection of community.
  - To implement rural uplift and secure balanced development of the country.

#### **Social audit**

- A systematic study and evaluation of the organizations social performance as distinguished from its economic performance.
- Benefits
  - It supplies data for comparison with the organization's social policies and standards.
  - It develops a sense of social awareness among all employees.
  - It provides data for comparing the effectiveness of different types of programmes.
  - it provides information for effective response to external groups which make demands on the organization.

- Limitations
  - A social audit is a process audit rather than an audit of results. It determines only what an organization is doing in social areas.
  - They are difficult to measure.
  - Their classification under good or bad is not universally accepted.
  - Most of them occur outside the organization, makes difficult to secure data.

## **Business Ethics and Corporate Governance**

- **Business Ethics**
- Business ethics is the application of moral principles to business problems. It involves goodness or badness of an act. The four important factors are:
  - Government legislation
  - Business codes
  - Pressure groups
  - Personal values of the manager himself.
- **Corporate Governance**
- In this companies run in an open and honest manner in the best interest of all stake-holders. The key elements are transparency and accountability. Major recommendations of this committee are:
  - Formal selection process
  - Companies should have remuneration committees
  - Companies should have Audit committees
  - Audit partners should be rotated.
- Benefits
  - It creates overall market confidence and long –term trust in the company.
  - It leads to an increase in company’s share prices.
  - It ensures the integrity of company’s financial report.
  - It maximizes corporate security.
  - It limits the liability of top management.
  - It improves strategic thinking at the top.

## **Entrepreneurship**

- **Definition of Entrepreneur**
- The entrepreneur is essentially a visualizer and an actualizer. He can visualize something, and when he visualizes it he sees exactly how to make it happen.
- An individual who bears the risk of operating a business in the face of uncertainty about the future conditions.
- He is the one who innovates, and introduces something new in the economy.
- An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices.
- **IMPORTANCE OF ENTREPRENEURSHIP**
- The significance are economic development, industrial development, regional growth and employment generation.

- Entrepreneur provides opportunities to unemployed youth, increase in per capita income, higher standard of living and increased individual savings, revenue to the government in the form of TAX.
- They invented new products. Also to capitalize on new opportunities and to create wealth and new jobs.
- In an entrepreneurship, it is you who set the goals, plan the action and reap the satisfaction and rewards of having achieved the goal.
- If you become an entrepreneur
- You will be your own boss and boss to other people and make decisions that are critical to the business success or failure.
- You will have the chance to put your ideas into practice.
- You will make money for yourself rather than for someone else.
- You will participate in every aspect of running a business and learn and gain experience in a variety of disciplines.
- You will have chance to work directly with your customers.
- You will have the personal satisfaction of creating and running a successful business.
- You will be able to work in the field or area that you really enjoy.
- You will have the chance to build retirement value.
- **Difference between a Manager and an Entrepreneur.**

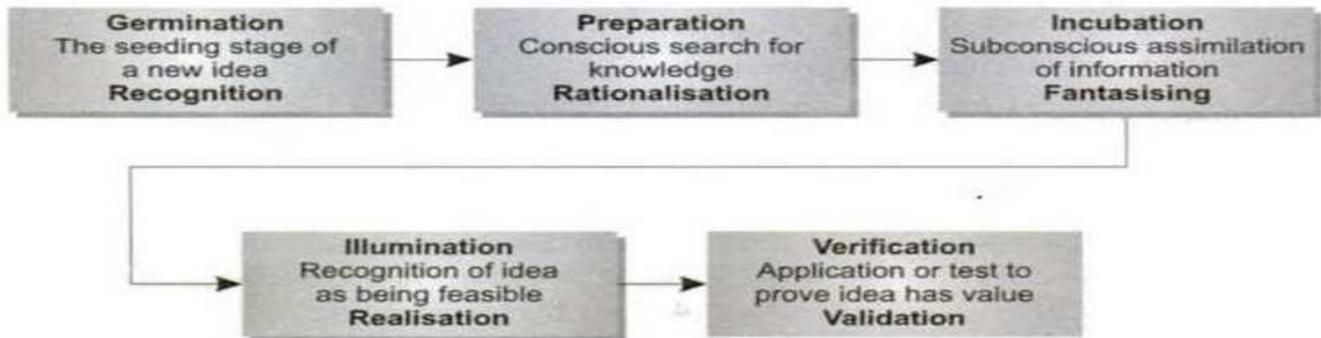
Entrepreneur	Manager
Own boss	Salaried employee
Takes own decisions	Executes the decisions of the owner
Hires employees	He is an employee
Uncertain rewards which can be unlimited.	Fixed rewards and salary

### CONCEPTS OF ENTREPRENEURSHIP

- Entrepreneur is a person who creates an enterprise. The process of creation is called as entrepreneurship.
- Entrepreneurial development is a key to socio-economic transformation of the region.
- Entrepreneurship can be defined as a process of action an entrepreneur undertakes to establish his enterprise.
- The word entrepreneur is derived from the French Verb *entreprenre*, means *to undertake*. This refers to those who undertook the risk of new enterprises.
- Entrepreneurial development process is in five stages.
  - Stage 1: Perceiving, identifying and evaluating an opportunity.
  - Stage 2: Drawing up a business plan.
  - Stage 3: Marshalling resources.
  - Stage 4: Creating the enterprise.
  - Stage 5: Consolidation and management.

### CHARACTERISTICS OF A SUCCESSFUL ENTREPRENEUR

- The characteristics are:
  - Creativity: The ability to bring something new into existence.
  - The creative process is



- Innovation: The act that endows resources with a new capacity to create wealth.
- Dynamism: Dynamism constitutes a potential contribution and revises the targets of the enterprise.
- Leadership: Leadership is the basic quality of an entrepreneur and takes him forward.
- Teambuilding: An entrepreneur should have an ability to build a team. A team is group of individuals with a common purpose. The skills are:
  - Wanting to feel better
  - Identifying the problem and needs of the enterprise
  - Creating a vision
  - Setting goals for the group
  - Reviewing progress
- Achievement motivation: Entrepreneurs have a high need for achievement and are guided by their inner self, motivating their behavior towards accomplishment.
- Problem solving: the ability to solve problem and not to avoid them. The six steps are:
  - Define a problem
  - Gather information
  - Identify various solutions
  - Evaluate alternatives and select the best option.
  - Take action
  - Evaluate the action taken.
- Goal orientation: Goal setting is the achievement of targets and objectives for successful performance of an entrepreneur. The three steps are:
  - Definition of goal
  - Specific goals
  - Feedback about goal achieved
- *Aspects of goal setting*
  - Clarity of goals
  - Reformulation of goals
  - Restating goals
  - Plan of action
  - Defining standards of performance and measurement

- Recognizing risk and obstacles
- Goal reaffirmation
- Goal attainment.
- Types of Goals
  - Target oriented
  - Achievement oriented
  - Specific
  - Overall
  - Secondary
  - Long range/ short range
  - Personal/ social
- Risk taking and decision- making ability: Entrepreneurs are persons who take decisions under conditions of uncertainty, and therefore are willing to bear risk, but never gamble with results.
- Commitment: The amount of willpower.

### CLASSIFICATION OF ENTREPRENEURS

#### a) Based on Functional Characteristics

1. Innovative entrepreneur
2. Imitative or adoptive entrepreneur
3. Fabian entrepreneur
4. Drone entrepreneur

#### b) Entrepreneurial Core Competencies

	Core competencies	Entrepreneurial activities
1.	Initiative	Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.
2.	Perceiving opportunities	Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
3.	Persistence	Takes repeated or different actions to overcome obstacles.
4.	Information gathering	Consults experts for business and technical advice. Seeks information of client or supplier's needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.
5.	Concern for quality work	States desire to produce or sell a better quality product or service. Compares his performance favorably with that of others.
6.	Commitment to contractual obligations	Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in with workers or work in their place to get the job done and shows utmost concern to satisfy the customer.
7.	Efficiency orientation	Finds ways and means to do things faster, better and economically.

8.	Planning	Various inter-related jobs are synchronized according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	Experience	Possesses technical expertise in areas of business, finance, marketing, etc.
12.	Self-critical	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.
13.	Persuasion	Persuades customers and financiers to patronize his business.
14.	Use of influence strategies.	Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.
15.	Assertiveness	Instructs, reprimands or disciplines for failing to perform.
16.	Monitoring	Develops a reporting system to ensure that work is completed and quality norms.
17.	Credibility	Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
18.	Concern for employee welfare	Expresses grievances. concern for employees by responding promptly to their.
19.	Impersonal relationship	Places long-term goodwill over short-term gain in a business relationship.
20.	Expansion of capital base	Reinvests a greater portion of profits to expand capital of the firm.
21.	Building product image	Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

b) Based on the Development Angle

1. Prime mover
2. Manager
3. Minor innovator

4. Satellite
  5. Local trading
- c) Based on Types of Entrepreneurial Business.
1. Manufacturing
  2. Wholesaling
  3. Retailing
  4. Service
- d) Based on the Nine Personality Types of Entrepreneurs
1. The Improver
  2. The Advisor
  3. The Superstar
  4. The Artist
  5. The Visionary
  6. The Analyst
  7. The Fireball
  8. The Hero
  9. The Healer
- e) Based on schools of Thought on Entrepreneurship

Entrepreneurial model	Central focus or purpose	Behaviours and skills	Situation
"Great Person" school	The entrepreneur has an intuitive ability – a sixth sense—and traits and instincts he is born with.	Intuition, vigour, energy, persistence, and self-esteem	Start up
Psychological Characteristics school	Entrepreneurs have unique values, attitudes, and needs, which drive them.	Personal values, risk taking, need for achievement, and others	Start up
Classical school	The central characteristic of entrepreneurial behaviour is innovation.	Innovation, creativity, and discovery	Start up and early growth
Management school	Entrepreneurs are organisers of an economic venture; they are people who organise, own, manage, and assume the risk.	Production planning, people organisation, capitalisation and budgeting	Early growth and maturity
Leadership school	Entrepreneurs are leaders of people; they have the ability to adapt their style to the needs of people.	Motivating, directing, and leading	Early growth and maturity
Intrapreneurship school	In corporations intrapreneurship is the development of independent units to create, market and expand services.	Alertness to opportunities, maximising decisions	Maturity and change

### INTRAPRENEUR:

- ▶ Intrapreneurship is the entrepreneurship with in an existing business structure.
- ▶ These "New Breed" of Entrepreneurs are emerging from Big Companies.
- ▶ In this Case the Entrepreneurial Spirit of Small Companies is transferred to Big Companies.
- ▶ Such Entrepreneurs of Big Companies are called as "Intrapreneurs", an Emerging Class of Entrepreneurs.
- ▶ *Intrapreneurship* is a Method of Stimulating & then Capitalizing on Individuals in an Organization who think that something can be done differently & better.

- ▶ The differences in the entrepreneurial and managerial domains have contributed towards an increased need for intrapreneurship.
- ▶ This need is growing due to variety of events occurring on social, cultural and business levels.
- ▶ In social level, there is an increasing interest in 'doing your own thing' and doing it on one's own terms.
- ▶ Some individuals having self confidence, self motivation and belief in their own talent, often desire to innovate on their own.
- ▶ They want own responsibility and to work in their own way.
- ▶ They become frustrated if this freedom is not given to them and get demotivated.
- ▶ Intrapreneurship is "one such method of providing freedom, simulating and capitalizing on individuals in an organization who think that things can be done in different and better way".
- ▶ The resistance against flexibility, growth and diversification can be overcome by developing a spirit of entrepreneurship within the organization which is called as intrapreneurship.
- ▶ Intrapreneurship is reflected more strongly in entrepreneurial activities and also in top management.

**Elements of intrapreneurship :**

1. New business venturing:
  - The creation of new business with in the organization.
  - Redefining the company's product or service,
  - Development of new market segment.
2. Innovations:
  - Innovation is the development of new product.
  - Improvement of existing products,
  - Development and simplified production methods and procedures.
3. Self – renewal:
  - The transformation of an organization through the renewal of main ideas.
  - This includes a redefinition of a business concept,
  - Reorganization or modifications in the system with an aim to initiate innovating.
4. Proactiveness:
  - Proactiveness includes initiative and risk taking.
  - Competitiveness and dashing to take new challenges.

**Brief comparison of Intrapreneurs, Entrepreneurs and Managers is given below:**

Point	Intrapreneur	Entrepreneur	manager
1. Goal management	Independent, innovates new ideas	Independent, starts new venture and leads direct involvement	Delegates and supervises more than direct involvement .
2. Status	Not concerned about traditional status, but wants recognition	Not concerned about status	Concerned about status symbol

3. Risk	Owns moderate risk	Bears all the risk and uncertainty.	Does not bear any risk
4. Rewards	Gets fixed reward for his work. Many get extra for his work.	Since there is risk, he may get profit or loss depending his innovations	Workers for salary for his service which is fixed and definite.
5. Innovation	Innovative	Very innovative	Need not be innovative. He manages the ideas of top management.
6. Decision making	Moderate, limited to his work.	Very much involved in decision making.	Delegates the decisions of top management.

### Myths of Entrepreneurship

- Entrepreneurs are born, not made
- Entrepreneurs are academic and social misfits
- Entrepreneurs fit an ideal profile.
- All you need is money to be an Entrepreneur.
- All you need is luck to be an Entrepreneur.
- A great idea is the only ingredient in a recipe for business.
- My best friend will be a great business partner.
- Having no boss is great fun.
- I can make lots of money
- I will definitely become successful
- Life will be much simpler if I work for myself.

### Entrepreneurial Development Models

- The models suggested for the development of Entrepreneurship are:
  - Psychological Models
  - Sociological Models
  - Integrated Models
  - Psychological Models:
    - This model signifies that psychological factors are responsible for the development of entrepreneurial behavior in individuals.
    - McClelland: Importance to achievement motives
    - Latent need for achievement among adults
    - Motivation-training programme to make entrepreneurs willing and eager to exploit the opportunities provided
    - Creative Personality - status withdrawal (Everett Hagen's theory of social change)
    - John Kunkel – entrepreneurial supply as a function of the surrounding social structure. Can be influenced by manipulating economic and social incentives.
- Sociological models

- This model considers societal factors responsible for the development of entrepreneurial behavior in individuals.
- Young's theory: Change based upon Society's incorporation of relative subgroups
- Relativeness of a subgroup which has a low status in a larger society will lead to entrepreneurial behavior if the group has better institutional resources than others in the society at the same level.
- Suggests the creation of supporting institutions in society as the determinant of entrepreneurship
- Integrated models
- – TV Rao – Entrepreneurial disposition
  - Need for motive
  - Long-term involvement either at thinking level or activity level
  - Personal, social and material resources
  - Suitable socio-political system for establishment and development of enterprise

### **Five stages for promoting small entrepreneurship**

- Stimulation
- Identification
- Development
- Promotion
- Follow up

### **Entrepreneurial Development Cycle**

- The activities are:
  - Stimulatory activities
  - Support Activities
  - Sustaining Activities



- Stimulatory activities: These activities ensure the emergence of entrepreneurs in the society. The activities are:
  - Entrepreneurial education
  - Planned publicity for entrepreneurial opportunities.
  - Identification of potential entrepreneurs through scientific methods.
  - Motivational training to new entrepreneurs.
  - Help and guidance in selecting products and preparing project reports.
  - Making available techno-economic information and product profiles.

- Evolving locally suitable new products and process.
- Creating entrepreneurial forums.
- Recognition of entrepreneurs.
- Support Activities : These activities help a person to develop into an entrepreneur. They nurture and help entrepreneurship to grow. The activities are:
  - Registration of unit
  - Arranging finance
  - Providing land, shed, power, water and so on.
  - Guidance for selecting and obtaining machinery.
  - Supply of scarce raw materials.
  - Getting licenses/ import licenses
  - Providing common facilities
  - Garnering tax relief or other subsidy.
  - Offering management consultancy services.
  - Help marketing the product.
  - Providing information.
- Sustaining activities: These activities are all those that help in the continuous and efficient functioning of entrepreneurship. The activities are:
  - Help modernization
  - Help diversification/ expansion/ substitute production.
  - Additional financing for full capacity utilization.
  - Deferring replacement/ interest.
  - Diagnostic industrial extension/ consultancy services.
  - Production unit legislation/ policy change.
  - Quality testing and approving services.

### **Problems faced by Entrepreneurs and capacity building for Entrepreneurship.**

- The problems faced by entrepreneurs are:
  - Internal Problems
  - External Problems
  - Specific management Problems

#### **Internal Problem**

- Planning
  - Technical feasibility
  - Economic viability
- Implementation
- Production
  - Production management
  - Labour management
  - Marketing management
  - Financial management
  - Administrative management

#### **External Problems**

- Infrastructural
- Financial
- Specific management problems
  - Management deficiency
  - Finance
  - Manufacturing and technical problems
  - Product planning
  - Selection of equipment, plant and machinery
  - Human resource development
  - Technical know-how
  - Preparation of project report.

### **Capacity building for Entrepreneurship**

- To build capacity for entrepreneurship following measures can be taken such as availability of credit, imported raw materials, skilled labour, technology and equipment, infrastructural facilities, advisory services and access to market.
- Along with to
  - Create the right environment for success.
  - Ensure that entrepreneurs have access to the right skills.
  - Ensure that entrepreneurs have access to smart capitals.
  - Enable networking and exchange

## MODULE- 4

### Modern Small Business Enterprises & Institutional Support for Business Enterprises

#### Modern Small Business Enterprises

- Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation.
- Businesses are defined as "small" in terms of being able to apply for government support and qualify for preferential tax policy varies depending on the country and industry.
- Include service or retail operations such as convenience stores, small grocery stores, bakeries.

#### Role of Small Scale Industries

- Dynamic and vibrant sector of the economy.
- Prominent role in socio-economic transformation of the country.
- Accounts for 35 percent of industrial production, 40 percent of exports and 90 percent of employment opportunities.
- The Small scale industry sector has, over the past six decades, acquired a prominent place in the socio- economic development of the country.
- Importance of Small-scale Industries
  - Provide increased employment through labour-intensive process.
  - Require lower gestation period.
  - Easy to set up in rural and backward areas.
  - Need small/ local market.
  - Encourage growth of local entrepreneurship.
  - Create a decentralized pattern of ownership.
  - Foster diversification of economic activities.
  - Introduce new products particularly to cater to local needs.
  - Influence the standard of living of local people.
  - Provide equitable dispersal of industries throughout rural and backward areas.
- Impact of Globalization and the world Trade Organization (WTO) on Small-Scale Industries (SSI)
  - Tighter patent laws through regulation of intellectual property rights under the Trade-Related Aspect of Intellectual Property Rights (TRIPS) agreement.
  - Worldwide market and opportunity to export.
  - Intensified competition in the domestic market.
  - Import of high quality goods.

#### Characteristics of SSI

- Capital investment is small and most of them have small number of workers
- Generally owned by a single or at the most two persons and engaged in production of small goods
- Most of them are family owned business
- Workers are not well recognized and they may do different types of works as need arises
- Funded by owner's savings or short-term loans
- SSI activity is mainly dependent on owner's entrepreneurship
- Exploitation of human and natural resources

- Generally management and organizations are very poor
- Profit margin is less
- Innovation and risk bearing is high
- Generally found in urban and semi urban areas.

### **OBJECTIVES OF SSIs**

- Creation of employment opportunity
- Improvement of output , income and better standard of living
- Elimination of economic backwardness of rural and underdeveloped areas.
- To reduce regional imbalance
- To provide employment and means of a regular source of income to the needy people living in rural and semi-urban areas
- To improve the quality of industrial products produced in cottage industries and increase production and profits.
- To facilitate import substitution.
- To encourage entrepreneurship and self-reliance.
- To mobilize regional resources of capital

### **Concepts and definitions of SSI Enterprises**

- Small-scale Industrial Unit : An industrial undertaking in which the investment in fixes assets in plant and machinery. Does not exceed Rs.100 lakh.
- Ancillary Unit: This is a sub-class of SSIs. An industrial undertaking which is engaged or is proposed to be engaged in
  - The manufacture of parts, components.
  - Rendering of services, or supplying.
- Export-oriented Unit (EOU) : The SSI has an obligation to export 30% of production.
- Tiny Unit: The investment limit in plant and machinery in respect of tiny enterprises is Rs. 25 Lakh.
- Women Entrepreneurs: 51% equity holding by women
- Small-scale services and Business (industry-related) Enterprises (SSSBs): SSSBs with investment in fixed assets, excluding land and building, up to Rs. 10 Lakh. The services are advertising agencies, Marketing consultancy, Industrial consultancy etc.
- Activities not recognized as SSIs and SSSBs : Transportation, storage, Retail/wholesale, Hotels etc.

### **Definition of SSI**

- Conventional Definition: cottage and handicraft industries that employ conventional labour-oriented methods to produce conventional products, mainly in the rural areas. Some examples are handloom and handicrafts.
- Operational definition: “all the undertakings having an investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or hire-purpose, not exceeding Rs. 60 lakhs”.
- National Income Accounting: A unit engaged in manufacturing in manufacturing , servicing, processing, servicing and preservation of goods having investment in plant and machinery, at an original cost not exceeding Rs.60 lakhs”

## **Government policy and development of the Small Scale sector in India**

- Administratively, India's SSI sector is divided into seven industry groups
- Traditional Sector:
  1. Handicrafts
  2. Handlooms
  3. Khadi, village and cottage industries
  4. Coir
  5. Sericulture
- Modern Sector
  6. Power looms
  7. Residual small-scale industries
- Indian definition of small-scale enterprises (SSE) based largely on cumulative amount of investment in plant and machinery whose limits have been periodically revised upwards.
- Emerging liberalized and competitive economic environment necessitated structural and fundamental changes in the policy framework, causing a shift in focus from protection to promotion.
- Govt. has announced several objectives and intentions through SSI industrial Policy Resolutions(IPRs).
- Different Policies

### **IPR 1948:**

- During 1948, SSIs are suited for using local resources to create employment for rural areas.
- Initially SSI faced lot of problems like shortage of raw materials etc.
- Main thrust of IPR 1948 was to provide protection to SSIs

### **IPR 1956:**

- It provided continuing policy support to the small sector and aimed to ensure that decentralized sector gained enough self support.
- About 128 items were reserved for exclusive production in small sector.
- Small Scale Industries Board(SSIB) constituted a working group in 1959 for the purpose of examining and formulating a development plan for SSIs
- During this policy a specific developmental projects like "Rural Industries Projects" and "industrial Estate Projects" were started to strengthen SSIs.
- IPR-1956 for SSIs aimed at "Protection and Development" and initiated the modern SSI in India.

### **IPR 1977**

- The main thrust was on effective promotion of cottage and small scale industries widely spread in rural and urban areas.
- IPR 1977 classified small scale into 3 categories:
  - Cottage and house hold industries
  - Tiny sector: Investment within 1 lakhs
  - SSI: Investment up to 15 lakhs

### **IPR 1980**

- Main objective of IPR 1980 was defined as facilitation an increase in industrial production.

- It helped small sector by increasing the limit from Rs. 1 Lakh to Rs. 2 lakhs for tiny industries, from 10 lakhs to 20 lakhs in small scale units and from Rs. 15 lakhs to 25 lakhs for ancillaries (Providing necessary support to the primary activities of operation)

### **IPR 1990**

- It gave lot of scope for SSIs to generate wage and self employment based opportunities.
- Investment ceiling in plant and machinery for tiny units is increased from 2 to 5 lakhs, 35L to 60L and 45L to 75L.
- Implemented a new scheme of central investment subsidy for SSIs.
- SSI technology up gradation programs are implemented under technology development centre in Small industries Development Organization(SIDO)
- New small Enterprise policy 1991(Industrial Policy)
- Govt. of India issued a new policy named “Policy measures for Promoting and strengthening and supplementing small tiny and village enterprises.
- Its main theme is to improve growth rate of SSI which in turn improves country’s growth.
- Implement Small Industry Development Organization(SIDO)
- Set up of Export development centre(EDC) in SIDO
- Small Industries Development Bank of India(SIDBI) was established in 1990 to provide credit facilities to SSIs.
- Emphasis to establish special cell in SIDO for developing and training for women entrepreneurs.
- Policy also proposed to encourage and support industry associations to establish counseling and common testing facilities and to pursue orientation programs of modernization etc.

### **Policy Initiatives since 1999**

- Economic scenario changed and competitive environment causing a shift in focus from protection of SSIs to promotion.
- Govt. took number of steps including change in investment limits, facilities for foreign participation, export promotion, marketing assistance and so on.
- More Important steps are:
  - A new ministry of small scale industries and agro and rural industries was created on oct. 14, 1999.
  - A new credit insurance scheme was announced in the budget 1999-2000 for SSI security to banks and to improve flow of investment.
- Banks on the basis of 20% of their annual turnover determine the capital limit for SSI units. From 4 cr. to 5 cr.
- A national programme to boost rural industrialization has been announced to set up 100 rural clusters every year.

### **IPR 2000**

- Industrial Policy 2000 was actually a comprehensive policy package for SSIs
  - Credit linked capital subsidy of 12% against loans for technology up-gradation was provided in specific industries
- The limit of Composite loan was increased from 10L to 25L.
- The family income eligibility limit of 24000 was enhanced to 40000 per annum under Prime Minister Rozgar Yozna (PMRY).

- The limit of Investment was increased in industry related service and business enterprise from 5lakhs to 10L

#### **IPR 2001-2002**

- Investment limit was enhanced from 1Crore to 5 cr. for units in handloom sectors.
- Credit guarantee fund scheme was increased from 125 Cr. to 200 cr.
- 14 items were de-reserved during June 2001 related to leather goods and toys.
- Market development assistance scheme was launched exclusively for SSI sector
- Policy initiatives on SSI sector in 2003-2004
- 75 items reserved for manufacturing consisting of chemicals, leather products, laboratory reagents in 2003.
- Selective enhancement in plant & machinery form 1crore to 5 crore : 13 items in stationary and 10 items in the drugs and pharma.
- Union budget 2003-04 announced banks would provide interest rate of 2%.
- Composite loan limit for SSI enhanced from 25L and 50L.
- The lower limit of 5L on loans covered under credit guarantee scheme has been removed. All loans upto 25L made eligible are under credit guarantee scheme.
- 417 specialized bank branches made operational throughout country.
- Small and Medium Enterprise(SME) fund of 10000 crore was set up under SIDBI to solve problem of inadequate finance for SSIs.
- Laghu Udyami Credit card scheme was liberalized. Under this scheme the credit limit was increased to 10L from 2L.

#### **IPR 2003-04**

- It gave reservation for chemical and chemical products, leather products and laboratory reagents etc.
- Enhancing investment from 1 cr. to 5 cr.
- Loan limit to SSI was increased from 25L to 50L
- Specialized bank branches were made operational for SSIs.

#### **IPR 2004-05**

- It suggested measures considered necessary for improvement in the productivity of enterprises, generation of large scale employment opportunities, raw material supply, technology up gradation, skill development by training.
- The reserve bank of India raised the composite loan limit from Rs. 50L to 1Crore.

#### **IPR 2005-06**

- The ministry of SSI has identified 180 items for De-reservation
- Small and Medium enterprises were recognized in the services sector and were treated on par with SSIs in manufacturing sector.
- Technological facilities have been increased.'
- Tax concessions for SSIs and so on.

### **Growth and Performance of Small Scale Industries in India**

- Pre- and Post- liberalization Periods.
  - The potential for creating employment
  - The output level of SSI went an increase of nearly 20 times over a period of 20 years.

- Exports have gone up by nearly 40 times.
- The pace of growth was relatively lower compared to that of the pre-liberalization period.
- Performance of small-scale Industries in India.
  - The SSI contributes to the GDP
  - The value of production has increased.
  - The sector is estimated to grow at the rate of 7.5%
- Share of small-scale Industrial Units in Total Exports.
  - With the growing trend towards liberalization and globalization, export is one of the focus areas of SSI units.
  - The commodity-wise export of major products by SSI units has also increased over a period of time
- Sickness in SSI sector Sickness was identified through the latest definition of RBI given by the Kohli Committee. Incipient sickness was identified in terms of continuous decline in gross output.
- Sickness in the total SSI sector was to the tune of 1%, whereas in the registered and unregistered SSI sector it was 3.38% and 0.64% respectively.
- The maximum number of sick units-about 59.33% was located in West Bengal, Kerala, Maharashtra, Karnataka and Andhra Pradesh.
- Out of the units having lone outstanding with institutional source such as banks and financial institutions, sickness was reported to be about 19.6% in the registered SSI sector and 16.61% in the unregistered SSI sector. In the total SSI sector, this percentage was 17.8.
- Incipient sickness, Identified in terms of a continuous decline in gross output was 11.5% in the registered SSI sector and 6.48% in the unregistered SSI sector. In the total SSI sector, this percentage was 7.4.
- Combining the three yardsticks used to measure sickness:
  - Delay in repayment of loan over one year.
  - Decline in net worth by 50%
  - Decline in output in last three years, about 13.98% of the units in the registered SSI sector were identified to be either sick or incipient sick.
- This percentage was only 6.89 in the case of unregistered units. In the total SSI sector, this percentage was 7.82.
- The States of Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, and Maharashtra had maximum number of sick/incipiently sick SSI units. These five states together accounted for 54.28% of the sick/incipiently sick SSI units in the country.
- “Lack of demand” and “Shortage of working capital” were the main reasons for sickness/incipient sickness in both the registered and unregistered SSI sectors.

### **Problems for Small Scale Industries**

- The problems of small industries may be divided into groups – External and Internal. External problems are those which result from factors beyond the control of the industrialist such as the availability of power and other infrastructure facilities required for the smooth running of small-scale industries. Internal problems are those which are not influenced by external forces.
- Internal

- Choice of idea
- Feeble structure
- Faulty planning
- Poor project implementation
- Poor management
- Poor production
- Quality
- Marketing
- Inadequate finance
- Labour problems
- Capacity utilization
- Lack of vertical and horizontal integration
- Inadequate training in skills
- Poor and loose organization
- Lack of strategies
- External
- Infrastructure
  - Location
  - Power
  - Water
  - Post Office and so on
  - Communication
- Financial
  - Capital
  - Working capital
  - Long-term funds
  - Recovery
- Marketing
- Taxation
- Raw Material
- Industrial and financial regulations
- Inspections
- Technology
- Policy
- Competitive and volatile environment
- Problems faced by SSI
- Difficulty in obtaining credit from commercial banks because of their general inability to provide security.
- Inability to offer liberal credit terms in the sale of their products.
- Absence of management expertise. Often managed by one person who performs a number of functions usually with no formal training.

- Difficulty in competing with imported products due to high production costs.
- Competition from other local entrepreneurs in the same line of business competing for the limited local market.
- Difficulty in obtaining industrial land in towns and cities. The shortage of industrial land is giving rise to more and more backward operations.
- Under capitalization
- Difficulty in identifying appropriate technology and technical assistance.
- Bureaucratic red tape and regulations.
- Identification of Industrial projects for development
- Project preparation and evaluation.
- Financial or credit support and investment promotion.
- Consultancy and counseling services.
- Development of infrastructure of various kinds in the appropriate areas.
- Entrepreneurship development
- Industrial training and skill formation
- Quality control and testing facilities.
- Market promotion, both domestic and export.
- Procurement of raw materials and equipment.
- Productivity increase through modernization.
- Incentive measures, by industry and by area.
- Local initiative.
- Regional and International technical and financial assistance.
- Cooperation among developing countries.

### **Impact of liberalization, privatization and Globalization on SSI**

- Started in 1991
- Indian economy had grown to new heights
- Liberalization
  - Refers to the relaxation of the previous government, restriction usually in the area of social economic policies
  - Import of scarce and non-available raw materials
  - Best example: Electronic and computer industries
- Privatization
  - Privatization means transfer of ownership and/or management of an enterprise from the public sector to the private sector
  - ITI and LIC
- Globalization
  - Globalization implies integration of the economy of the country with the rest of the world economy and opening up of the economy for foreign direct investment by liberalizing the rules and regulation and by creating favorable socio – economic and political climate for global business
  - Export

Impact of WTO/GATT on SSIs

- General Agreement on Tariffs and Trade (GATT)
- Multilateral global initiative
- Agreement signed by group of 123 nations to promote trade among members in 1947
- political disputes and problems could be solved by GATT
- USA and British made it possible
- The challenges are
  - E-commerce
  - Agriculture commodities
  - Narcotics, nuclear and dangerous materials.
  - Political and regional forces on trade and industry.
  - Development of backward regions.
  - Barter deals.
  - Counter trade.
  - Bilateral trade agreement and monopolies
  - Regional trade blocks
  - Services
  - Trade information
  - Trade disputes in international business
  - High tariffs by some countries.
  - Trade restrictive practices.
  - Subsidies

### **World Trade Organization (WTO)**

- WTO was established in January 1st, 1995 as a successor to the GATT.
- It serves as the legal and institutional foundation of the multilateral trading system.
- The Uruguay Round Trade Agreement that created WTO also eliminated tariffs for some manufactures' goods, reduced barriers to trade in agriculture, expanded protection for copy rights, patents and other intellectual property, provided some reduction in barriers to services and foreign investment.
- It also reformed the multilateral trade process and included strong dispute settlement mechanism.
- WTO has 123 members, another 31 countries have applied for membership 45
- **Objectives of WTO**
  - Make optimum utilization of world's resources for improving the income standard of living, promoting employment and expanding production and trade activities among various countries.
  - Encourage sustainable development and ensure that environment care and development activities together.
  - Efforts should be made that poor countries as well as developing countries get an opportunity to have a share in the growth in the world trade.
- **Functions of WTO**

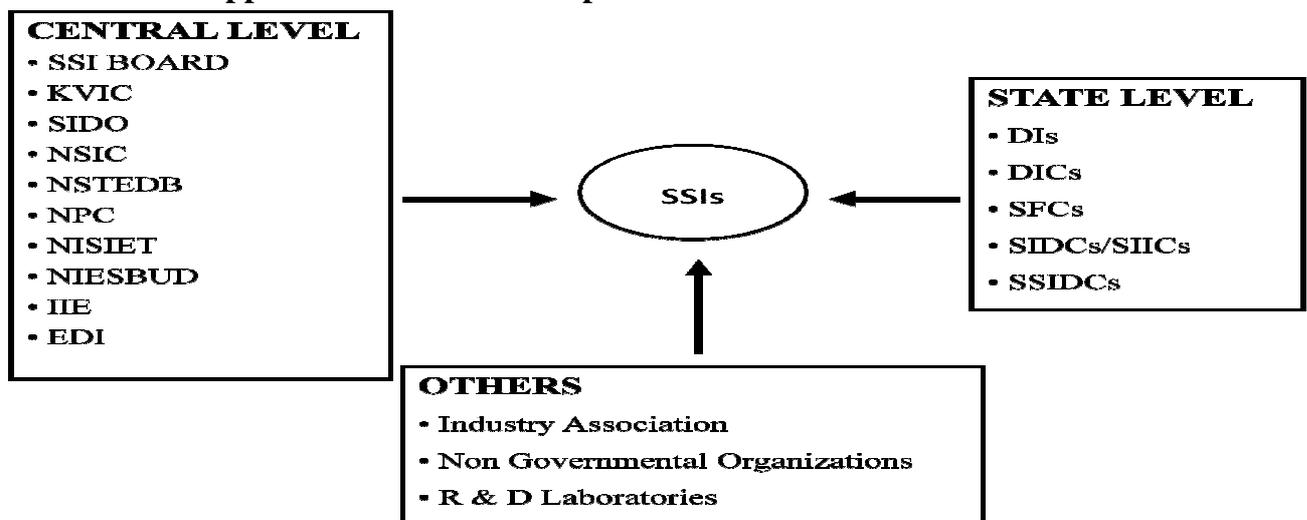
- It covers all the commodities that are internationally traded and have formulated rules and procedures for each category as a guidelines to member countries.
- Though WTO does not interfere in economic and political issues of the member countries , it does involve in case of policies regarding international trade.
- WTO has various expert committees and subcommittees for different categories to review various subjects and also to work as consultants.
- It arranges visits of its experts to various countries for training development activities.
- WTO acts as an arbitrator to sort out disputes between various countries.
- It reviews and advises trade policies of various countries so that such policies are conducive for international trade.
- Implementation and monitoring of multilateral and bilateral trade agreements which are essence of the WTO.
- To keep a track of trade related activities, member countries will inform WTO about various trade activities they have been doing in the global market.
- Evaluation of international trade and seek explanation wherever abnormal variations in terms of over dominance or very 48 poor performance are observed.
- **Advantages of WTO**
  - Safe guards from unilateral actions of the developed countries.
  - Increased access to export markets.
  - Increased R&D efforts in the country.
  - Access to advanced technology to the existing and new industries.
  - Increased opportunity to sub contracting and job work for SSI.
  - Increased global competition resulting higher efficiency and improved quality.

### **Ancillary Industry and Tiny Industry**

- Ancillary Industry
- Ancillary industries are small industries having investment in fixed assets, plant and machinery not exceeding Rs.75 lakhs and engaged in
  - Manufacturing of parts , components , sub assemblies ,tooling or intermediates
  - The rendering of services , supplying ,rendering or proposing to supply or render 30% production of the total services .
- All the service –oriented enterprises are now eligible for registration as SSIs and are entitled for the same concessions and incentives that are offered for SSIs.
- Several clarifications are issued on the above definitions of ancillaries by government from time to time. Some of them are:
  - In calculations of plant and machinery , the original price paid by owner irrespective of new or old is to be considered for accounting.
  - The cost of equipment.
  - Units producing intermediates are considered as ancillaries.
  - Units providing service facilities like machining , pressure cleaning , sand blasting etc., are recognized as ancillaries.
- Advantages of Ancillary Units
  - Providing an effective solution to the marketing problems of SSIs

- Complementary with regard to output and enable reduction in the production cost.
- Employment generation and utilization of money in untapped hands.
- Reduction in gestation period of production.
- **Tiny Industry**
- A unit is treated as Tiny Industry where investment in plant and machinery does not exceed Rs.5lakhs.
- The growth in Tiny industries –facilitates self – employment , results in wider dispersal of industrial and economic activities and ensures maximum utilization of local resources.
- **ADVANTAGES**
  - Utilization of local resources like men and material
  - Limited capital to start the industry
  - Less risk involved
  - Smaller gestation period
  - Production of goods as per choice of consumers
  - Exports, there by earning foreign exchange
  - Employment generation to rural people
  - Regional development
  - Entrepreneurial development

### **Institutional Support for Business Enterprises**



Institutions Supporting Small-scale Industries

### **CENTRAL LEVEL INSTITUTIONS**

- Small-scale Industries Board (SSI Board)
- Constituted in 1954 to facilitate the coordination and inter-institutional linkages for the development of SSI sector
- The Board is an apex advisory body constituted to render advice to the government on all issues pertaining to the SSI sector
- The office of the Development Commissioner (Small-Scale Industry) serves as the secretariat for the board
- The Board operates broadly in the following areas:
  - Policies & programmes

- Development of industries in specific region like Northeast
- Ancillary development, quality improvement, marketing assistance.
- Credit facilities, taxation and modernization
- Industrial sickness

### **Khadi and Village Industries Commission (KVIC)**

- Statutory body created by an act of Parliament.
- It is charged with planning, promotion, organization and implementation of the program for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development.
- KVIC's functions also comprise building up a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials and provision of marketing of KVIC products.
- KVIC is entrusted with the task of providing financial assistance to institutions or persons engaged in the development and operation of Khadi and village industries and guide them through supply of designs, prototypes and other technical information.

### **Small Industries Development Organization (SIDO)**

- Established in 1954 on recommendation of Ford Foundation
- Over the years, it had seen its role evolve into an agency for advocacy, handholding and facilitation for the small industries sector.
- SIDO provides facilities for testing, tool mending, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for export, pollution and energy audits, and so on.
- SIDO provides economic information services and advises the government in policy formulation for the promotion and development of SSIs.

#### **National Small Industries Corporation Ltd. (NSIC)**

- Established in 1955 by GOI with the main objectives to promote, aid and foster the growth of SSIs in the country
- Over four decades of transition and growth in the SSI sector, NSIC has provided strength through a progressive attitude of modernization, up gradation of technology, quality consciousness, strengthening linkages with large and medium-scale enterprise and boosting exports of products from small enterprises
- Main services provided by NSIC are:
  - Machinery and Equipment (Hire Purchase / Lease scheme)
  - Financial Assistance Scheme
  - Assistance for Procurement of Raw Material
  - Government Store Purchase Program
  - Technology Transfer Centre (TTC)
  - Marketing Assistance

### **National Science and Technology Entrepreneurship Development Board (NSTEDB)**

- Established in 1982 by GOI, is an institutional mechanism to help promote knowledge-driven and technology-intensive enterprises
- Major objectives are:

- promote and develop high-end entrepreneurship for S&T manpower as well as self-employment by utilizing S&T infrastructure and by using S&T methods
- facilitate and conduct various informational services relating to promotion of entrepreneurship
- network agencies of support system, academic institutions and R&D organizations to foster self-employment using S&T with special focus on backward areas
- act as a policy advisory body with regard to entrepreneurship

### **National Productivity Council (NPC)**

- Autonomous institution functioning under the overall supervision of the Ministry of Industry, GOI
  - Primary objective is to act as a catalyst in enhancing the productivity of all sectors of the economy, including industry and agriculture
  - Administered by a tripartite Governing Council (GC) which has equal representation from the government, industry and trade unions
  - Active in the field of consultancy and training and has a number of specialized divisions to provide tailor-made solutions to agriculture and industry. These divisions, manned by trained consultants, deal with issues related to industrial engineering, plant engineering, energy management, HRD, informal sector, agriculture and so on
  - NPC is a member of the Asian Productivity Organization (APO), Tokyo, an umbrella body of all productivity councils in Asian region
  - To channelise expertise of NPC to small-scale and informal sector, SIDBI has tied-up with NPC for enhancing technology in small units
- National Institute for Small Industry Extension and Training (NISIET)
- Set up in early 1950s, NISIET acts an important resource and information centre for small units and undertakes research and consultancy for small industry development
  - An autonomous arm of the Ministry of Small Scale Industries, the institute achieves its objectives through training, consultancy, research and education, to extension and information services
  - In 1984, UNIDO has recognized NISIET as an institute of meritorious performance under its Centre of Excellence Scheme to extend aid

### **National Institute for Entrepreneurship and Small Business Development (NIESBUD)**

- NIESBUD is an autonomous body under the administrative control of the Office of the DC(SSl)
  - NIESBUD established in 1983 by the Ministry of Industry, GOI, as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in Entrepreneurship Development particularly in the area of small industry and business
  - The policy, direction and guidance to the institute is provided by its Governing Council whose chairman is the Minister of SSI.
  - Besides conducting national and international training programs, the institute undertakes research studies, consultancy assignments, development of training aids, etc.
- State Level Institutions – DIs and DICs
- Directorate of Industries (DIs) – At the State level, the Commissioner/ Director of Industries implements policies for the promotion and development of small-scale, cottage, medium and

large scale industries. The Central policies for the SSI sector serve as guidelines but each State evolves its own policy and package of incentives. The Commissioner/ Director of Industries in all the States/UTs, oversee the activities of field offices, that is, the District Industries Centers (DICs) at the district level

- District Industries Centers (DICs) – In order to extend promotion of small-scale and cottage industries beyond big cities and state capitals to district headquarters, DIC program was initiated in May, 1978, as a centrally sponsored scheme. DIC was established with the aim of generating greater employment opportunities especially in rural and backward areas in the country. At present DICs operate under respective State budgetary provisions. DICs extend services of the following nature – (i) economic investigation of local resources (ii) supply of machinery and equipment (iii) provision of raw materials (iv) arrangement of credit facilities (v) marketing (vi) quality inputs (vii) consultancy

### **State Level Institutions – SFCs**

State Financial Corporations (SFCs) – Main objectives are to finance and promote small and medium enterprises in their respective states for achieving balanced regional growth, catalyze investment, generate employment and widen ownership base of industry. Financial assistance is provided by way of term loans, direct subscription to equity/debentures, guarantees, discounting of bills of exchange and seed capital assistance. SFCs operate a number of schemes of refinance of IDBI and SIDBI and also extend equity type assistance. SFCs have tailor-made schemes for artisans and special target groups such as SC/ST, women, ex-servicemen, physically challenged and also provide financial assistance for small road transport operators, hotels, tourism-related activities, hospitals and so on. Under Single Window Scheme of SIDBI, SFCs have also been extending working capital along with term loans to mitigate the difficulties faced by SSIs in obtaining working capital limits on time.

### **State Level Institutions – SIDC / SIIC and SSIDC**

- State Industrial Development / Investment Corporation (SIDC/SIIC) – Set up under the Companies Act, 1956, as wholly owned undertakings of the State governments, act as catalysts in respective states. SIDC helps in developing land providing developed plots together with facilities like roads, power, water supply, drainage and other amenities. They also extend assistance to small-scale sector by way of term loans, subscription to equity and promotional services. 11 out of 28 SIDCs in the country also function as SFCs and are termed as Twin-function IDCs
- State Small Industrial Development Corporations (SSIDC) – Established under Companies Act, 1956, as State government undertaking, caters to small, tiny and village industries in respective states. Being operationally flexible undertakes the activities like (i) procure and distribution of scarce raw materials, (ii) supply of machinery to SSI units on hire-purchase basis, (iii) product marketing assistance, (iv) construction of industrial estates, allied infrastructure facilities and their maintenance (v) extending seed capital assistance on behalf of State government and (vi) providing management assistance to production units.

### **Other State-level agencies Extending Facilities for SSI Promotion**

- State Infrastructure Development Corporations
- State Cooperative Banks

- Regional Rural Banks
- State Export Corporations
- Agro Industries Corporations
- Handloom and Handicrafts Corporations

### Other Agencies

National Bank for Agriculture and Rural Development (NABARD)	Set up in 1982, provide refinance assistance to State Cooperative Banks, Regional Rural Banks, and other approved institutions for all kinds of production and investment credit to SSIs, artisans, cottage and village industries, handicrafts and other allied activities. Helps SSI entrepreneurs to get loan for setting up SSIs in any part of the country
Housing and Urban Development Corporation Ltd. (HUDCO)	Wholly owned company of GOI, incorporated Apr.1970, as a Pvt. Ltd. Co. and subsequently, converted into a Public Ltd. Co. in 1986. Primary objective is to provide assistance for urban, social sector infrastructure, and the creation of housing facility, of late, to create SSI infrastructure. Also extends assistance for the promotion of building material industries, besides imparting consultancy, training and technical in related matters.
Technical Consultancy Organizations (TCOs)	Set up by all-India financial institutions during 70s and 80s to cater to consultancy needs of SMEs and new entrepreneurs. Services include preparing project profiles and feasibility studies, undertaking industrial potential surveys, identifying potential entrepreneurs and provision of technical and management assistance to them, undertake market research and surveys for specific products, carrying out energy audit and energy conservatism assignment, project supervision, taking up assignments on a turnkey basis, undertaking export consultancy for EOU

## **MODULE- 5**

# **Project Management**

### **Project**

- An entrepreneur takes numerous decisions to convert his business idea into a running concern. His/ Her decision making process starts with project/product selection. The project selection is the first corner stone to be laid down in setting up an enterprise.
- The success or failure of an enterprise largely depends upon the project.
- A project typically has a distinct mission that it is designed to achieve and clear termination point, the achievement of the mission.
- As a whole complex of activities involved in using resources to gain benefits.
- Project can differ in their size, nature of objectives, time duration and complexity.

### **A Project: Search for a Business idea**

#### **Introduction**

- Industrialization is widely recognized not only as one of the important means to users in socio-economic transformation and achieving self-sufficiency but also for the accelerated development of agriculture, transport, trade, service and other potential sectors through forward and backward linkages.
- It is a process which accelerates economic growth.
- Real progress must ultimately depend on industrialization.

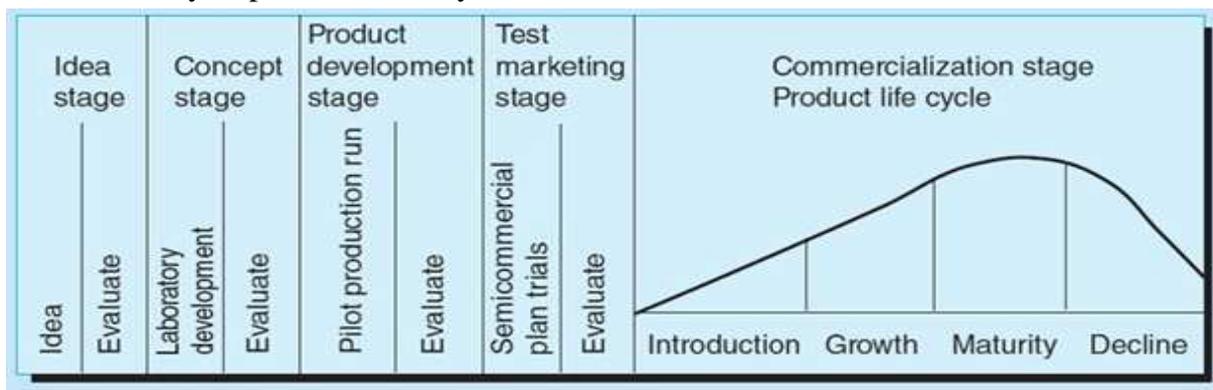
#### **Choosing an Idea**

- Establishing as a successful entrepreneur depends, in part, upon choosing a good idea.
- Idea must not only be good for the market, but good for the project and good for the entrepreneurs.
- It should be manageable by you without much dependence on others.
- The idea should give satisfaction results.
- As an entrepreneur develop more idea in parallel until one emerges so appropriate that it begins to dominate.
- To adopt one idea at a time had some disadvantage because constantly receiving random information from what we read and from people talk to. Also if pursuing a single idea by commitment then we may put our self in tight corner.
- Choosing an idea is difficult and the entrepreneur has to weigh objectively his intrinsic capabilities in finalizing an idea.
- In the idea stage, suggestions for new products are obtained from all possible sources: customers, competitors, R&D, distributors and company employees.
- Established objectives and defined areas provide a base for development.

#### **Selection of product**

- At this stage, the entrepreneur is concerned with identifying a particular product that hopes to market successfully at a reasonable profit.
- The selection of the right product is very essential for being successful in the business.
- The product should be marketed at a reasonable profit for the business growth.
- Various factors influence the entrepreneur in selecting the right product are:

- Whether import restrictions or the items selected are banned items would considerably weigh favorably or otherwise in the selection of the products.
- If the entrepreneur himself or his partners have gathered, substantial amount of experience in the manufacture and marketing of certain products , then selection of such product is advantage.
- The selection of product will also be based upon the degree of profitability that generally rules in the market.
- Many concessions are available from the government for producing a product which serves as an import substitute or even essential item.
- May products belongs to the priority industries or small-scale sector.
- The market for the product also plays a significant role in the selection of the product.
- Certain products are permitted for production only if the license is obtained from the appropriate authority while others belongs to the de-license category.
- Many products enjoy specific advantages in regard to the scale of manufacture or carry location advantage.
- If a product belongs to an ancillary unit and serves as a major component for the parent industry, it provides a ready demand.



### The Adoption process

- An adoption process is a process bringing about a change in a buyer's attitude and perception.
- Customer adoption process covers the steps that a consumer usually goes through in determining the feasibility of buying new products:
  - Awareness: A person learns about a new idea, product or practice. He has general information about it. He has however, limited knowledge about special qualities, usefulness, performance, etc.
  - Interest: He now develops an interest in the innovation. He demands more detailed information about the new product, its utility, its performance, and so on. He listens to radio, TV ads, reads press ads, and learns more about it from others.
  - Evaluation: The accumulated information and evidences are weighed by the person in order to assess the basic soundness or worth of the innovation. He tries to weight the value of the new product and the extent to which it is good for him.
  - Trial: The person now is ready to put the idea into practice. Competent personal assistance is necessary to put the innovation to use.

- **Adoption:** It is the final stage in which he makes a decision to buy. The person now decides to adopt the new idea, product or practice for continued use. If post purchase experience is good, he becomes a repeat buyer and a talking advertisement of the innovation.

### Product Innovation

- Business enterprise must have two basic functions: marketing and innovation
- Innovation alone assures growth and survival while customers orientation assures survival. The evolution of new products is a practical business function and it is described as a process product management.
- The process of product planning and development is always adopted for product innovation.

### Product Planning and Development Strategy

- Marketing have four alternative ways of bringing about an increase in sales and profit:
- **Market penetration:** It involves the expansion of sales of the existing products in the existing markets by selling more to present customers or gaining new customers in the existing markets. The firm can market its present products to existing markets. May have a temporary price cut to raise the volume of sales and penetrate the market in a big way. Penetrating the current market for higher usage rate is a conservative choice.



- **Market development:** In market development, a present product is introduced to a new market or segment. Market development is the creation of a new market by discovering new applications for existing goods. This is another alternative to expand market opportunity, prolong product life cycles, profitability and survival.
- **Product development:** Product development occurs when a firm introduces new products into market in which it is well established. Product development is the introduction of new products in the present market. The firms by offering new or improved products to present markets can satisfy the present customers better and stand assured of their loyalty.
- **Product diversification:** Diversification occurs when a firm seeks to enter a new market with a completely new product. Such a firm has neither market enterprise nor product knowledge. The firm may adopt a daring strategy by creating new products for entirely new markets. The innovations are introduced for the first time in the new market.

### Product Planning and Development Process

- There are seven steps in planning and development of a new product.
- **New Product Ideas:** We visualize the detailed features of a model product. Ideas may be contributed by scientists, professional designers, rivals, customers. Sales force, top management, dealers, etc. We may need many ideas to get one commercially viable product.

- **Idea Screening:** We have to evaluate all ideas and inventions. Poor or bad ideas are dropped and through the process of elimination, only the most promising and profitable ideas are picked up for further detailed investigation and research.
- **Concept Development and Testing:** All ideas that survive the process of screening will be studied in detail. They will be developed into mature product concepts. We will have a precise description of the ideas and features of the proposed product. We can incorporate customer preference also.
- **Business Analysis:** Once the best product concept is picked up, it will be subjected to rigorous scrutiny to evaluate its market potential, capital investment, rate of return on capital, etc. Business analysis is a combination of marketing research, cost benefit analysis and assessment of competition. It will prove the economic prospects of the new product concept.
- **Product Development Programme:** We have three steps in this stage when a paper idea is duly converted into a physical product.
  - Prototype development, giving a visual image of the product
  - Consumer testing of the model or prototype
  - Branding, packaging and labeling.
- **Test Marketing:** The entire product marketing programme is tried out for the first time in a small number of well-selected test markets. Test marketing is necessary to find out the viability of a full marketing programme for national distribution. Customer reactions can be tested under normal market conditions.
- **Commercialization:** Once the test marketing gives the green signal for the product with or without expected modifications, the company can proceed to finalize all features of the product. Mass production will start and all distribution channels will be duly organized. The product is now born and will start the life cycle.

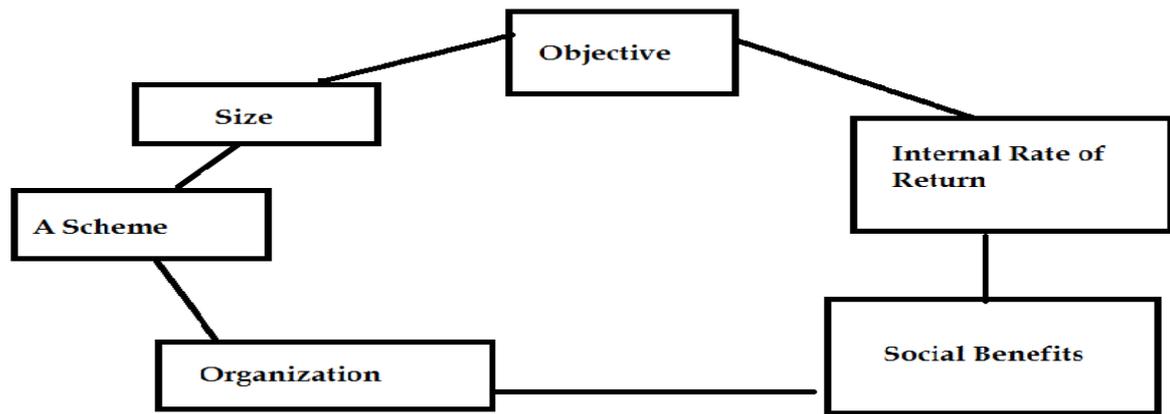
## **Concepts of Projects and Classification**

### **Introduction :**

- The project is an important groundwork of an enterprise and is also very crucial to the entrepreneur. Project is speculative imagination; a scheme of something to be done; a proposal for an undertaking. Two important aspects have to be borne in mind i.e. A scheme and speculative imagination.

### **Meaning of Projects:**

- The smallest unit of investment activity to be considered in the case of programming.
- It may be any item of investment activity which can separately be evaluated.
- The whole complex of activities involved in using resources to gain benefits.
- A project may be defined as a scientifically evolved work plan devised to achieve a specific objective with a specified period of time. The three basic attributes are a course of action, specific objective and defined time perspective.
- A project is a productive activity, which can be analyzed appraised and monitored independently.
- A project has specific objective in terms of a geographic location, specific starting and end point
- Serve the target population by achieving good returns on investment.
- Has an organization to implement it.



Basic Components of a project

### Characteristics of a Project

- The four basic characteristics are:
  - Investment pattern
  - Benefits or gains
  - Time limit
  - Location
- The project is an economic activity with well-defined objectives and having a specific beginning and end.
- A well planned project includes a correct consideration of alternatives, identification of key issues, broad participation, compactness and enforceability. It should be neat, clear cut and specific.
- A project will involve allocation and consumption of resources, on the one hand and generation of resources, goods, or services, on the other.

### Project Levels

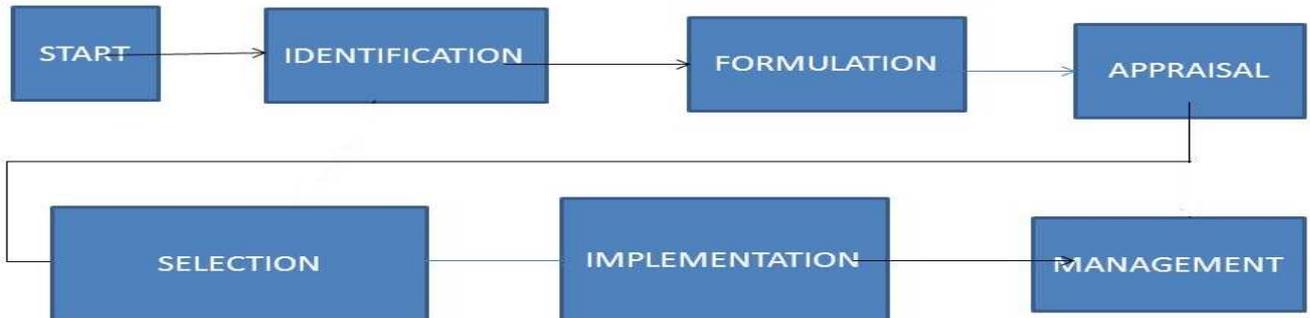
- The three levels are:
- At the national level, where national investment plans are formulated, priorities among sectors are established, and the macroeconomic framework of policies for economic growth is put in place.
- At the sector level, where priorities for investment within each sector are determined and the issues and problems affecting the development of the sector are addressed.
- At the project level, where individual projects are identified, prepared and implemented and attention is given to their technical, economical, financial, social, institutional and other dimensions.

### Features and Phases of Project management

- Project Features
  - Simplicity and clarity
  - Availability of attractive technology to promote the project.
  - Integration of basic production services, especially those of input supply, credit, marketing and extension.
  - Compatibility of the project within the existing administrative mix.

- Phases of Project management

- An entrepreneur has to consider carefully various factors from the start to the finish in converting profitable opportunities into realities.
- The process of project management may be divided into six broad phases – identification, formulation, appraisal, selection, implementation and management of projects.



PHASES OF A PROJECT		
Sl.no.	PHASE	REQUIREMENTS
1	Identification	Selection of a project after a careful scanning of the environment of investment opportunity and its likely return
2	Formulation	Translation of the idea into a concrete project with scrutiny of its important preliminary aspects. Preparation of feasibility reports.
3	Appraisal	Searching scrutiny, analysis and evaluation of market technical, financial and economic variables. Assessing the profitability, return investment and break even points.
4	Selection	Rational choice of a project in the light of objectives and inherent constraints.
5	Implementation	Expeditious completion within the allocated resources
6	Management	Judicious operation of a project / enterprise with objectives like maximisation of net present value, maximisation of return and increase and increase in the rate of return of low risk.

### Project Management Processes

- Operational Management Process
  - Planning
  - Executing
  - Controlling
- Additional management Process
  - Initiating
  - Closing
- Technical Processes

### Project Identification

#### Feasibility Report

- Before starting a small-scale industry, it is mandatory for entrepreneurs to consult the Director of Industries Service Institute (SISI).
- The SISI guides entrepreneurs as to the type of industry to start, where to start and how to start it.
- The SISI help them odd select the various items of manufacture which have scope for development in different areas.
- It suggests the lines on which project report for the proposed units should be prepared for the consideration of various financial institution with a view to securing financial assistance.
- Similarly, technical guidance in the selection of proper raw materials and type of machinery is also provided.
- The SISI gives valuable information on various incentives available to the small-scale industries from various organizations.

#### Project Feasibility Analysis

- A project feasibility analysis includes market analysis, technical analysis, financial analysis and social profitability analysis.
- The starting point of a project analysis is the establishment of objectives to be attained. The next stage is the pre – selection stage – the advisability of having an in depth study. The analysis stage consists mainly of three factors – market, technical and financial analysis. A market analysis is a method of screening project ideas as well as means of evaluating a project's feasibility in terms of the market. A market analysis should cover the following areas:
  - A brief market description including the market are, methods of transportation, existing rates of transport, channels of distribution and general trade practices.
  - An analysis of past and present demand, determination of quantity value of consumption and identification of the major consumers of the product.
  - An analysis of past and present supply, broken down as source (whether imported or domestic) as well as information to assist in determining the competitive position of the product such as selling process quality and marketing practices of competitors.
- The technical analysis of a project feasibility study establishes whether project is technically feasible or not, and whether it offers basis for the estimation of costs. Moreover it provides an opportunity for a consideration of the effect of various technical alternatives on employment, ecology, infrastructure demands, capital services, support of other industries, balance of payments and other factors. A technical analysis should review the techniques or processes to be applied and should incorporate.
  - A description of the product including specification relating to its physical, mechanical and chemical properties, as well as the uses of the product.
  - A description of the selected manufacturing process, showing detailed flow charts and presenting alternative processes which may have been considered and the justification for the adoption of the selected process.
  - A determination of the plant size and production schedule which includes the expected volume for a given time period on the basis of start up and technical factors.
  - Selection of machinery and equipment including specifications, equipment to be purchased and its origin, quotations from suppliers, delivery dates, terms of payment and

a comparative analysis of alternatives in terms of cost reliability performance and spare parts availability.

- An identification of plant's location and an assessment of its desirability in terms of its distance from raw material sources and markets. For a new project this part may include a comparative study of different sites, indicating the advantages and disadvantages of each.
  - A design of the plant layout and an estimate of the cost of the erection of the proposed buildings and land improvements.
  - A study of the availability of raw materials and utilizes including a description of physical and chemical properties, quantities needed, current and prospective costs, terms of payment, location of sources of supply and continuity of supply.
  - An estimate of labour requirements, including a detailed break – down of direct and indirect labour requirements and the supervision required for the manufacture of the product.
  - A determination of the type and quantity of waste to be disposed of together with a description of the waste disposal method, its costs and the necessary clearance from proper authorities.
  - An estimate of the production cost of the product.
- In the financial analysis of this feasibility study, the emphasis is on the preparation of financial statements, so that the project may be evaluated in terms of the different measures of commercial profitability followed by the magnitude of financing which requires the assembly of the market and also technical cost estimated in various proforma statements. If it is necessary to have more information on which to base an investment decision a sensitivity analysis or possibly a risk analysis may be conducted. This financial analysis should include:
    - For projects that involve new companies, statements of total project cost, for initial capital requirements and cash flows relative to the project schedule. For all projects financial projections for future time periods including income statements, cash flows and balance sheets.
    - For all projects supporting schedules for financial projection, stating the assumption made as to the collection period of sales, inventory levels, payment period of purchases and expenses and the element of production cost, selling, administrative and financial expenses.
    - For all projects a financial analysis showing returns on investments returns on equity , break even volume and price analysis.
    - For all projects, if necessary a sensitivity analysis to identify which have a substantial impact on profitability or possibly a risk analysis.
  - For the small entrepreneur, the studies conducted during the analysis stage of the project provide the material for an assessment. If positive results are obtained, the entrepreneur in seeking finance, will want to prepare an investment proposal. The planners or government officials, however having obtained positive conclusions from the economic feasibility study will want to evaluate the element of social profitability.
  - The purpose of the investment or loan application is to convince a lender ( financial institution) that the project is a desirable investment; that it not only possesses the potential for profit but

that the proposed management team has the capability to achieve the potential. The investment proposal normally contains:

- General information on the product, company history, the nature of the industry and the reputation and qualifications of the existing or proposed management.
- A description of the project, which usually consists of extracts from economic feasibility selected manufacturing methods ( with detailed indication of the cost of equipment and operational expenses) and a financial statement.
- Miscellaneous information such as the steps taken for the implementation of the project and the qualifications of the technical partners envisaged or selected.

### Project Formulation

- **Meaning**
- Project formulation is defined as taking a first a look carefully and critically at a project idea by an entrepreneur to build up an all round beneficial to project after carefully weighing its various components.
- It is formulated by the entrepreneur with the assistance of specialists or consultants.
- The aim of project formulation is to achieve the project objectives with the minimum expenditure and adequate resources.
- In other words it is to derive maximum benefits from minimum expenses in a short span of time.

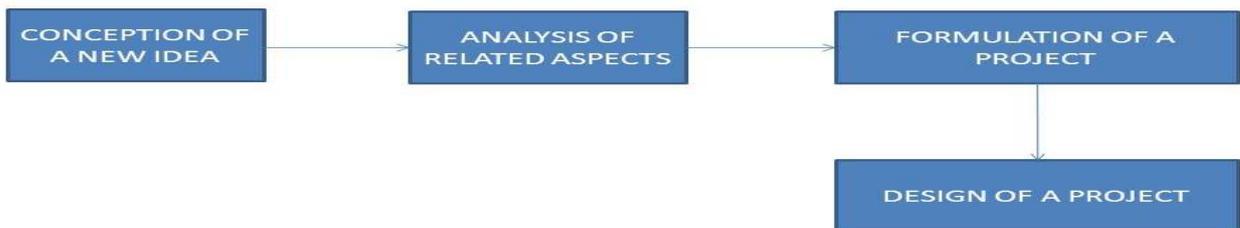


Fig: Phases of Project Formulation

### Steps in Project formulation

- The objectives may be social, economic, or a combination of both and they can be defined under the following categories:
  - General objectives
  - Operational objectives
- A general objective merely states in broad terms the achievements expected whereas an operational objective specifically mentions results expected from the implementation of the project or scheme.
- The definition of objective in clear terms helps in quantifying physical, financial, human and other resources requirements.

### Sequential Stages of Project Formulation

- The process of project development has been categorized into seven distinct and sequential stages. They are:
- **Feasibility analysis:** This is the very first stage in project formulation. At this stage the project idea is examined from the point of view of whether to go in for a detailed investment proposal or not. As project for a detailed investment proposal or not. As project idea is examined in the context of internal and external constraints three alternatives could be considered. First the project idea seems to be feasible, second the project idea is not a feasible one and third, unable

to arrive at a conclusion for want of adequate data. If it is feasible we proceed to the second step if not feasible we abandon the idea and if sufficient data are not available, we make more efforts to collect the required data and design development.

- **Techno – economic analysis:** In this step estimation of project demand potential and choice of optimal technology is made.
- **Project Design and Network analysis:** This important step defines individual activities which constitute the project and their inter – relationship with each other. The sequence of events of the project is presented. A detailed work plan of the project is prepared with time allocation for each activity and presented in a network drawing. Project design is the heart of the project entity. This paves the way for detailed identification and qualification of the project inputs, an essential step in the development of the financial and cost – benefit profile of the project.
- **Input analysis:** The step process the input requirements during the construction of the project and also during the operation of the project. In the earlier step a project was divided into several activities. Now it is better to see the inputs required for each activity and sum it up to get the total input requirements on qualitative and quantitative terms. Inputs include materials, human resources.
- **Financial analysis:** This stage mainly involves estimating the project costs, estimating its operating costs and fund requirements. Financial analysis also help in comparing various project proposals on a common scale, thereby aiding the decision maker. Some of the analytical tools used in financial analysis are discounted cash flow, cost – volume – profit relationship and ratio analysis.
- **Social cost benefit analysis:** When we talk of cost benefit analysis we not only take in to account the apparent direct costs and direct benefits of the project but also the costs which all entities connected with the project have to bear and the benefits which will be enjoyed by all such entities.
- **Pre – investment analysis:** The project proposal gets a formal and final shape at this stage. All the results obtained in the above steps are consolidated and various conclusions arrived at to present a clear picture. At his stage, the project is presented in such a way that the project – sponsoring body, the project – implementing body and the external consulting agencies are able to decide whether to accept the proposal or not.

### **Project Evaluation**

- With a view to evaluate the project, the social cost-benefit analysis is used.
- All cost and benefits can be classified into three categories as:
  - Primary costs and benefits
  - Secondary costs and benefits
  - Tertiary costs and benefits.

### **Project Design and Network Analysis:**

#### **Introduction**

- The execution of a project follows a definite path of planning, scheduling and controlling. The first and the foremost aspect of a project is the project design.
- It defines the individual activities which go into the corpus of the project and their interrelationship with each other.

- Project design enables to identify the flow of event which must take place for the successful implementation of the project.
- Network techniques help the management of an organization in performing these functions efficiently and effectively.



Fig: Relation between Project Design and Network

### Importance of Network Analysis

- The network analysis has the potential to unfolding unknown snags involved in project estimates which, when detected, may provide management not only to improve on the ongoing project estimates but also to take serious lesson for future applications.
  - The whole project should be considered with reference to the sequence of activities and events.
  - This would also require that the events should be thought of in different streams of operations and their relationship understood clearly.
  - The whole project may be put on one network while different segments of the project may be detailed out in separate networks for final integration in the overall network.
  - The time estimates may be made taking into view two discrete aspects: one projects in which previous experience does not exist and two, time estimates may be deterministic.
  - Cost estimates would depend on the project time estimates and the changes in the prices of different factors of production.
  - The physical progress of the projects, individuality and simultaneity of events, jobs farmed out snags in different areas of project work would all require adequate notice and application of correctives in proper time.

### Origin of PERT and CPM

- The Programme Evaluation and Review Techniques (PERT) and Critical Path Method (CPM) techniques were developed in U.S. independently, while CPM came into focus about 1957 as an offshoot of collaboration between Du Pont and Remington Rand.
- The emphasis was on the trade-off between the cost of the project and its overall completion time.
- PERT, which was developed about 1958 as a result of collaboration between the Operational Research Division of the United States Navy and a firm of business consultants.
- The emphasis was on completing the program in the shortest possible time. In addition PERT had the ability to cope with uncertain activity completion times.

## Network

- A network comprises a set of exponents connected with each other in a sequential relationship with each step till the completion of a project.
- Network analysis is a system which plans both large and small projects by analyzing the project activities.
- Projects are broken down into simple activities, which are then arranged in a logical sequence.
- It is also decided as to which task will be performed simultaneously and which other sequentially.

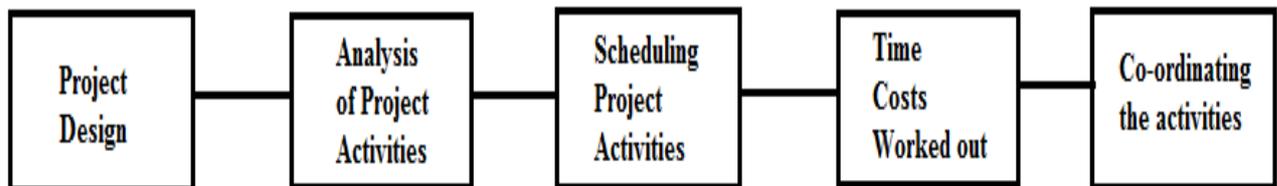


Fig: Network Design

## Network Techniques

- Several techniques of project scheduling and control such as Bar charts, Programme Evaluation and Review Techniques (PERT) and Critical path method (CPM) are used.
- Of these CPM have some to be widely used in project management as they are very useful in the basic management functions of planning, scheduling and control.
- These techniques can be applied in diverse kinds of projects like construction of a projects, scheduling ship construction and repairs, end of the month closing of accounts, large, research projects etc.

### Need for Network Techniques

- Network analysis helps in designing, planning, coordinating, controlling and decision-making in order to accomplish the project economically in the minimum available time with the limited available resources. The conventional planning method like bar chart had limitations the following disadvantages are:
  - A bar chart becomes too cumbersome while dealing with big and complex projects.
  - A bar chart does not point out which tasks should be given priority as regards resources.
  - The effect of changes in schedule cannot be evaluated with the help of a bar chart.
  - A bar chart neither satisfactorily tells the time at which the activates begin and end nor does it indicate tolerances in activity timing.
- PERT is one of the management techniques which is considerably more useful.
- It works a method of minimizing production delays, interruptions, and conflicts; of co-ordinating and synchronizing the various parts of the overall job; and of expediting of projects.
- PERT is concerned with two concepts:
  - **Events:** An event is a specific accomplishment that occurs at a recognizable point of time and does not call for either the need of time or resources.
  - **Activities:** An activity is the work required to complete a specific event.

### Steps in PERT

- The first step in the development of a PERT network is the establishment of objectives.
- The second step is to schedule work breakdown in great detail.

- In the third step both technical and managerial persons should begin to work together.
- The fourth step is that each person who participates in the application of PERT to the control of the project should have some basic familiarity with the general nature of the work and with the ultimate objective desired.
- In PERT, time is the basic measure. It is usually expressed in calendar weeks the project should be completed within stipulated optimistic time.
- In order to arrive at the most reliable estimate of time, three time estimates are usually employed under this technique as given below:
  - **The optimistic time:** It is the shortest time possible if everything goes perfectly well with no complications, the chance of this optimum actually occurring might be one in a hundred.
  - **The pessimistic time:** It is longest time conceivable, it includes time for unusual delays and thus the chance of its happening might be only one in a hundred;
  - **The most likely time:** It would be the best estimate of what normally would occur.
- The difference in these three times give a measure of the relative uncertainty involved in the activity.
- **ADVANTAGES OF PERT**
  - This technique gives the management the ability to plan the best possible use of resource to achieve a given goal within the overall time and cost limitations.
  - It helps management to handle the uncertainties involved in programmes where no standard time data of the Taylor – Gantt variety are available.
  - Use of this technique for active control of project requires frequent updating and revising the PERT calculations and this proves quite a costly affair.
- **LIMITATIONS OF PERT**
  - The basic difficulty comes in the way of time estimates for the completion of activities because activities are of non – repetitive type.
  - This technique does not consider resources required at various stages of the project.
  - Use of this technique for active control of a project requires updating and revising the PERT calculations and this proves quite a costly affair.
- **CRITICAL PATH METHODS (CPM)**
- CPM was developed in 1956 at the E.I. Dupont Nemours & Co. U.S.A in connection with the Periodic overhauling and maintenance of a chemical plant. It resulted in reducing the shut down period from 130 hours to 90 hours and saving the company \$ 1 million. CPM has two time – cost estimates for each activity ( one time cost estimates for the normal situation and the other estimate for the crash situation) but does not incorporate any statistical analysis in determining such time estimates. CPM operates on the assumptions that there is a precise known time that each activity in the project will take.
- **ADVANTAGES OF CPM**
  - It helps in ascertaining the time schedule.
  - With its aid, control by the management is made easy.
  - It makes better and detailed planning possible.

- It proves a standard method for communicating project plans, schedules time and cost performance.
- It identifies most critical elements and thus more attention can be paid to these activities.
- **LIMITATIONS OF CPM**
  - CPM fails to incorporate statistical analysis in determining the time estimates.
  - It operates on the assumption that there is a precise known time that each activity in the project will take but this may not be true in actual life.
  - It is difficult to use CPM as a controlling device for the simple reason that one must repeat the entire evaluation of the project each time when changes are introduced into the network. It may be remembered that CPM was initially developed as a static planning model and not as a dynamic controlling device .

Differences between PERT and CPM

PERT	CPM
The origin is military (Naval)	The origin is industrial.
It is an event-oriented approach.	It is an activity-oriented system.
There is allowance for uncertainty.	No such allowance.
It has three time estimates.	There is only one single estimate of time and the emphasis is on cost.
It is a probabilistic model with uncertainty in activity duration.	It is a deterministic model with well-known activity time based upon past experience.
It does not demarcate between critical and non-critical activities.	It marks critical activities
It is especially suitable when high prediction is required in time estimates.	It is suitable when reasonable prediction is required.
Time is averaged	No averaging of time is involved.
The concept of 'crashing' is not applied.	The concept of crashing is applied.
It is time - based.	It is cost - based.