

**MANAGEMENT AND ENTREPRENEURSHIP FOR IT INDUSTRY**

(Effective from the academic year 2018 -2019)

**SEMESTER – V**

<b>Course Code</b>	<b>18CS51</b>	<b>CIE Marks</b>	40
<b>Number of Contact Hours/Week</b>	2:2:0	<b>SEE Marks</b>	60
<b>Total Number of Contact Hours</b>	40	<b>Exam Hours</b>	03

**CREDITS – 03**

**Course Learning Objectives:** This course (18CS51) will enable students to:

- Explain the principles of management, organization and entrepreneur.
- Discuss on planning, staffing, ERP and their importance.
- Infer the importance of intellectual property rights and relate the institutional support

<b>Module – 1</b>	<b>Contact Hours</b>
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<p><b>Introduction</b> - Meaning, nature and characteristics of management, scope and Functional areas of management, goals of management, levels of management, brief overview of evolution of management theories,. <b>Planning</b>- Nature, importance, types of plans, steps in planning, <b>Organizing</b>- nature and purpose, types of Organization, <b>Staffing</b>- meaning, process of recruitment and selection</p> <p><b>RBT: L1, L2</b></p>	08
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<b>Module – 2</b>	
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<p><b>Directing and controlling</b>- meaning and nature of directing, leadership styles, motivation Theories, <b>Communication</b>- Meaning and importance, <b>Coordination</b>- meaning and importance, <b>Controlling</b>- meaning, steps in controlling, methods of establishing control.</p> <p><b>RBT: L1, L2</b></p>	08
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<b>Module – 3</b>	
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<p><b>Entrepreneur</b> – meaning of entrepreneur, characteristics of entrepreneurs, classification and types of entrepreneurs, various stages in entrepreneurial process, role of entrepreneurs in economic development, entrepreneurship in India and barriers to entrepreneurship. Identification of business opportunities, market feasibility study, technical feasibility study, financial feasibility study and social feasibility study.</p> <p><b>RBT: L1, L2</b></p>	08
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<b>Module – 4</b>	
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<p><b>Preparation of project and ERP</b> - meaning of project, project identification, project selection, project report, need and significance of project report, contents, formulation, guidelines by planning commission for project report, <b>Enterprise Resource Planning: Meaning and Importance</b>- ERP and Functional areas of Management – Marketing / Sales- Supply Chain Management – Finance and Accounting – Human Resources – Types of reports and methods of report generation</p> <p><b>RBT: L1, L2</b></p>	08
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<b>Module – 5</b>	
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<p><b>Micro and Small Enterprises:</b> Definition of micro and small enterprises, characteristics and advantages of micro and small enterprises, steps in establishing micro and small enterprises, Government of India industrial policy 2007 on micro and small enterprises, case study (Microsoft), Case study(Captain G R Gopinath),case study (N R Narayana Murthy &amp; Infosys), <b>Institutional support:</b> MSME-DI, NSIC, SIDBI, KIADB, KSSIDC, TECSOK, KSFC, DIC and District level single window agency, <b>Introduction to IPR.</b></p>	08
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**RBT: L1, L2**

**Course outcomes:** The students should be able to:

- Define management, organization, entrepreneur, planning, staffing, ERP and outline their importance in entrepreneurship
- Utilize the resources available effectively through ERP
- Make use of IPRs and institutional support in entrepreneurship

**Question Paper Pattern:**

- The question paper will have ten questions.
- Each full Question consisting of 20 marks
- There will be 2 full questions (with a maximum of four sub questions) from each module.
- Each full question will have sub questions covering all the topics under a module.
- The students will have to answer 5 full questions, selecting one full question from each module.

**Textbooks:**

1. Principles of Management -P. C. Tripathi, P. N. Reddy; Tata McGraw Hill, 4th / 6<sup>th</sup> Edition, 2010.
2. Dynamics of Entrepreneurial Development & Management -Vasant Desai Himalaya Publishing House.
3. Entrepreneurship Development -Small Business Enterprises -Poornima M Charantimath Pearson Education – 2006.
4. Management and Entrepreneurship - Kanishka Bedi- Oxford University Press-2017

**Reference Books:**

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

# Management and Entrepreneurship for IT Industry (18CS51)

## MODULE - 1

### INTRODUCTION

#### 1.1 MEANING

Giving precise definition of management is not so simple because the term management is used in a variety of ways. Being a new discipline it has drawn concepts and principles from a number of disciplines such as Sociology, Economics, Psychology, Statistics, Anthropology and so on.

The contributors from each of these groups have viewed management differently. For example economists have treated management as a factor of production; Sociologists treated it as a group of persons. Hence, taking all these view points, it becomes difficult to define management in a comprehensive way and no definition of management has been universally accepted.

any definitions were given by various contributors; one popular definition is given by Parker Follet. According to Follet management is **‘the art of getting things done through people’**. This definition clearly distinguishes between manager and other personnel of the organization.

A manager is a person who contributes to the organization’s goal indirectly by directing

the efforts of others, not by performing the task himself. A person who is not a manager makes his contribution to the organization’s goal directly by performing the task himself. Sometimes a person may play both roles simultaneously. For example, a salesmanager plays managerial role by directing the sales force to meet the organization’s goal and plays non-managerial role by contacting an important customer and negotiating deal with him.

The principal of an institution plays the role of manager by directing the heads of the

departments and plays non-managerial role by teaching a subject.

There are two weaknesses of this definition. The first weakness is that the definition states that management is an art. Art deals with application of knowledge. But management is not merely application of knowledge. It also involves acquisition of knowledge i.e., Science. Managing using intuition or thumb rule is not correct management. The second weakness of this definition is that it does not explain the various functions of management.

A better definition is given by **George R Terry** who defines management as ***“a process consisting of planning, organizing, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources”***. According to him, management is a process-a systematic way of doing thing using four managerial functions namely planning, organizing, actuating and controlling.

=Planning' means thinking of the manager's action in advance.

=Organizing' means coordinating machines, materials and human resources of the organization.

=Actuating' means motivating, directing the subordinates.

=Controlling' means that manager must ensure that there is no deviations from plans.

This definition also indicates that managers use people, materials and other resources to accomplish the organizations objectives. The objectives may vary with each organization. For example the objective of a technical or management institute might be to provide quality education according to the needs of the industry. The objective of a hospital might be to provide medical care to the community at reasonable price. Whatever may be the objectives of the organization management is a process by which the objectives are achieved.

## 1.2 NATURE OF MANAGEMENT

The nature of management can be described as follows:

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

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

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

(4) **Management – science or art:** There is controversy whether management is science or art. Earlier management was regarded as art but now it is both science and art.

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

### 1.3 CHARACTERISTICS OF MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

## 1.4 FUNCTIONAL AREAS OF MANAGEMENT

Management process involves several functions. A distinction should be maintained between management functions (planning, organizing, staffing, directing and controlling) and the organizational functions (productions, finance etc.) Organizational functions differ from organization to organization depending upon their nature while management functions are common to all. A manager may be put either in production or finance or marketing, he performs all the managerial functions. These organization functions are called functional areas of management. There are four functional areas of management namely production, finance, marketing and finance and personnel. Each functional area may have a number of sub-activities. The various functional departments of a business are inter-dependent and interrelated. They continuously interact with each other to achieve their objective. For instance, purchase department receives material requisition from production department and get approval for the purchase of materials from financial department.

**Production Management:** This is generally put under production manager and he is responsible for all production related activities. The production of goods and service constitute point of concentration in all the industrial enterprises. All other activities like purchasing, financing, marketing revolve around this function. The major responsibility of Production Management is transformation of inputs like materials, capital, information and energy into specified outputs as demanded by the society.

Production management deals with decision making related to production processes, so that resulting goods and services are produced according to the specification , in the amounts and by the schedule demanded and at the minimum cost. In accomplishing these objectives, production management is associated with two broad areas of activities: the design and control of production system.

The functions of a production manager include the following:

- Design of product
- Design of production system
- Choice of location of plant
- Layout of plant
- Choice of plant and equipment
- Production of planning and control

**Purchasing and Materials management:** traditionally purchasing is considered as a part of production function. But in big organizations, there may be separate department to perform complicated purchase activities .It is related with the purchase of various materials required by the organization. Purchasing involves procuring right quantity of materials at the right quality, at the right time and at the right price from the right supplier. Functions of purchase manager are:

- Analysis of the requirements.
- Search of sources of supply
- Price determination
- Placing order
- Checking of invoice
- Inspection of incoming material
- Disposal of scraps, surplus unserviceable and obsolete material.
- Keeping of purchase records
- Relations with vendors.

**Marketing:** This area involves the distribution of organizations' products to the buyers.

The sub-activities are:

- (1) **Advertising:** Involves giving information about products to buyers.
- (2) **Marketing research:** It is related with the systematic collection, analysis of data relating to the marketing of goods and services.
- (3) **Sales management:** It involves management efforts directed towards movement of products and services from producers to consumers.

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

The various sub-functions are (1) **Financial Accounting:** Deals with record keeping of various transactions.

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

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

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

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

## Personnel or human resource management

The personnel or human resources of an organization consist of all employees, regardless of their role, who are engaged in any of the organizations activities. Thus personnel management deals with the management of human resources .Functions or responsibility of personnel department are:

- (1) **Recruitment and Selection:** It deals with recruitment and selection of employees. The first major responsibility of personnel manager is the employment of proper kinds and number of persons necessary to achieve the objectives of the organization.
- (2) **Training and Development:** It deals with training of employees and making them more efficient. Proper development of personnel is essential to increase skills in the performance of their jobs.
- (3) **Wage and Salary Administration:** Deals with fixing of salaries, job evaluation, promotion, incentives etc.
- (4) **Motivation:** employees work in the organization to satisfy their needs. The HR manager helps various departmental managers to devise a system of financial and non – financial reward to motivate workers.
- (5) **Personnel records:** it is the duty of personnel department to maintain records of employee working in the enterprise. It keeps full record of their tyraising , achievement , transfer, promotion etc..
- (6) **Industrial Relations:** Deals with maintenance of good employee relations.

## 1.5 ROLE OF MANAGEMENT

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

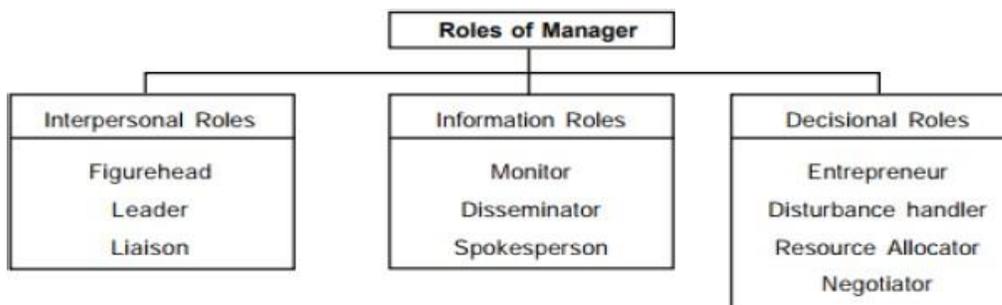


Fig. 1.1: Roles of manager

**Interpersonal role:** This role is concerned with his interacting with people both organizational members and outsiders.

There are three types of interpersonal roles:

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

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

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

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

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

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

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

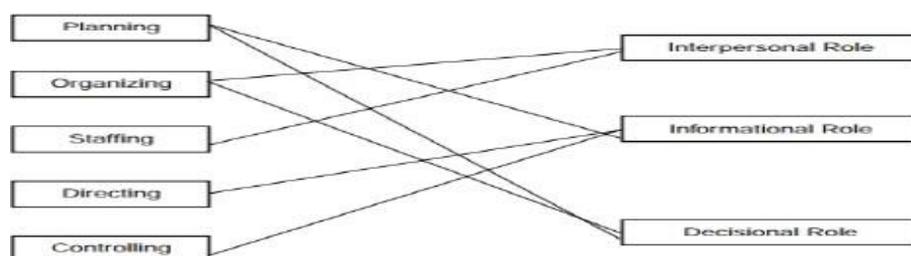
**Decisional roles:** Decisional role involves choosing most appropriate alternative among all so that organizational objectives are achieved in an efficient manner. In this decisional role manager perform four roles:

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

(2) **Disturbance handler:** In this role manager works like a fire-fighter manager contains forces and events which disturb normal functioning of his organization. The forces and events may be employee complaints and grievances, strikes, shortage of raw materials etc.

(3) **Negotiator:** In this role of negotiator, manager negotiates with various groups in the organization. Such groups are employees, shareholders and other outside agencies.

(4) **Resource Allocator:** In this role, the manager must divide work and delegate authority among his subordinates. He must decide who will get what.



## 1.6 LEVELS OF MANAGEMENT

People in an organization are arranged in a hierarchy and they all have the relationship of superior-subordinates. Every manager in an organization performs all five management functions. The relative importance of these functions varies along the managerial levels. There may be as many levels in the organization as the number of superiors in a line of command. Some of these levels are merged into one on the basis of nature of functions performed and authority enjoyed. E.F.L. Brech has classified management levels into three categories – Top Management, Middle Management and Supervisory/Lower/First Line Level as shown in fig.



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

## **1.7 MANAGEMENT FUNCTIONS OR THE PROCESS OF MANAGEMENT OR FUNCTIONS OF MANAGER:**

### **(1) Planning:**

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

Planning involves determination of specific objectives, programs, setting policies, strategies, rules and procedures and preparing budgets.

Planning is a function which is performed by managers at all levels – top, middle and supervisory.

Plans made by top management for the organization as a whole may cover periods as long as five to ten years, whereas plans made by low level managers cover much shorter periods.

## **(2) Organizing:**

Organizing is the distribution of work in group-wise or section wise for effective performance.

Once the managers have established objectives and developed plans to achieve them, they must design and develop a human organization that will be able to carry out those plans successfully.

Organizing involves dividing work into convenient tasks or duties, grouping of such duties in the form of positions, grouping of various positions into departments and sections, assigning duties to individual positions and delegating authority to each position so that the work is carried out as planned.

According to Koonz O'Donnel, —Organization consists of conscious coordination of people towards a desired goal.

One has to note that different objectives require different kinds of organization to achieve them. For example, an organization for scientific research will have to be very different from one manufacturing automobiles.

Staffing involves managing various positions of the organizational structure. It involves selecting and placing the right person at the right position.

Staffing includes identifying the gap between manpower required and available, identifying the sources from where people will be selected, selecting people, training them, fixing the financial compensation and appraising them periodically.

The success of the organization depends upon the successful performance of staffing function.

## **(3) Directing:**

Planning, organizing and staffing functions are concerned with the preliminary work for the achievement of organizational objectives.

The actual performance of the task starts with the function of direction.

This function can be called by various names namely -leading, -directing, -motivating, -activating and so on.

Directing involves these sub functions:

- (a) Communicating: It is the process of passing information from one person to another.
- (b) Leading: It is a process by which a manager guides and influences the work of his subordinates.
- (c) Motivating: It is arousing desire in the minds of workers to give their best to the enterprise.

## **(4) Controlling:**

Planning, organizing, staffing and directing are required to realize organizational objectives.

To ensure that the achieved objectives confirm to the preplanned objectives control function is necessary.

Control is the process of checking to determine whether or not proper progress is being

made towards the objectives and goals and acting if necessary to correct any deviations.

Control involves three elements: (a) Establishing standards of performance.

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

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

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

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

## 1.8 EVOLUTION OF MANAGEMENT

In 19<sup>th</sup> century, people began to recognize management as a separate field of study. During the last hundred years , management has become a more scientific discipline with certain standardized principles and practices. The evolution of management thought during this period can be studied in three parts :

1. Early classical approaches , represented by scientific management, administrative management and bureaucracy.
2. Neo-classical approaches, represented by human relations movement and behavioral approach.
3. Modern Approaches, represented by quantitative approach, systems approach and contingency approach.

## **I. Early Classical Approaches:**

**1. Scientific Management:** Frederick Winslow Taylor is considered to be the Father of Scientific Management. He exerted a great influence on the development of management thought through his experiments and writings.

Taylor made several important contributions which are classified under scientific management:

**a) Time and motion study:** Taylor started time and motion study, under which each motion of a job was to be timed with the help of a stop watch and shorter and fewer motions were to be developed. Thus the best way of doing a job was found.

**b) Differential Payment:** Taylor introduced a new payment plan called the differential piece work, in which he linked incentives with production. Taylor thought that the attraction of high piece rate would motivate workers to increase production.

**c) Drastic Reorganization of Supervision:** : Introduced two new concepts i) separation of planning and doing and ii) functional foremanship. Taylor suggested that the work should be planned by the foreman and not by the worker. Further, he said that there should be as many foremen as there are special functions involved in doing a job and each of these foremen should give orders to the worker on his speciality.

**d) Scientific recruitment and Training:** Taylor emphasized the need for scientific selection and development of the worker. He said that the management should develop and train every worker to bring out his best facilities and enable him to do a higher, more interesting and more profitable class of work than he has done in the past.

**e) Intimate Friendly cooperation between the Management and workers:** Taylor said that both the management and the workers should try to increase production. By doing so, profits would be increased to such an extent that labour and management would no longer have to compete for them.

**2. Administrative Management :** Henry Fayol is considered the Father of Administrative management, he has developed broad administrative principles applicable to general and higher managerial levels. He used the word administration for what we call management.

Fayol's 14 principles of management as general guides to the management process and management practice.

**1 Division of work:** Division of work in the management process produces more and better work with the same effort. Various functions of management like planning, organizing, directing and controlling cannot be performed efficiently by a single proprietor or by a group of directors.

**2 Authority and Responsibility:** As the management consists of getting the work done through others, it implies that the manager should have the right to give orders and power to exact obedience. A manager may exercise formal authority and also personal power. Responsibility is closely related to authority and it arises wherever authority is exercised.

**3 Discipline:** Holding that discipline is –respect for agreements which are directed at achieving obedience, application, energy and the outward marks of respect. Fayol declares that discipline requires good superiors at all levels, clear and fair agreement, and judicious application of penalties.

**4 Unity of command:** This is the principle that an employee should receive orders from one superior only.

**5 Unity of Direction:** According to Fayol, unity of direction is the principle that each group of activities having the same objective must have one head and one plan. As distinguished from the principle of unity of command, Fayol perceives unity of direction as related to the functioning of personnel.

**6 Subordination of Individual interest to general interest:** In a business concern, an individual is always interested in maximizing his own satisfaction through more money, recognition, status etc. This is very often against the general interest which lies in maximizing production. Hence the need to subordinate the individual interest to general interest.

**7 Remuneration:** Fayol perceives that remuneration and methods of payment should be fair and afford the maximum satisfaction to employee and employer.

**8 Centralisation:** If subordinates are given more role and importance in the management and organization of the firm, it is decentralization. The management must decide the degree of centralization or decentralization of authority on the basis of the nature of the circumstances, size of the undertaking, the type of activities and the nature of organizational structure.

**9 Scalar chain:** Fayol thinks of the scalar chain as a line of authority, a –Chain of Superiors| from the highest to the lowest ranks. As per this principle, the orders or communications should pass through the proper channels of authority along the scalar chain.

**10 Order:** Breaking this principle into ‘\_Material order’ and ‘\_Social Order’, Fayol thinks of it as the simple edge of —a place for everything (everyone), and everything (everyone) in its (his) place. This is essentially a principle of organization in the arrangement of things and persons.

**11. Equity:** Equity means equality of fair treatment. Equity results from a combination of kindness and justice. Employees expect management to be equally just to everybody. It requires managers to be free from all prejudices, personal likes or dislikes.

**12 Stability of tenure of personnel:** In order to motivate workers to do more and better work, it is necessary that they should be assured security of job by the management. If they have fear of insecurity of job, their morale will be low and they cannot give more and better work.

**13 Initiative:** Initiative means freedom to think out and execute a plan. Innovation which is the hallmark of technological progress, is possible only where the employees are encouraged to take initiative. According to Fayol, initiative is one of the keenest satisfactions for an intelligent man to experience, and hence, he advises managers to give their employees sufficient scope to show their initiative.

**14 Esprit de corps:** This means team spirit. Since union is strength, the management should create team spirit among all the employees. Fayol here emphasizes the need for teamwork and the importance of communication in obtaining it.

### **3. Bureaucracy:**

German scientist Max Weber is considered to be the father of Bureaucracy. Made a study on various business and government organizations and distinguished three types of administration in them: Leader oriented, tradition oriented and bureaucratic.

**(i) Leader oriented:** Administration is one in which there is no delegation of management functions and all employees serve as loyal subjects of a leader.

**(ii) Tradition oriented:** all managerial positions are handed down from generation to generation and who are you rather than what you can do becomes the primary function.

**(iii) Bureaucratic oriented:** is based on the persons demonstrated ability to hold the position and no person can claim particular position either because of his loyalty to the leader or because the position has been traditionally held by members of his family and the people earn positions because they are presumed to be best capable of filling them.

Important features of Bureaucratic Administration:

**(1) Insistence on following standard rules:** There should not be governed by the personnel preferences of the employer but it should be governed by the standard rules which provides equality in the treatment of subordinates and continuity and predictability of action.

**2) Systematic division of work:** increases production by improving efficiency and saving time in changing over from one job to another.

**3) Principle of hierarchy followed:** each lower officer is under the control and supervision of a higher one.

**4) Not necessary for the individual to have knowledge of and training in the application of rules:** These form the basis on which legitimacy is granted to his authority.

**5) Administrative acts, decisions and rules are recorded in writing:** makes the organization independent of people besides making peoples understanding more accurate.

**6) There is rational personnel administration:** people are selected on the basis of their credentials and merit and are paid according to their option in their hierarchy. Promotions are made systematically.

## **II. Neo classical approaches:**

### **1. Human Relations Approach**

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

He proposed the following points as a result of Hawthorne experiments.

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

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

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

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

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

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

## **2. Behavioural Approach**

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

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

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

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

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

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

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

## **III. Modern Management Approaches**

### **1. Quantitative Approach**

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

means an ability and willingness to follow reasonable, unemotional and scientific approach in relating means with ends and in visualizing the totality of the decision environment. This approach facilitates disciplined thinking while defining management problems and establishing relationships among the variables involved. This approach is widely used in planning and control activities where problems can be defined in quantitative terms.

## **2. Systems Approach**

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

## **3. Contingency Approach**

According to this approach, management principles and concepts have no general and universal application under all conditions. There is no best way of doing things under all conditions. Methods and techniques which are highly effective in one situation may not give the same results in another situation. This approach suggests that the task of managers is to identify which technique in a situation best contribute to the attainment of goals. Managers therefore have to develop a sort of situational sensitivity and practical selectivity. Contingency views are applicable in designing organizational structure, in deciding degree of decentralization, in motivation and leadership approach, in establishing communication and control systems, in managing conflicts and in employee development and training.

## **PLANNING:**

Planning is the beginning of the process of management. A manager must plan before he can possibly organize, staff, direct or control. Because planning sets all other functions into action, it can be seen as the most basic function of management.

According to Koontz and O’Donnel –Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap from where we are and to where we want to go. It is in essence the exercise of foresightl.

According to M.S. Hardy -Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives.

Nature of planning:

*Planning is an intellectual process* which requires a manager to think before acting. It is thinking in advance. It is by planning that managers of organizations decide what is to be done, when it is to be done, how it is to be done, and who is to do it. Decision-making is thus an integral part of planning. It is defined as the process of choosing among alternatives.

*Planning is a continuous process.* A manager should constantly watch the progress of his plans. He must constantly monitor the conditions, both within and outside the organization to determine if changes are required in his plans.

*Plan must be flexible.* By flexibility of a plan is meant its ability to change direction to adapt to changing situations without undue cost. Flexibility in technology means the mechanical ability of a company to change and vary its product-mix according to the changing needs of its customers. Flexibility in market means the company's ability to shift its marketing geographically. Flexibility in personnel means the company's ability to shift individuals from one job to another.

*Planning is all-pervasive function.* In other words, planning is important to all managers regardless of their level in the organization.

#### **IMPORTANCE OF PLANNING:**

1. **Minimizes risk and uncertainty:** The organization continuously interacts with the external dynamic environment where there is great amount of risk and uncertainty. In this changing dynamic environment where social and economic conditions alter rapidly, planning helps the manager to cope up with and prepare for changing environment.
2. **Leads to success:** Planning leads to success by doing beyond mere adaptation to market fluctuations. With the help of a sound plan, management can act proactively, and not simply react.
3. **Focuses attention on the organization's goals:** Planning helps the manager to focus attention on the organization's goals and activities. This makes it easier to apply and coordinate the resources of the organization more economically.
4. **Facilitates control:** In planning, the manager sets goals and develops plans to accomplish these goals. These goals and plans then become standards or benchmarks against which performance can be measured. The function of control is to ensure that the activities conform to the plans. Thus, controls can be exercised only if there are plans.
5. **Trains Executives:** Planning is also an excellent means for training executives. They become involved in the activities of the organization.

## STEPS IN PLANNING:

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

1. **Establishing verifiable goals or set of goals(objectives) to be achieved:** The first step in planning process is to determine the enterprise objectives. These are set by upper level managers after number of objectives has been carefully considered. The objective set depends on the number of factors like mission of the organization, abilities of the organization etc., once the organizations objectives are determined, the section wise or department wise objectives are planned at the lower level. Defining the objectives of every department is a very essential one; then only clear cut direction is available to the departments. Control process is very easy if the objectives are clearly defined.
2. **Establishing planning premises:** This is the second step in planning which involves establishing planning premises that is the conditions under which planning activities will be undertaken. Planning premises are planning assumptions—the expected environmental factors and information relating to the future such as general economic conditions, population trends, competitive behavior etc.

The planning premises can be classified as below:

- (1) Internal and External premises.
- (2) Tangible and Intangible premises.
- (3) Controllable and non-controllable premises.

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

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

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

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

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

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

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

4. **Identification of alternatives:** The fourth step in planning is identifying alternatives. A particular objective can be achieved through various actions. For example, an organization's objective is to grow further, which can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organizations, and so on. With each category, there may be several alternatives. For example, diversification may point out the possibility of entering into one of the several fields.
5. **Evaluation and selection of alternative:** Once the alternatives are identified, the next step is to evaluate the alternatives in the light of the premises and goals and to select the best course or courses of action. This is done with the help of quantitative techniques and operations research. In addition, software packages are available for evaluating alternatives.
6. **Developing derivative/supportive plans:** Once the plan is selected, various plans are derived so as to support the main plan. The derivative may be planning for buying equipments, buying raw material, etc. These derivative plans are formulated out of the main plan.
7. **Measuring and controlling the process:** One should not allow a plan to run on its own without monitoring its progress. Managers need to check the progress of their plans so that remedial action can be taken to make a plan work or change the plan if it is unrealistic. Hence, the process of controlling is a part of any plan.

## **TYPES OF PLANS:**

Plans are arranged in hierarchy in the organization.

At the top of this hierarchy stand objectives. Objectives are the broad ends of the organization which are achieved by means of strategies. Strategies are carried out by means of the two other major groups of plans-single use plans and standing plans. Single-use plans are developed to achieve a specific end. When that end is reached, the plan is dissolved. The major types of single-use plans are programmes and budgets. Standing plans are designed for situations that recur often enough to justify a standardised approach. The major types of standing plans are policies, procedures, methods and rules.

### **Objectives:**

Objectives are goals or aims which the management wishes the organization to achieve. These are the end points or pole star towards which all business activities like organizing, staffing, directing and controlling are directed. Only after having defined these end points can the manager determine the kind of organization, the kind of personnel and their qualifications etc.

Objectives should be distinguished from three other words -vision, -mission and -purpose.

The *vision* is the dream that an entrepreneur creates in his waking hours of his preferred future.

The *purpose* of an organization is its primary role defined by the society in which it operates. Example: purpose of every university is to impart education or the purpose of every hospital is to provide health care.

The *mission* of an organization is the unique aim that sets the organization apart from others of its type. Example: University may have its mission imparting education to women only or hospital may treat heart disorders only.

**Objectives have the following characteristics:**

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

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

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

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

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

### **Requirements of Sound Objectives**

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

(2) Objectives must support one another.

(3) Objectives must be consistent with organizations mission.

(4) Objectives should be consistent over period of time.

(5) Objectives should be rational, realistic and not idealistic.

(6) Objectives should start with word 'to' and be followed by an action verb.

(7) Objectives should be periodically reviewed.

### **Advantages of Objectives**

The following are some of the advantages of objectives.

**(1) Unified planning:** Various plans are prepared at various levels in the organization. These plans are consistent with the objectives and hence objectives encourage unified planning.

**(2) Individual motivation:** Objectives act as motivators for individual and departments imbuing their activity with a sense of purpose.

(3) **Coordination:** Objectives facilitate coordinated behavior of various groups which otherwise may pull in different directions.

(4) **Control:** Objectives provide yardstick for performance. The actual performance is compared with standard performance and hence objectives facilitate control.

(5) **Basis for decentralization:** Department-wise or section wise objectives are set in order to achieve common objectives of the organization. These objectives provide basis for decentralization.

## **Strategies**

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

*Environmental appraisal* involves identifying and analysis of the following factors:

(1) **Political and legal factors:** Stability of government, taxation and licensing laws, fiscal policies, restrictions on capital etc.

(2) **Economic factors:** Economic development, distribution of personal income, trend in prices, exchange rates etc.,

(3) **Competitive factors:** Identifying principal competitors and analysis of their performance, anti-monopoly laws, protection of patents, brand names etc.

(4) **Social and cultural factors:** Literacy levels of population, Religious and social characteristics etc.

*Corporate analysis* involves identifying and analyzing company's strength and weakness. For example a company's strength may be low cost manufacturing skill, excellent product design, efficient distribution etc.,. Its weakness may be lack of physical and financial resources. A company must plan to exploit these strengths to maximum and circumvent its weakness. The formulation of strategy is like preparing for beauty contest in which a lady tries to highlight her strong points and hide her weak points.

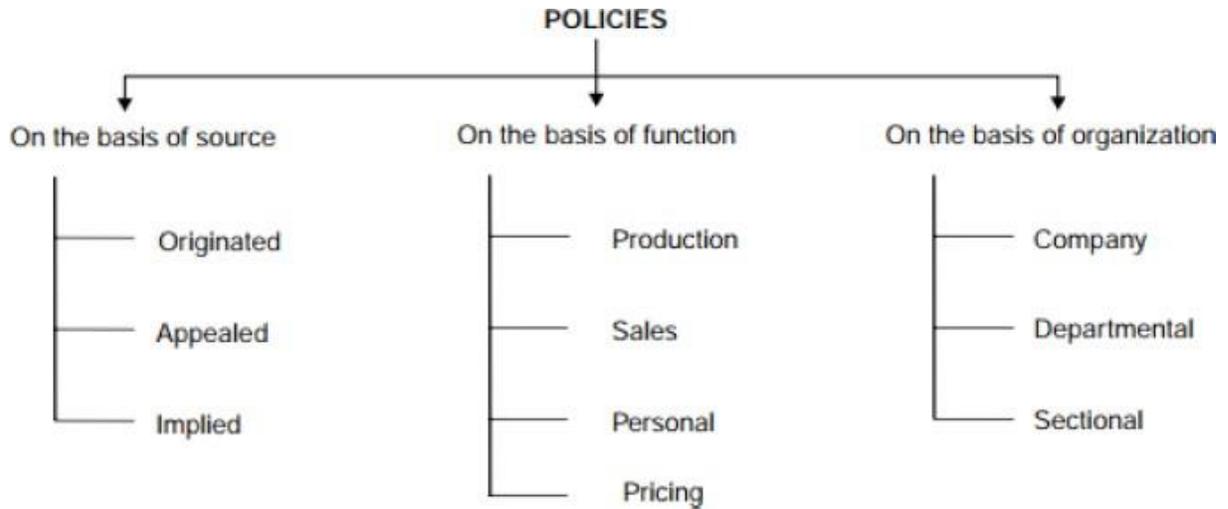
## **Standing Plans:**

### **1. Policies**

A policy is a general guideline for decision making. It sets up boundaries around decisions. Policies channelize the thinking of the organization members so that it is consistent with the organizational objectives. According to George R Terry — Policy is a verbal, written or implied

overall guide, setting up boundaries that supply the general limits and directions in which managerial action will take place. Although policies deal with -how to do the work, but do not dictate terms to subordinates. They only provide framework within which decisions are to be made by the management in various areas. Hence an organization may have recruitment policy, price policy, advertisement policy etc.,

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



Originated policies are policies which are established formally. These policies are established by top managers for guiding the decisions of their subordinates and also their own and are made available in the form of manuals.

Appealed policies are those which arise from the appeal made by a subordinate to his superior regarding the manner of handling a given situation. When decisions are made by the supervisor on appeals made by the subordinates, they become precedents for further action. For example a books dealer offers a discount of 10% on all text books. Suppose if an institution requests for a discount of 15% and prepared to pay full amount in advance, the sales manager not knowing what to do may approach his superior for his advice. If the superior accepts the proposal for 15% discount, the decision of the superior become a guideline for the sales manager in future. This policy is an appealed policy because it comes into existence from the appeal made by the subordinate to the superior.

Implied Policies: The policies which are stated neither in writing nor verbally are known as implied policies. The presence of implied policies can be ascertained by watching the actual behavior of various superiors in specific situations. For example if company's residential

quarters are repeatedly allotted to individuals on the basis of seniority, this may become implied policy.

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

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

### **Advantages of Policies:**

The advantages of policies are as follows:

- (1) Policies ensure uniformity of action at various organization points which make actions more predictable.
- (2) Since the subordinates need not consult superiors, it speeds up decision.
- (3) Policies make easier for the superior to delegate more and more authority to his subordinates because, he knows that whatever decision the subordinates make will be within the boundaries of the policies.
- (4) Policies give a practical shape to the objectives by directing the way in which predetermined objectives are to be attained.

### **2. Procedures**

Policies are carried out by means of more detailed guidelines called procedures. A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work. A procedure is a list of systematic steps for handling activities that occur regularly. The same steps are followed each time that activity is performed. A streamlined, simplified and sound procedure helps to accelerate clerical work without duplication and waste of efforts and other resources.

Difference between policies and procedures can be explained by means of an example. A company may adopt a policy of centralized recruitment and selection through labor department. The labor department may chalk out the procedure of recruitment and selection. The procedure may consist of several steps like inviting application, preliminary interview aptitude and other tests, final interview, medical examination and issue of appointment orders.

**The following are advantages of procedures.** (1) They indicate a standard way of performing a task.

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

### **3. Methods**

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

### **4. Rules**

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

## **Single Use Plans**

### **1. Programme**

A programme is a sequence of activities directed towards the achievement of certain objectives. A programme is action based and result oriented. A programme lays down the definite steps which will be taken to accomplish a given task. It also lays down the time to be taken for completion of each step. The essential ingredients of every programme are time phasing and budgeting. This means that specific dates should be laid down for the completion of each successive stage of programme. In addition a provision should be made in the budget for financing the programme. A programme might include such general activity as purchasing new machines or introducing new product in the market. Thus a programme is a complex of objective, policies, procedures, task assignments, steps to be taken, resources to be employed and other elements to carry out a given course of action.

## **2. Budgets**

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

### **Difference between the policy and the procedure.**

<b>Policies</b>	<b>procedures</b>
1. Are the general guidelines to both thinking and action of people at higher levels	1 .are the guidelines to action only usually for the people at the lower levels
2.help in fulfilling the objectives of the enterprise	2.show us the way to implement policies
3.are generally broad and allow some latitude in decision making	3. Are specific and do not show latitude.
4.are often established without any study or analysis	4.are always established after thorough study and analysis of work

### **STAFFING: Nature and importance of proper staffing:**

Definition of Staffing: **The process of recruiting, retaining, developing and nurturing the workforce is called staffing**

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

#### **Recruitment:**

It is defined as the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs.

Sources of requirement:

Can be broadly classified into two categories: **internal and external**

Internal sources refer to the present working force of the company.

Vacancies other than the lowest level may be filled by the existing employees of the company.

External sources of recruitment

- 1) **Re-employing former employees:** laid off employees or employees left due to personal reasons may be reemployed who may require less training compared to the strangers of the enterprise.
- 2) **Friends and relatives of the present employees:** personnel with a record of good relationships may be encouraged to recommend their friends and relatives for Appointment in the concern where they are employed.
- 3) **Applicants at the gate:** suitable unemployed employees who call at the gates of the factories or companies are called are interviewed by the factory or company personnel and those who are found suitable for the existing vacancies are selected.
- 4) **College and technical institutes:** many big companies remain in touch with the colleges and technical institutions to recruit young and talented personnel.
- 5) **Employment exchanges:** employment exchange set up by the government for bringing together those men who are in search of the employment and these who are in search of employment and those who are looking for men. Employment exchanges are considered a useful source for the recruitment of clerks, accountants, typists.
- 6) **Advertising the vacancy:** can be done by advertising the vacancy in leading news papers which may be used when the company requires services of persons possessing certain special skills or when there is acute shortage of labor force.
- 7) **Labor unions:** persons are sometimes recommended for appointment by their labor unions.

Selection:

**Steps in the selection procedure:**

- 1) **Job analysis:** Is the process by means of which a description is developed of the present methods and procedures of doing a job, physical conditions in which the job is done, relation of the job to other jobs and other conditions of employment
- 2) **Job description:** The results of the job analysis are set down in job descriptions for production workers, clerical people and the first- line supervisors and managers also.
- 3) **Job specification** A job specification is a statement of the minimum acceptable human qualities necessary to perform a job satisfactorily.

Commonly used selection procedure steps.

**Application blank:** Filling the application blank by the candidate is the first step in which the applicant gives relevant personal data such as qualification, experience, firms in which he has worked.

- 2) **Initial interview:** Selected personnel based on the particulars furnished in the application blank are called for the initial interview by the company which is the most important means of evaluating the poise or appearance of the candidate.
- 3) **Employment tests:** Are used for the further assessment of the candidate of his nature and abilities certain tests are conducted by the company. These are:
  - (i) **Aptitude test:** is used in finding out whether a candidate is suitable for clerical mechanical job which helps in assessing before training as how well the candidate will perform the job.
  - (ii) **Interest test:** is used to find out the type of work in which the candidate has an interest.
  - (iii) **Intelligent test:** used to find out the candidates intelligence and candidates mental alertness, reasoning ability, poor of understanding are judged.
  - (iv) **Trade or performance achievement test:** this test is used to measure the candidate's level of knowledge and skill in the particular trade or occupation in which all he will be appointed, in case he is finally selected. In this test the candidate is asked to do a simple operation of the proposed job.

**Example:** A candidate for a driver may be asked to drive to test his driving proficiency, a typist may be asked to type out some letters to find out his speed and efficiency.

(v) **Personality test:** is used to measure those characteristics of a candidate.

**4) Checking references:** used to know about the important personal details about the candidate, his character, past history his background verified from the people mentioned in the application after selection and found satisfactory at the interview.

**5) Physical or medical examination:** is another step in selection procedure. The objectives of this examination are (i) to check the physical fitness of the applicant for the job applied for (ii) to protect the company against the unwarranted claims for compensation under certain legislative enactments. **6) Final interview:** This interview is conducted for those who are ultimately selected for employment and the selected candidates are given an idea about their future projects within the organization.

Theories on the formation of informal groups:

**1) Propinquity theory:** Means that individuals affiliate to one another because of spatial or geographical proximity in an organization where employees who work in the same area or office become close to one another.

**2) Similarity or balance theory:** people with similar attributes, interests and work-related needs are attracted to one another where in the employees form union for fighting indiscriminate or unilateral treatment of the employer.

**3) Complementarity theory:** In this theory the people with complimentary needs and/or abilities are attracted to one another.

**4) Social comparison theory:** individual suffers from the need of self-evaluation and he wants to test himself against other members to determine whether or not his ideas, opinions, and judgments correspond to those of others in the group.

**5) Interaction theory:** Group formation is the result of activities, interactions and sentiments and the more activities they share, the more numerous will be their interactions and the stronger will be their sentiments.

**6) Exchange theory:** Group formation is based upon reward-cost outcomes of interaction. Rewards from interactions gratify the needs while costs incur anxiety, frustration, fatigue or boredom.

Distinction between formal and informal organization:

**Formal organization**

- 1) It is prescribed structure of roles and relationships. Consciously coordinated towards a common objective.
- 2) Its values, goals, and tasks are predominantly oriented towards productivity, efficiency, growth, and so on.
- 3) Well defined in shape, majority of the formal organizations being pyramid shaped.
- 4) There is a prescribed, mostly written system of reward and punishment, and the rewards can be monetary.

**Informal organization**

- 1) It is a natural and spontaneous structure, arising out of the social tendency of people to associate and interact.
- 2) Values, goals, and tasks predominantly centre on individual and group satisfaction, esteem, affiliation, friendship.
- 3) It is shapeless and there are a number of multi-directional, intricate relationships which can be easily charted.
- 4) There is an unwritten system of reward and punishment, and rewards take the form of continued membership.

## MODULE 2

### DIRECTING AND CONTROLLING,:

#### Definition:

- Means issuance of orders and leading and motivating subordinates as they go about executing orders Consists of the process and techniques utilized in issuing instructions and making certain that operations are carried on as originally planned.
- Is a vital in managerial function Is used to stimulate action by giving direction to his subordinates through orders and also supervise their work to ensure that the plans and policies achieve the desired actions and results.
- To conclude direction is the process of utilizing the techniques in issuing instructions and making certain that operations are carried out on as originally planned.

#### Requirements or principles of effective direction:

##### 1) Harmony of objectives:

- The goals of its members must be in complete harmony with the goals of an organization
- The manager must direct the subordinates in such a way that they that they perceive their goals to be in harmony with enterprise objectives.
- For Example the company's profits may be associated with the employee's gains by giving additional bonus or promotion.

##### 2) Unity of Command:

The subordinates must receive orders and instructions from one supervisor only the violation of which may lead to conflicting orders, divided loyalties and decreased personal responsibility for results.

##### 3) Direct supervision

Every supervisor must maintain face-to-face contact with his subordinates which boosts the morale of the employees, increases their loyalty and provides them with feedback on how well they are doing.

##### 3) Efficient Communication:

- Communication is an instrument of direction through which the supervisor gives orders, allocates jobs and explains duties and ensures performance.
- Is a two way process which enables the superior to know how his subordinates feel about the company and how the company feels on a number of issues concerning them.
- In communication comprehension is more important than the content.

## 2) Follow-through:

- Is an act of following through the whole performance of his subordinates to keep check on their activities, help them in their cat and point out deficiencies if any and revise their direction if required.

## Leadership Styles:

- Three leadership styles widely used:
  - 1) Traits approach
  - 2) Behavioral approach
  - 3) Contingency approach

## Traits approach:

- Trait is basically a character and deals with personal abilities and assumed to be God's gift and abilities are identified as mental and physical energy, emotional stability, knowledge of human relations, empathy, objectivity, personal motivation, communication skills, teaching ability, social skills, technical competence, friendliness and affection, integrity and faith, intelligence etc.

## Traits approaches –

- Trait theories argue that leaders share a number of common personality traits and characteristics, and that leadership emerges from these traits.
- Early trait theories promoted the idea that leadership is an innate, instinctive quality that you either have or don't have.
- Now we have moved on from this approach, and we're learning more about what we can do as individuals to develop leadership qualities within ourselves and others.
- Traits are external behaviours that emerge from things going on within the leader's mind – and it's these internal beliefs and processes that are important for effective leadership.

## 2 .Behavioral approach –

- Behavioral theories focus on how leaders behave.

There are three types of leaders:

- a. **Autocratic leaders** make decisions without consulting their teams. This is considered appropriate when decisions genuinely need to be taken quickly, when there's no need for input, and when team agreement isn't necessary for a successful outcome.

b. **Democratic leaders** allow the team to provide input before making a decision, although the degree of input can vary from leader to leader. This type of style is important when team agreement matters, but it

can be quite difficult to manage when there are lots of different perspectives and ideas.

c. **Laissez-faire leaders** don't interfere; they allow people within the team to make many of the decisions. This works well when the team is highly capable and motivated, and when it doesn't need close monitoring or supervision. However, this style can arise because the leader is lazy or distracted, and, here, this approach can fail.

### **3. Contingency approach–**

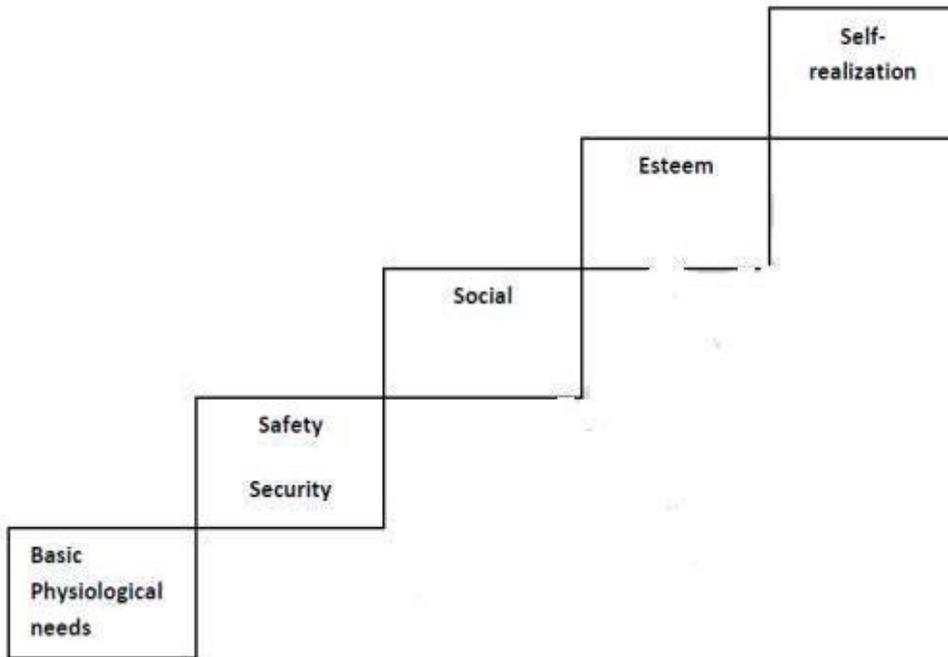
- Situation influencing good leadership
- The realization that there isn't one correct type of leader led to theories that the best leadership style is contingent on, or depends on, the situation.
- These theories try to predict which leadership style is best in which circumstance.

### **Motivation theories:**

- 1) Maslow's need hierarchy theory
- 2) Herzberg's two factor theory
- 3) McClelland's achievement theory
- 4) Victor Vroom's Expectancy theory
- 5) Adams equity theory
- 6) Skinner's behaviour modification theory

#### **1) Maslow's need hierarchy theory:**

An unsatisfied need is the basis for the motivation process and the starting point and begins the chain of events leading to behaviour as shown in the figure below.



- Order of priority of human needs begins with the person's unsatisfied need at the lowest level-identification of the need develops in the form of as goal which leads to the fulfilment of the need to achieve the goal.
- These needs are arranged in the form of a ladder of five successive categories as shown in the figure above.

**(i) Physiological needs:** Arise of the basic physiology of life like the need for food, water, air, etc which must be at least satisfied partially for continued survival. **(ii) Security needs:** Needs to feel free from economic threat and physical harm which need protection from arbitrary lay-off and dismissal, disaster and avoidance of the unexpected.

**(iii) Egoistic needs:** are the needs which relate to respect and prestige the need for dominance for example.

- Can be classified as self-esteem and esteem from others. Self esteem is the need for worthiness of oneself and the esteem is the necessity to think others that he is worthy

**(iv) Self-fulfilment needs:** are the needs to realize ones potential that is realizing one's own capabilities to the fullest-for accomplishing what one is capable of to the fullest. example a musician must make music etc.

According to Maslow, people attempt satisfy their physical needs first. as long as the needs are unsatisfied they dominate and after they become reasonably satisfied and progress to the next level and so on.

### **Herzberg's Two-factor theory:**

- Original study based on the research by Fredrick and Herzberg who interviewed 200 engineers and accountants and were asked about the good times and bad times they think about their jobs.
- Out of these interviews two factors emerged called the
  - I Maintenance factors
  - II Motivators or satisfiers.

### **I Maintenance factors (Factor 1)**

- 1) Fair company polices and administration
- 2) A supervisor who knows the work
- 3) A good relationship with ones supervisor.
- 4) A good relationship with one's peers.
- 5) A good relationship with ones subordinates.

- 6) A fair salary
- 7) Job security
- 8) Personal life
- 9) Good working conditions
- 10) Status

## **II) Motivators or satisfiers (Factor 2)**

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

### **Some facts about the two factors:**

- 1) Motivators are job centered
- 2) Maintenance factors are related working conditions and environmental conditions.
- 3) These two groups of factors are also known as intrinsic and extrinsic rewards.
- 4) These two sets of factors are unidirectional.

### **McClelland's need for achievement theory:**

- According to McClelland there are three important needs (i)The need for affiliation  
(ii)the need for power  
(iii)the need for achievement **(i)Need for affiliation:**
- Reflects desire to interact socially with people Concerned about the quality of an important personal relationship
- (ii) The need for power:**
- Person having high need for power tries to exercise the power and authority Concerned with influencing others and winning arguments
- (iii) The need for achievement (n Ach):**
- Has three distinct characteristics

- (a)  preference in setting moderately difficult but potentially achievable goals
- (b) Doing most things himself rather than getting them done by others and willing to take personal responsibility for his success or failure and does not want to hold responsible for it.
- (c) Seeking situations where concrete feedback is possible.

#### 4) Victor Vroom's Expectancy theory:

Works under conditions of free choice where an individual is motivated towards activity which he is most capable of rendering and which he believes has the highest probability of leading to his most preferred goal. The basic concepts of this theory are

##### 1) First and second level outcomes:

- Job related goals before an individual such as promotion, increase in salary, recognition, and praise and so on are called second level outcomes.
- Each second level outcome can be associated with a value called valence for each individual.
- The valence can be positive, negative or zero

**Valence positive:** individual wants to attain promotion **Valence**

**negative:** does not want to attain promotion

**Valence zero:** outcome towards which he is indifferent Second level outcomes can be achieved in different ways:

(i) promotion by leaving the organization, by absenting himself to show dissatisfaction, by joining a pressure group, by attending a training programme, or developing intimacy with the boss, by bribing somebody, by improving performance or by bribing somebody and so on.

##### 2) Instrumentality:

- All first level outcomes have equal probability of leading the individual to the second level outcome the individual has subjective estimates of these probabilities ranging from - 1 to +1 which are called instrumentalities. -1 indicates a belief that second level outcome is certain without the first level outcome 0 indicates a belief that second level outcome is impossible without first level outcome 1 indicates a belief that second level outcome is certain with first level outcome
- **These instrumentalities are helpful in determining the valence of each first-level outcome The valence of each first-level outcome is the summation of all products arrived by multiplying its instrumentalities with the related valences of the second level outcomes.**

### 3. Expectancy:

- It is the probability estimate which joins the individual's efforts to first level outcome
- Expectancy values are always positive ranging from 0 to 1.

### 4. Motivation:



**Motivation** is the multiplicative function of the valence of each first- level outcome (V1) And they believed expectancy (E) that given effort will be followed by a particular first level outcome, That is  $M=f(V1 * E)$

### 5) Adams equity theory:

- In this theory, **Equity is defined as the ratio between The individual's job inputs (such as effort, skill, experience, education and seniority) to the job re wards (such as pay or promotion)** it is believed that the individuals motivation, performance and satisfaction will depend on his on his or her subjective evaluation o f his or her effort/reward ratio and the effort/reward ratio of others in similar situations

### 6) Skinners behavior modification theory:

**The theory developed by researches done by B.F Skinner.**

- The theory is believed and based on the behavior of the past circumstances which they have learnt that the certain behaviors associated with pleasant outcomes and certain other behaviors are associated with unpleasant outcomes.
- Example: Obedience to authority leads to praise and disobedience leads to punishment.
- The consequences that increase the frequency of a behavior are positive reinforcement (praise or monetary rewards) or negative enforcement (A manager requiring all subordinates to attend early morning meetings if the performance falls below a certain desired level of the organization.
- Negatives of the above theory proposed: Avoids concern for the inner motivation of the individual.** Skinners behavior modification theory is criticized for two reasons
  - (i) Overemphasis of extrinsic rewards ignores the fact tha t people are better motivated by intrinsic rewards.
  - (ii) The theory is unethical no manager has a right to manipulate and control his employees behavior life.

### Communication

- Communication means Exchange of opinions, facts ideas or emotions by two or more persons.
- The sum of all things what one does to create an understanding in the minds of other s.
- Is the process of passing information, correct understanding and with right Interpretation from one person to another.

### **Importance of communication:**

- The importance of communication rose from the fact that earlier business was considered only a technical and formal structure.
- But by Hawthorne's experiments it was realized that every organization requires structure is a social system involving the interactions of the people working at different levels and proper communication is required to the goals of the organization, organizations existence from the birth to continuing

### **Coordination**

- Is the orderly synchronization or fitting together of the interdepe ndent efforts of individuals to attain a common goal
- For example in hospital the proper synchronization of the activities of the nurses, doctors, wards attendants and lab technicians to give a good care to the patient.
- Can be considered as an essential part of all managerial functions of planning, organizing, directing and directing if the manger performs these functions efficiently and expertly coordination is automatically generated and there remains no need for special coordination.

## **Coordination is required at every level of all managerial functions**

**In planning:** performs his function of planning by coordination of the interrelating the plans of various departments

**In organizing:** coordination is required in grouping and various activities to subordinates and in creating departments

**In directing:** coordination is required to take effect of his particular action will have on other departments and executives

**In controlling:** coordination is required manager evaluates operations and checks whether performance is in conformity with the desired results.

### **Techniques of coordination:**

- The following are the important techniques of coordination

#### **1) Rules procedures and policies:**

- Helps in coordinating the subunits in the performance of their Repetitive activities.
- Standard policies, procedures and policies are laid down to cover all possible situations
- If the breakdown of the above occurs more rules, regulations are required to be framed to take care of the breakdown

#### **2) Planning:**

- Ensures coordinated effort and targets of each department dovetail with the targets of all other departments.
- Example: fixing the targets of the 10000 units of additional production and consequently the sales requires the coordination of the two departments respectively to meet the demands and achieve the target.

#### **3) Hierarchy:**

- Is the simplest device of achieving coordination by hierarchy or chain of command By putting together independent units under one boss some coordination among their activities is achieved.
- Sometimes defective because makes individuals dependent upon, passive towards and subordinates to the leader.

#### **4) Direct contact:**

- Used to solve the problems created at the lower levels which affects the employees can be resolved by formal informal contacts to prevent overloading to top executives.

#### **5) Task force:**

- Temporary group made up of representatives from the same departments facing problems and exists as long as the problems lasts and each participant returns to normal tasks once the solution is reached

**6) Committees:**

- Arise due the fact when certain decisions consistently become permanent.
- These groups are labelled committees.
- This device greatly eases the rigidity of the hierarchical structure, promotes effective communication and understanding, of ideas, encourages the acceptance of commitment to policies and makes implantation more effective.

**7) Induction:**

- Of a new employee is a social setting of his work is also a coordinating mechanism.
- The device familiarizes the new employee with organizations rules and regulations dominant norms and behaviour, values and beliefs and integrates his personal goals with organizational goals.

**8) Indoctrination:**

- Device commonly used in religious and military organizations is another coordinating device which develops the desire to work together for a purpose. The major task of a leader being to build an organization can be succeeded by the indoctrination and other means by converting the neutral body into a committed body

**9) Incentives:** providing independent units with an incentive to collaborate such as profit sharing plan is another mechanism.

**10) Liaison departments :** evolved to handle transactions and typically occurs between the sales and production departments.

**11) Workflow:** is the sequence of steps by which the organization acquires inputs and transforms them into outputs and exports these to the environment which is largely shaped by the technological, economic and social considerations and helps them in coordination.

## **MODULE-3**

### **ENTREPRENEURSHIP**

Entrepreneur is a person who undertakes an enterprise. The process of creation is called entrepreneurship. An entrepreneur can be considered as a person who bears the risk of operating a business in the face of uncertainty about the future conditions. Who innovates and introduces something new in the economy

#### **Evolution of the concept:**

The word entrepreneur has been derived from the French word which means to undertake was originally meant to designate an organizer of musical or other entertainments. According to oxford English dictionary in 1897 was defined as the director or manger of public musical institution who gets entertainment in the form of musical performance.

**16<sup>th</sup> century:** In 16<sup>th</sup> century it was applied to those who were engaged in military expeditions.

**17<sup>th</sup> century:** In 17<sup>th</sup> century it was extended to cover civil engineering activities such as construction and fortification.

**18<sup>th</sup> century:** In the beginning of the 18<sup>th</sup> century the word was used for economic aspects.

In the way the evolution of the concept of entrepreneur can be considered to be over more than four centuries.

#### **Functions of an entrepreneur:**

**Performs functions such as planning, organizing, managing, risk bearing and decision making**

- ✓ **Planning of the project:** He is the organizer to conceive the idea of launching the project and to Program to structure of the business
- ✓ **Management:** The entrepreneur is also responsible for the management of business. He tries to have a least cost combination of factors of production.
- ✓ **To Face Risks:** He faces uncertainly and bears risks in his business uncertainly comprising those risks against which it is not possible to insure. He also faces the risk of other producers may enter the market
- ✓ **Distribution of Rewards:** He is responsible of distributing the rewards to all factors of production. He pays the reward in the shape of rent, wage, and interest and bears the risk of profit or loss himself

- ✓ **Sale of Products:** An entrepreneur is also responsible of marketing, advertising. He wants to maximize his profits by selling his product in the market.
- ✓ **Scale of Production:** He decided the scale of business in according with the provision of capital. Then, he takes the decision of what where and how to produce goods.
- ✓ **Joint stock Organization:** In a partnership, the entrepreneurial functions are divided between the partners. But in public limited company, the board of directors takes this responsibility with nationalized enterprise; the entrepreneurial decisions are left to the government or a body to which government has delegated its powers.
- ✓ **Innovation:**He should be innovative in launching of new product,introduction of new technology in production line,creation of new market,new or better source of raw material.
- ✓ **Decision Making:**He has to take effective decisions with regard to business objectives of the enterprise,arrangement of resources and facilities like men,material,machines,money,methods,Technology etc,development of market for the product.

## **Classification and Types of Entrepreneurs:**

The entrepreneurs have been broadly classified according to the type of business, use of professional skills, motivation, growth and stages of development. The various types of entrepreneurs are as described below.

### **Type of entrepreneurs**

#### **1)According to the type of business**

- i)Business entrepreneur ii)trading entrepreneur
- ii)industrial entrepreneur (a)Large (b)medium (c)small and (d)tiny iv)corporate entrepreneur
- v)agricultural entrepreneur (a)plantation b)horticulture c)dairy d)forestry vi)Retail entrepreneur
- vii)service entrepreneur

#### **2)According to the use of technology**

- i)technical
- ii)non technical
- (iii)professional
- iv)high tech
- v)low tech

### **3) According to the motivation**

- i) pure
- ii) induced
- iii) motivated
- iv) spontaneous

### **4) According to growth**

- i) growth
- ii) super growth

### **5) According to stages of development**

- i) modern
- ii) classical
- iii) urban

### **6) According to the area**

- i) urban
- ii) rural

### **7) According to the gender and age**

- i) men
- ii) women

### **8) According to the sale of operation**

- i) small ii) large

### **9) Others or unclassified**

- i) professional ii) non-professional iii) modern iv) traditional v) skilled vi) non-skilled vii) imitating  
viii) inherited ix) forced x) national international xii) bureaucratic xiii) intrapreneur xiv) immigrant

## **1) Entrepreneurs according to the type of business:**

**i) Business entrepreneurs:** are individuals who conceive an idea for a new product or service and then create a business to materialize their idea into reality.

**ii) Trading partner** Trading entrepreneur undertakes trading activities not concerned with manufacturing work. Identifies potential markets, stimulates demand for his product line and creates interest and desire among buyers to go for his product.

**iii) Industrial entrepreneur:** is essentially a manufacturer who identifies the potential needs of the customers and tailors a product according to the needs of the customers. Starts an industrial unit to make new product

**iv) Corporate entrepreneur :**Corporate entrepreneur is an individual who demonstrates his innovative skill in organizing and managing a corporate undertaking. is an individual who plans develops and manages a corporate body which is form of business organization registered under the trust act.

**v)Agricultural entrepreneur :**Are those who undertake agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture.Raise agriculture through mechanization, irrigation and application of technologies of dry land agricultural products and covers a broad spectrum of agricultural sector.

**vi)Industrial Entrepreneur:**Are those who concentrate in industrial and production activites They identify the needs of the customers and manufacture a product according to their needs They are generally a product-oriented entrepreneur

Example:A manufacture of Automobile spare parts,computer accessories

**vii)Retail Entrepreneur**

An Entrepreneur with such a Business sells Product directly to the consumers.

Ex:An Entrepreneur running a departmental store

**viii).Service Entrepreneur**

Is one who provides services to customers.

They make profit by rendering services.

Ex: An Entrepreneur running a hotel

**ix).Social Entrepreneur**

is one who provides importance to the society by serving them.

He concentrates on social issues and does not aim to make profit.

Ex:A person running an orphanage

**2)Entrepreneurs in technology classified as**

**i))Technical:**

Concentrates more on production than through sales and marketing through the demonstration of his innovative abilities in matter of production of goods and rendering of services and skills in production techniques.

**ii) Non-technical:**

Not concerned with technical aspects of the product and are concerned only with the alternative distribution and marketing strategies to promote their business.

**iii) Professional entrepreneur:**

one whose interest is to establish a business but does not deal with its management and organizing it.

### **3) Entrepreneurs based on motivation:**

Are those entrepreneurs who use the motivated as a force to achieve their objectives classified as

**(i) Pure:** Is an individual who is motivated by the psychological and economic rewards. And undertakes an entrepreneurial activity out of personal satisfaction, ego and status.

**(ii) Induced:** Is one who is induced to take up entrepreneurship task due to the policy measures of the government which provides assistance, incentives, concessions and necessary overhead facilities to start new venture.

**(iii) Motivated entrepreneurs:** Are motivated by the desire of self fulfillment.

They come into being because of the making and marketing of the new product for the use of customers who is further motivated by the reward in terms of profit.

**(iii) Spontaneous entrepreneur:** Start their business by their natural talents are the persons who take initiative, are bold confidence and have strong conviction in their inborn ability.

### **4) Entrepreneurs according to Growth:**

**Growth:** Are those entrepreneurs who take a high growth industry which has substantial growth prospectus.

**Super growth entrepreneurs:** Are those who have shown enormous growth of performance in their venture and Identified by liquidity of funds, profitability and gearing.

### **5) Entrepreneurs based on stages of development:**

**(i) First generation:** One who starts an industrial unit by his innovative skill who essentially an innovator who combines different technologies to produce a marketable product or service.

**(ii) Modern:** Undertaking those ventures which suit to the changing and current demands in the market.

**(iii) Classical:** Is one who is concerned with the customers and marketing needs through the

development of a self-supporting venture and is a stereotype entrepreneur whose aim is to maximize his returns at a consistent level with the survival of the firm.

## **6) Classification of Entrepreneurs based on Functional Characteristics :**

### **i). Innovative Entrepreneurs :**

Such an Entrepreneur introduces New Goods /Products / Services or New Methods of Production or discovers New Markets or Reorganizes his Enterprise. Entrepreneurs in this Group are characterized by an aggressive collection of information for trying out Novel Combination of Factors. Such Entrepreneurs do well when a certain level of development is already achieved; they look forward to improve upon the Past.

### **ii). Imitative or Adoptive Entrepreneurs :**

Such Entrepreneurs do not Innovate themselves, but Imitate or Copy Techniques & Technology innovated by other Innovative Entrepreneurs. They are characterized by their readiness to adopt Successful Innovations by other Entrepreneurs. They are particularly suitable for under Developed Regions as Adoption saves Costs of Trial & Error.

### **iii) Fabian Entrepreneur:**

They display great caution & skepticism in experimenting with any change in their Enterprise. They adopt changes only when there is an imminent threat to the very Survival of their Enterprise.

### **iv) Drone Entrepreneur:**

These Entrepreneurs are characterized by a Die – Hard Conservative Attitude. They do not easily seize opportunities to make changes in their production techniques or the Technology employed, even at the Cost of Low Returns on their Investments compared to other similar enterprises. Such entrepreneurs may even incur Huge Losses but they will not be ready to make Changes in their existing production techniques.

## **7) Classification of Entrepreneurs as per the Behavioral Scientists :**

**a. Solo Operators:** Such Entrepreneurs usually Work alone & if needed at all, employ a few employees to assist. Most of the Entrepreneurs begin their Entrepreneurial Career in this fashion.

**b. Active Partners:** These Entrepreneurs start their enterprise in Partnership. All the Partners actively participate in the Operation of the Enterprise. Entrepreneurs who only contribute funds to the enterprise but do not actively involve in Business Activity are called simply –Partners.

**c. Inventors:** Such Entrepreneurs with their Competence & Inventive Nature Invent New Products. Their Basic Interest lies in Research & Innovative Activities.

**d. Challengers:** Such Entrepreneurs plunge into Business because of the Challenges it presents. When One Challenge is satisfied, they will be on the lookout for New Challenges.

**e. Buyers:** Such Entrepreneurs do not wish to bear much Risk. Hence, in order to reduce Risk involved in establishing a New Enterprise, they wish to buy an Ongoing One.

**f. Life Timers:** Such Entrepreneurs take Business as an Integral Part of their Life. Usually, the Family Enterprise & Businesses which call for Personal Skills fall in this Category of Entrepreneurs.

## **8. Classification of Entrepreneur According to the area**

### **a. Urban**

He comes from urban place

Not used to rural life

Products are sold in city only. so that factories are put up in urban areas so that transportation cost is less

Ex: Laptops, Refrigerator etc.

### **b. Rural**

is one who comes from the rural areas. i.e from villages.

This type of entrepreneur is not used to urban life and hence he puts up his factory the rural area only

Ex: agro-based items i.e agricultural products, poultry products, milk products etc.

## **9. Classification of Entrepreneur According to the Gender**

### **a. Male**

An enterprise is owned, financed, managed or controlled by men

### **b. Female**

An enterprise is owned, financed, managed or controlled by women

## **10. Classification of Entrepreneur According to the Sale of Operation**

### **a. Small Scale Entrepreneurs**

An entrepreneur who has made investment in plant and machinery upto Rs 1.00 crore is called 'small-scale entrepreneur'

### **b. Medium**

An entrepreneur who has made investment in plant and machinery above Rs 1.00 crore but below Rs.5.00 crore is called 'medium-scale entrepreneur'

### **c. Large**

An entrepreneur who has made investment in plant and machinery more than Rs 5.00 crore is called 'large-scale entrepreneur'

## CHARACTERISTICS OF ENTREPRENEUR

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

	<b>Core</b>	<b>Entrepreneurial activities</b>
1.	Initiative	Does things before asked for or forced to by events and acts to extend the business to new areas, products or
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
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
7.	Efficiency orientation	Finds ways and means to do things faster, better and economically.
8.	Planning	Various inter-related jobs are synchronized according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	Experience	Possesses technical expertise in areas of business, finance, marketing, etc.
12.	Self-critical	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.

13	Persuasion	Persuades customers and financiers to patronize his business.
14	Use of influence strategies.	Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.
15	Assertiveness	Instructs, reprimands or disciplines for failing to perform.
16	Monitoring	Develops a reporting system to ensure that work is completed and quality norms.
17	Credibility	Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
18	Concern for employee welfare	Expresses concern for employees by responding promptly to their grievances.
19	Impersonal relationship	Places long-term goodwill over short-term gain in a business relationship.
20	Expansion of capital base	Reinvests a greater portion of profits to expand capital of the firm.
21	Building product image	Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

### **Intrapreneuer:**

Is an emerging class found in large industrial organizations who emerge from within the confines of the large industrial organizations.

In big organizations top executives are encouraged to catch hold of new ideas and convert them into products through research and development activities within the framework of the organization.

Very popular in developed countries like America.

Many Intrapreneurs are found leaving their jobs in big organizations and starting their own enterprises and have become exceedingly successful in their ventures. Are causing threat to the organizations they leave who inaugurate new products.

### **DISTINCTION BETWEEN ENTREPRENEUR AND MANAGER**

<b>Points</b>	<b>Entrepreneur</b>	<b>Manager</b>
1. Motive	The main motive of an entrepreneur is to start a venture	Main motive of a manager is to render services in an
2. Status	Owner	Servant
3. Risk	Assumes risk and uncertainty	Manager does not bear any risk involved in
4. Rewards	Profits, which are highly uncertain and not fixed.	Salary which is certain and fixed.
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing needs of	A manager simply executes plans prepared by the entrepreneur.
6. Qualification	An entrepreneur needs to possess qualities and qualifications like high achievement motive,	A manager needs to possess distinct qualifications in terms of sound knowledge

### **DIFFERENCE BETWEEN ENTREPRENEURS AND INTRAPRENEURS**

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

## **CONCEPT OF ENTREPRENEURSHIP**

**-Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition.**

## **ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT**

The important role that an entrepreneurship plays in the economic development of an economy can be put in a more systematic manner as follows.

1. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
2. It provides immediate large-scale employment. Thus it helps to reduce unemployment in the country.
3. It provides balanced regional development.
4. It helps reduce the concentration of economic power.
5. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
6. It encourages effective resources mobilization of capital and skill which might otherwise remain unutilized and idle.
7. It also induces backward and forward linkages which stimulated the process of economic development in the country.
8. It promotes country's export trade i.e. an important ingredient for economic development.

## **STAGES IN THE ENTREPRENEURIAL PROCESS**

**Stages in the development of the entrepreneurial process:**

Can be explained in five stages:

**Stage 1:** perceiving ,identifying and evaluating opportunity

**Stage 2:** drawing up a business plan

**Stage 3:** marshalling resources

**Stage 4:**creating the enterprise

**Stage 5:**consolidation and management

**1. Perceiving ,identifying opportunity:**

- An entrepreneur has to be alert to the opportunities and possibilities that arises in the market from time to time.
- Opportunity knock the door of every entrepreneur only few seize them and convert them
- Consumers & business association, members of distribution system, independent technical organizations consultants etc.  
government organizations & R&D centers also provide new ideas

**2. Evaluating opportunity:**

- Opportunities have to be not only identified but also analyzed with respect to the following.
- It involves length of opportunity, its real perceived value its risks & resources, with personal skills goals of entrepreneur & its uniqueness or differential advantages in its competitive environment.
- Description of product,Agreement of opportunity, Assessment of the entrepreneur, Resources needed,Amount & sources of capital, Profit expected.

**3. Drawing up a business plan:**

- A business plan is nothing but a description of the future direction of the business.
- A good business plan is very essential to develop the opportunity and to determine the resources received.
- A business plan describes the business as well as the industry in which business exists
- It formulates all plans Technology plan, Financial plan, Organization plan, Production & operation plan, Marketing & distribution plan, Summary

**4. Marshalling resources:**

- An Entrepreneur should have good idea of the various resources required with respect to quality, quantity, prices and sources.
- The entrepreneur identifies the sources from where the finance and the human resource can be arranged.
- Here, the entrepreneur finds the investors for its new venture and the personnel to carry out the business activities.

**5. Creating the enterprise:**

- An entrepreneur has to be aware of the legal and practical hurdles that he has to face in the process of physically creating his business.
- An entrepreneur decides on the future prospects of the business, i.e. its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is undertaken accordingly, by an entrepreneur.

## **6. Consolidation and management:**

- The operational problems of the growing enterprise must be examined.
- Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals.
- First of all, an entrepreneur must decide the management structure or the hierarchy that is required to solve the operational problems when they arise.

### **Summary:**

Identifying and evaluating an opportunity is a difficult task and one has to be watchful for opportunities,

Ideas can come from various sources and one has to be careful in evaluating the opportunities carefully. Once the opportunity is identified and a suitable project is identified, the next step is to develop a plan for the venture. After assessing the resource position and the enterprise is established, a further step is to assess the resource position and once the enterprise is established, an entrepreneur should always look forward to indefinite future, growth, development and continuation.

## **ENTREPRENEURSHIP IN INDIA**

The evolution of entrepreneurship in India is the efforts of great people as well as professionals. It started as family business known to be around 1850s with the starting of cotton mill in Bombay (Mumbai). From then on, entrepreneurship had grown in all directions from cotton mill to manufacture, to services, electronic goods, health care, exports and imports, information technology, education, transport, space technology etc.

**Past:** In the past “business community” was involved in trade and commerce. This community is presently known to be “Vaisyas” or “Banias”. The following points are noteworthy with respect to the entrepreneurship in the past:

- (i) Manufacture and supply of a product was based on demand. The traders used to book orders from the required people and get them from the producer.
- (ii) All the members of the family were involved in the business from planning to manufacture stage and finally selling them.
- (iii) The industrial activity was controlled by the cast system. For example, weavers used to weave cloths, gold smiths used to make ornaments, farmers used to produce food products etc.
- (iv) The skill of any enterprise was inherited from ancestors.

(v) The trade activity was dependant on caste system.

The family based industries and trade were badly affected during British rule. Indian entrepreneurship was mainly in the areas of textiles, Iron and steel and hydroelectric projects etc.

### **Present:**

There is tremendous growth of industries and services over last 50-60 years. Banking, automobiles, software development, petrochemicals, cement, steel, communication etc., are some of the major modern entrepreneurship areas, where lot of innovations had taken place.

Some of the noteworthy highly talented entrepreneurs of India are : G.D. Birla, J.R.D. Tata, Aditya Birla, Godrej, Jamnalal Bajaj, Wadia, Hindujas, Azim Premji of Wipro, Narayana Murthy of Infosys, Satyanarayana Raju of Satyam Computers, Dhirubai Ambani of Reliance, Karsanbhai Patel of Nirma etc.

Before 1940's the Indian business was almost dominated by British companies except for some well established companies like Tata Steel, Birla group, Wadias etc. It was very difficult to compete with British goods. After second world war (1945) more business opportunities were projected like cement, steel and other infrastructures. Indian industry began to expand in the core sector only after independence (1947).

Therefore Ministry of Micro, Small & Medium Enterprises, Govt of India has announced a package for Promoting such enterprises in Feb 07 to provide full support in the Areas of Credit, Technological Up gradation, Marketing & Infrastructural Upgradation in Major Industrial Infrastructure etc.

### **BARRIERS TO ENTREPRENEURSHIP**

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

1. Lack of a viable concept
2. Lack of market knowledge
3. Lack of technical skills

4. Lack of seed capital/fund
5. Lack of business knowledge
6. Complacency—lack of motivation
7. Social stigma
8. Time presence and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents
12. Lack of good machinery
13. Inability to dream
14. Lack of patience
15. Unwilling to invest money
16. Non availability of Raw materials
17. Unstable and Unpredictable markets
18. Globalization and entry of Foreign Goods.

## **IDENTIFICATION OF OPPORTUNITY**

Entrepreneur who starts their own business can be grouped into two broad categories. The first category consists of people who know exactly what they want to do and are merely looking for the opportunity or resources to do it.

The second group consists of people who want to start their own business, but do not have definite ideas about what they would like to do. They may have developed skills during their education or in the course of their previous employment, but many have not been interested in opening a business in the same field of endeavor.

Project identification is concerned with the collection, complication and analysis of data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according to Drucker, are of three kinds: additive, complimentary and break-through.

Every project has three elements—inputs, outputs and social costs and benefits. The input characteristics define what the project will consume in terms of raw material, energy, manpower, finance and organizational setup.

The output characteristics of a project define what the project will generate in the form of goods and services, employment revenue etc. The quantity and quality of all these outputs should be clearly specified.

In addition every project will have an impact on society. It inevitably affects the current equilibriums of demand and supply in the economy.

## **PROJECT FEASIBILITY STUDY**

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

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

### **Market feasibility**

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

The kind of information required is

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints
- Imports and exports
- Structure of competition
- Cost structure
- Elasticity of demand
- Consumer behavior, intentions, motivations, attitudes, preferences and requirements
- Distribution channels
- Administrative, technical and legal constraints

### **Technical Analysis**

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

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

- Is the technology proposed to be employed appropriate from the social point of view?

### **Financial Analysis**

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

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

### **Economic/ Social Cost-benefit Analysis**

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

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

### **Ecological Analysis**

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

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

## MODULE 4- PREPARATION OF PROJECT AND ERP

### 4.1 MEANING OF PROJECT

An entrepreneur takes numerous decisions to convert his business idea into a running concern. His/her decision making process starts with project/product selection. The project selection is the first corner stone to be laid down in setting up an enterprise. The success or failure of an enterprise largely depends upon the project. The popular English proverb —well began is half done applies to project selection also indicates the significance of good beginning.

The dictionary meaning of project is that is a scheme, design a proposal of something intended or devised to be achieved. Newman and his associates define that —a project has typically has a distinct mission that it is designed to achieve and clear termination point, the achievement of the mission.

Gillinger defines project —as a whole complex of activities involved in using resources to gain benefits.

According to Encyclopaedia of management, —a project is an organized unit dedicated to the attainment of goal—the successful completion of a development project on time, within budget, in conformance with predetermined programme specifications. Now, a project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Project can differ in their size, nature of objectives, time duration and complexity.

However projects partake of the following three basic attributes:

- (i) A course of action
- (ii) Specific objectives and
- (iii) Definite time perspectives.

Every project has starting point, an end point with specific objectives.

## 4.2 PROJECT IDENTIFICATION

Often indenting entrepreneurs always are in search of project having a good market but how without knowing the product cost they determine market whose market they find out without knowing the item i.e. product? Idea generation about a few projects provides a way to come out of the above tangle.

Project is scientifically evolved as work plan to achieve specific objective within a period of time—vasanth Desai.

- A project is a whole complex of activities involved in using resources to gain benefits- Gillinger
- The world Bank has defined project as an approval for a capital investment to develop facilities to provide Goods & Services
- The dictionary meaning of project is a scheme, design, a proposal of something intended to be achieved

### 4.2.1. PROJECT CLASSIFICATION

Helps in expressing and highlighting the essential features of project.

Important classification of projects

- Quantifiable and nonquantifiable projects.
- Sectional projects
- Techno-economic projects

#### a. QUANTIFIABLE AND NON QUANTIFIABLE

- Quantifiable projects are those in which possible quantitative assessment of benefits can be made
- Non-quantifiable projects are those where such assessment is not possible
- Projects concerned with industrial development, power generation, mineral development fall in the first category
- While projects involving health, education fall in the second category

#### b. SECTIONAL PROJECTS

- Here the classification is based on various sectors like
- Agricultural sector

- Automobile sector
- Irrigation sector
- Transport sector
- Power sector
- Mining sector
- Miscellaneous sector

#### c. TECHNO-ECONOMIC PROJECTS

- Classification of projects based on techno-economic characteristics fall in this category.
- This type of classification includes  
Factor intensity oriented classification  
Causation—oriented classification  
Magnitude –oriented classification(refer ppts)
- The selection of a project consists of two main steps
- Project identification and
- Project selection

#### **4.3.Idea Generation(Project Identification)**

The process of project selection starts with idea generation. In order to select most promising and profitable project, the entrepreneur has to generate large number of ideas about the possible projects he can take. The project ideas can be discovered from various internal and external sources. These may include:

- (i) Knowledge of potential customer needs.
- (ii) Personal observation of emerging trends in demand for certain products.
- (iii) Scope for producing substitute product.
- (iv) Trade and professional magazines which provide a very fertile source of project ideas.
- (v) Departmental publications of various departments of the government.
- (vi) Success stories of known entrepreneurs or friends or relatives.
- (vii) A new product introduced by the competitor.
- (viii) Ideas given by knowledgeable persons.

All these sources putting together may give few ideas about the possible projects to be examined among which the project must be selected. After going through these sources if an entrepreneur

has been able to get six project ideas, one project idea will be finally selected going through the following selection process.

#### 4.4 PROJECT SELECTION

Project selection starts once the entrepreneur has generated few ideas of project. After having some ideas, these project ideas are analyzed in the light of existing economic conditions, market conditions, and the government policy and so on. For this purpose a tool is generated used what is called SWOT analysis. The intending entrepreneur analyses his strengths and weaknesses as well as opportunities/competitive advantages and threats/challenges offered by each of the project ideas. In addition the entrepreneur needs to analyze other related aspects also like raw material, potential market, labour, capital, location and forms of ownerships etc. Each of these aspects has to be evaluated independently and in relation to each of these aspects. On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of few projects is also termed as -Zeroing in Process||.

<b>S</b> (Strengths)	<b>W</b> (Weaknesses)
<b>O</b> (Opportunities)	<b>T</b> (Threats)

A few Important Criteria for selection are given below:

**Investment Size:** This is a very important criterion to decide success or failure of the Project. The Entrepreneur should assess the Economical Size of the Plant & the Total Investment required & should assess his Financial Capability to pool in at least about 25 % of the Investment required for the Project. Entrepreneur therefore, ***should select only such Projects which are within his financial resources***. You cannot establish an Enterprise only on borrowed funds & this may lead to severe financial problems in the Initial Stages of the Project Implementation itself.

**Location:** Location chosen should have Good Infrastructural Facilities like Good Approach Road, Transportation Facilities, Communication Facilities, Availability of Power, and Water & required Labor. Also, Location chosen should have good proximity to the Raw Materials as well as to the Market. Entrepreneurs should also examine the Concessions & Incentives offered for a Particular Location as per the Govt. Industrial Policy. It is also advisable to select a location nearer to bigger cities or Industrially Forward Areas rather than setting up an Enterprise in Remote rural or Backward Areas just for the sake of getting better or higher incentives offered by the Govt.

**Technology:** The Project chosen should not be for a Product which requires sophisticated technology, necessitating Foreign Technical Collaboration. It is better to go in for a Product with a proven technology that is *indigenously* available & where the Entrepreneur himself is well versed with the required technology.

**Plant & Machineries:** When deciding on a Project, the Entrepreneur should assess the availability of High Quality Plant & Machineries *indigenously*. As far as possible, a New First Project by the Entrepreneur should not be planned on Imported Plant & Machineries because of the problems & delays invariably associated with Imports. This may lead to Cost Escalation of the Project, & may affect the implementation schedule of the Project. One should remember that one should not compromise on the Quality of the Equipment even if there are little expensive in the beginning, as they will pay back in the Long Run due to uninterrupted working. Cheap Poor Quality equipment leads to frequent breakdowns.

**Marketing:** The Success of any Enterprise finally depends on Marketing Capability of ones Goods / Products / Services. It is not advisable to get into a Project *particularly the first*, which would mean survival amidst Cut Throat Competition involving Direct Selling to a large number of Ultimate Customers. One should go in for Products with a Limited Number (say 10 or 15) of established Industrial Customers.

This also means that there is a *Time Interval involved in between Projects Identification & Final Projects Selection*.

#### **4.5 CONTENTS OF A PROJECT REPORT**

The significance of project report as discussed above makes it clear that there is no substitution for business plan or project report and there are no shortcuts to prepare it. The more concrete and complete project report not only serves as road map but also earns the respect of outsiders who support in making and running an enterprise. Hence project report should be prepared with great care and consideration. A good project report should contain the following.

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

(2) **Promoter:** His/her educational qualification, work experience, project related experience. (3)

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

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

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

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

#### **4.6 FORMULATION OF PROJECT REPORT**

A project report is like a road map. It is an operating document. What information and how much information it contain depends upon the size of the enterprise, as well as nature of production. For example small-scale enterprises do not include technology which is used for preparing project reports of large-scale enterprises. Within small-scale enterprises too, all information may not be homogeneous for all units. Vinod Gupta has given a general set of information in his study -Formation of a project report. According to Gupta, project formulation divides the process of project development into eight distinct and sequential stages as below:

- (1) General information
- (2) Project description

- (3) Market potential
- (4) Capital costs and sources of finance
- (5) Assessment of working capital requirements
- (6) Other financial aspects
- (7) Economical and social variables
- (8) Project implementation

The nature of formation to be collected and furnished under each of these stages has been given below.

### **(1) General Information**

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

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

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

**Constitution and organization:** The constitution and organization structure of the enterprise; in case of partnership firm its registration with registrar of firms, certification from the Directorate of Industries /District Industry Centre.

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

### **(2) Project Description**

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

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

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

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

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

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

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

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

- iii) **Water:** The sources of water, quality and quantity available.
- (d) **Pollution control:** The aspects like scope of dumps, sewage system, sewage treatment plant, infiltration facility etc., should be mentioned.
- (e) **Communication and transportation facility:** The availability of communication facilities, e.g., telephone, fax, telex, internet etc., should be indicated. Requirements for transport, mode of transport, potential means of transport, approximate distance to be covered, bottlenecks etc., should be stated in the business plan.
- (f) **Production process:** A mention should be made for process involved in production and period of conversion from raw material into finished goods.
- (g) **Machinery and equipment:** A complete list of machines and equipment required indicating their size, type, cost and sources of their supply should be enclosed with the project report.
- (h) **Capacity of the plant:** The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.
- (i) **Technology selected:** The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.
- (j) **Other common facilities:** Availability of common facilities like machine shops, welding shops and electrical repair shops etc should be stated in the project report.
- (k) **Research and development:** A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

### **(3) Market Potential**

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

- (a) **Demand and supply position:** State the total expected demand for the product and present supply position, what is the gap between demand and supply and how much gap will fill up by the proposed unit.
- (b) **Expected price:** Expected price of the product to be realized should also be mentioned.
- (c) **Marketing strategy:** Arrangements made for selling the product should be clearly stated in the project report.
- (d) **After sales service:** Depending upon the nature of the product, provisions made for after-sales should normally be stated in the project report.

#### **(4) Capital Costs and Sources of Finance**

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

#### **(5) Assessment of Working Capital**

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

#### **(6) Other Financial Aspects**

To adjudge the profitability of the project to be set up, a projected profit and loss account

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

**Break-Even Point (BEP) =  $F/S - V$**  Where F = Fixed Cost

S = Selling Price/Unit V = Variable Cost/Unit

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

#### **(7) Economical and Social Variables**

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

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

## **(8) Project Implementation**

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

### **4.7 PLANNING COMMISSION GUIDELINES**

In order to process investment proposals and arrive at investment decisions, the planning Commission has issued guidelines for preparing/formulating industrial projects. The guidelines have been summarized as follows:

**1. General information:** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, i.e., the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should contain information about the enterprise submitting the feasibility report.

**2. Preliminary analysis of alternatives:** This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and their level of production actually attained, a list of all projects for which letters of intent licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project and its implications should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-à-vis return should be presented.

**3. Project description:** The feasibility report should provide a brief description of the technology/process chosen for the project. Information relevant for determining the optimality of the

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

**4. *Marketing plan:*** It should contain the following items: Data on the marketing plan, demand and prospective supply in each of the areas to be served. The methods and the data used for making estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.

**5. *Capital requirements and cost:*** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.

**6. *Operating requirements and costs:*** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating cost should be collected. Operating costs relate to cost of raw, materials and intermediaries, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.

**7. *Financial analysis:*** The purpose of this analysis is to present some measures to assess the financial viability of the project. A Performa balance sheet for the project data should be presented. Depreciation should be allowed for on the basis specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyze the sensitivity of the rate of return on the level and pattern of product prices.

**8. *Economic analysis:*** Social profitability analysis needs some adjustments in the data relating to the costs and return to the enterprise. One important type of adjustment involves a correction in input and cost, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign, trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified they should be analyzed and their importance emphasized.

#### **4.7 MEANING AND SIGNIFICANCE OF PROJECT REPORT (Need and Significance)**

A project report or a business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course at action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. A project report serves like a kind of big road map to reach the destination determined by entrepreneur. Hence a project report can be defined as a well evolved course of action devised to achieve the specified objectives within a specified period of time. It is like an operating document.

The preparation of project report is of great significance for an entrepreneur. The project report serves two essential purposes. The first is the project report is like a road map it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. In addition it enables the entrepreneur to know that he is proceeding in the right direction. Dan Steinhoff and John F. Burgess hold the view that without well spelled out goals and operational methods, most businesses flounder on the rocks of hard times.

The second purpose of the project report is to attract lenders and investors. The preparation of project report is beneficial for those small scale enterprises which apply for financial assistance from the financial institutions and commercial banks. On the basis of this project report the financial institutes make appraisal and decide whether financial assistance should be given or not. If yes how much. Other organizations which provide various assistance like work shed/land, raw material etc, also make decision on the basis of this project report.

Project report includes information on following aspects:

- Economic Aspects
- Technical Aspects
- Financial Aspects
- Production Aspects
- Managerial Aspects

## 4.8 Enterprise resource planning(ERP)

### **Definition:**

Enterprise resource planning system is a fully integrated business management system covering functional areas of an enterprise like Logistics, Production, Finance, Accounting and Human Resources. It organizes and integrates operation processes and information flows to make optimum use of resources such as men, material, money and machine.

Enterprise resource planning promises one database,one application,one user interface.

The practice of consolidating an enterprise's planning,manufacturing,sales and marketing efforts into one management system.

- Combines all databases across departments into a single database that can be accessed by all employees.
- ERP automates the tasks involved in performing a business process.ERP system
- It refers to the software used by organization to manage day to day activities such as accounting,project management and manufacturing.
- It allows tracking and monitoring company resources ,raw material,inventory and even customer relationship management.it uses the same database throughout an entire company to store various type of data.
- With ERP ,organisation can eliminate inefficiencies,improve customer relations and facilitate real time collaboration.
- Instead of using a bundle of different solution together,like one app for CRM and another for tracking marketting efforts,your business can utilize ER Management tool to combine all of these into one single,integrated platform

## ERP Characteristics

- **Flexibility:**An ERP system should be flexible to respond to the changing needs of an enterprise.
- **Modular design:**It consists of many distinct business modules such as financial,accounting,manufacturing and distribution.
- **Central common database:**It has a common database that supports all the applications.
- **Automatic generation of information:**An ERP system provides business intelligence tools such as executive information systems,decision support systems,easy warning systems etc.
  - **Best business practices:**It must have a collection of the best business processes applicable worldwide.
  - **Beyond the company:**It should not be confined to the organizational boundaries.

## Modules /components of ERP

**Manufacturing:** Engineering, bills of material, scheduling, capacity, workflow management, quality control, cost management, manufacturing process, manufacturing projects, manufacturing flow.

•**Supply chain management** : it manages the flow of product items from manufacturer to customer and customer to the manufacturer.Order to cash, inventory, order entry, purchasing, product configuration, supply chain planning, supplier scheduling, and inspection of goods, claim processing, and commission calculation.

**Financials:**modules for book keeping and making sure the bills are paid on time.

Examples:General ledger, cash management, accounts payable, accounts receivable

Any financial data is required for running the business is available in one click.

**Human resources:** helps HR team to manage employee information,manage payrolls,track employee recordslike performance reviews,designations,job descriptions,skill matrix,attendance tracking and much more.

**Customer relationship management:**helps to manage and track the detailed information of the customer like communication history,calls,meetings,details of purchases made by the customer,contract duration.

**Inventory Module** : It can be used to track the stock of the items, track and trace the current location in the organisation, it includes functionalities like stock utilization, reporting, master unit etc.

- There are many more ERP modules but above are the basic one

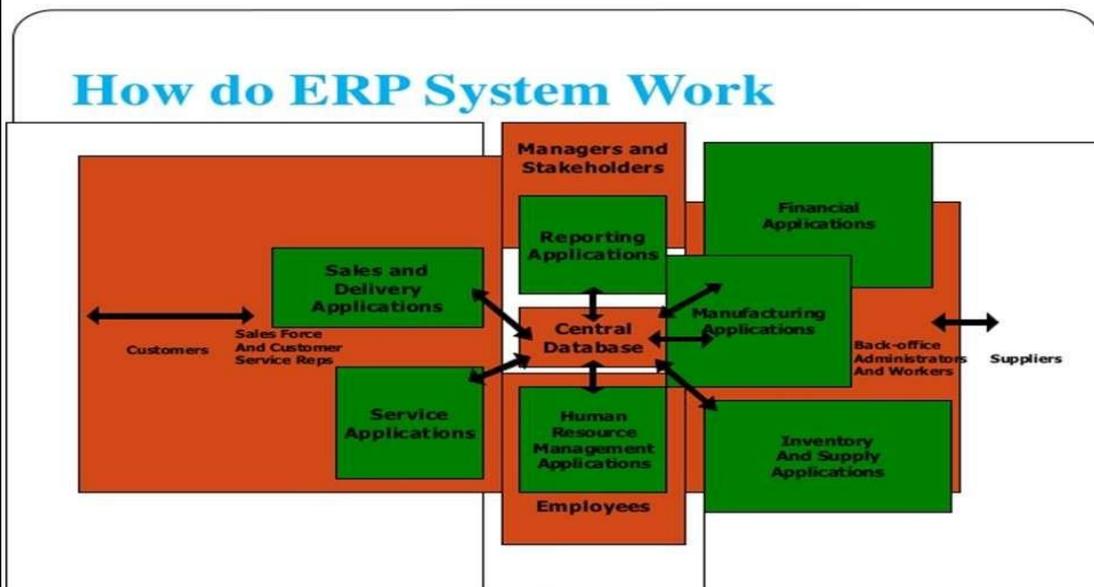
## Advantages of using ERP

- No more issues with data as it is spread across separate databases;all information is located in a single location
- Bridges information gap across the organization.
- Helps to achieve competitive advantages by improving its business process.
- Automates tedious tasks such as compiling reports ,updating inventory information,and monitoring your sales while reducing the risk of human error.
- Software solutions are often equipped with firewalls and restriction controls,so you can safeguard confidential data without limiting user access to other information.
  - ERP is the solution for better project management.
  - ERP allows automatic introduction of the latest technologies like Electric Fund Transfer,Electronic Data Interchange(EDI),Internet,Intranet,Video conferencing,E-commerce etc.
- Helps to make reporting easier;ERP modules can respond to the complex requests more easily.

## Disadvantages of ERP

- The success of ERP implementation depends on the skills and experience of the workforce.
- The upfront cost of the software alone can be high especially for small-to-medium sized businesses
- Choosing the wrong ERP may not cater to your unique requirements.
- Informaton sharing can have an adverse effect on another department.

Although there are few negative points about ERP,if used in the right way,it can definitely help to leverage your business.



## 4.9 Functional areas of Operation/Functional areas of management of ERP

1. **Marketing and Sales (M/S)**
2. **Supply Chain Management (SCM)**
3. **Accounting and Finance (A/F)**
4. **Human Resources (HR)**

Business functions: Activities specific to a functional area of operation

Figure 4-2: Examples of functional areas of operation and their business functions

Functional Areas of Operation				
Functional area of operation	Marketing and Sales	Supply Chain Management	Accounting and Finance	Human Resources
Business functions	Marketing of a product	Purchasing goods and raw materials	Financial accounting of payments from customers and to suppliers	Recruiting and hiring
	Taking sales orders	Receiving goods and raw materials	Cost allocation and control	Training
	Customer support	Transportation and logistics	Planning and budgeting	Payroll
	Customer relationship management	Scheduling production runs	Cash-flow management	Benefits
	Sales forecasting	Manufacturing goods		Government compliance
	Advertising	Plant maintenance		

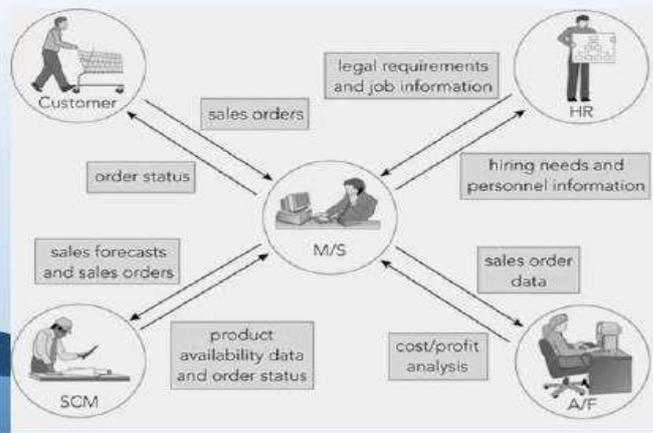
Functional areas are interdependent

- Each requires data from the others
- Better integration of functional areas leads to improvements in communication, workflow, and success of company
- Information system (IS): Computers, people, procedures, and software that store, organize, and deliver information
- Collection of activities that takes one or more kinds of input and creates an output that is of value to customer
  - Customer can be traditional external customer or internal customer
- Thinking in terms of business processes helps managers to look at their organization from the customer's perspective
- Example: A fictitious coffee shop
  - Examine business processes of the coffee shop
  - See why coordination of functional areas helps achieve efficient and effective business processes
  - Look at how integration of the information system improves the business

## 1. Marketing and sales

- **Functions of Marketing and Sales** Developing products Determining pricing Promoting products to customers Taking customers' orders Helping create a sales forecast
- **Marketing and Sales tasks for the coffee shop** – Formal record keeping not required
  - Need to keep track of customers
  - Product development can be done informally
  - Good repeat customers allowed to charge purchases—up to a point
- Records must show how much each customer owes and his or her available credit

## Marketing and Sales (cont'd.)



23

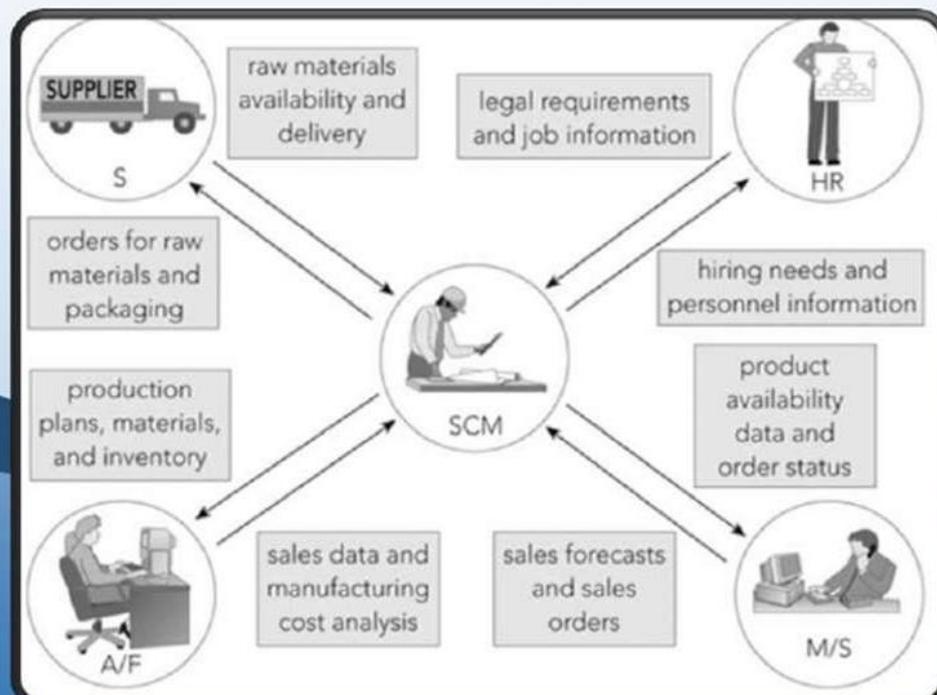
**Figure 4-3: The Marketing and Sales functional area exchanges data with customers and with the Human Resources, Accounting and Finance, and Supply Chain Management functional areas.**

### 2. Supply Chain Management

- Supply chain management (SCM) is the active management of supply chain activities to maximize customer value and achieve a sustainable competitive advantage.
- It represents a conscious effort by the supply chain firms to develop and run supply chains in the most effective & efficient ways possible.
- Supply chain activities cover everything from product development, sourcing, production, and logistics, as well as the information systems needed to coordinate these activities.
- Needs information from various functional areas

- Production plans based on information about product sales (actual and projected) that comes from Marketing and Sales
  - With accurate data about required production levels:
  - Raw material and packaging can be ordered as needed
  - Inventory levels can be kept low, saving money
  - Functions within Supply Chain Management
  - Making the coffee (manufacturing/production)
  - Buying raw materials (purchasing)
  - Production planning requires sales forecasts from M/S functional area
- 
- Sales forecasts: Analyses that attempt to predict the future sales of a product •  
Production plans used to develop requirements for raw materials and packaging
  - Raw materials: Bottled spring water, fresh lemons, artificial sweetener, raw sugar
  - Packaging: Cups, straws, napkins
  - SCM and M/S must choose a recipe for each coffee product sold

## Supply Chain Management

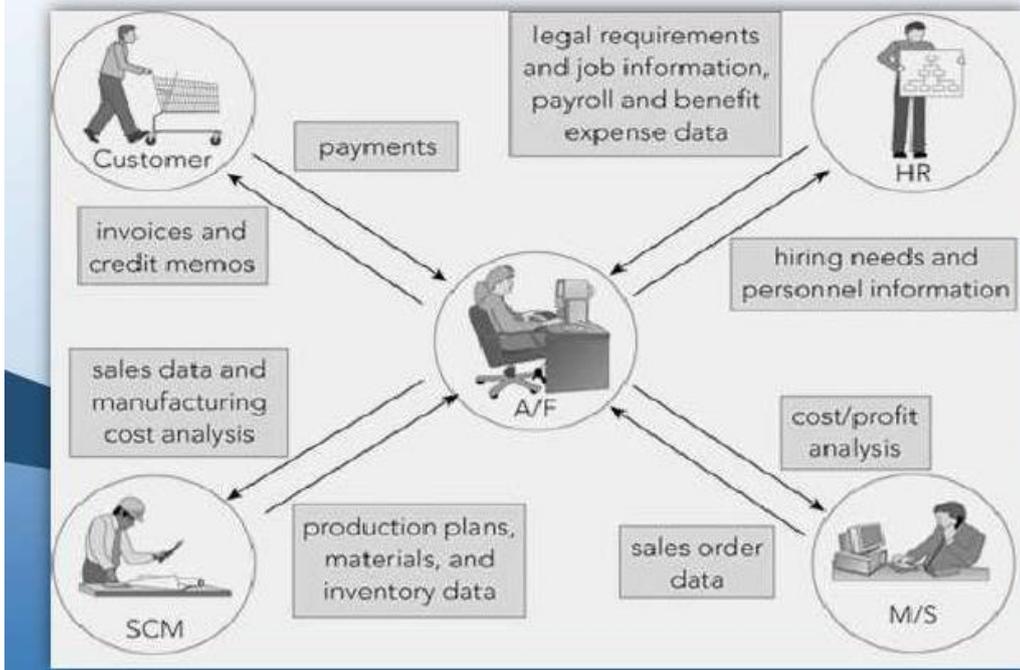


**Figure 4-4: The Supply Chain Management functional area exchanges data with suppliers and with the Human Resources, Marketing and Sales, and Accounting and Finance functional areas**

**3. Accounting and Finance**

- Functions within Accounting and Finance
  - Recording raw data about transactions (including sales), raw material purchases, payroll, and receipt of cash from customers
- Raw data: Numbers collected from sales, manufacturing and other operations, without any manipulation, calculation, or arrangement for presentation
- Data from Accounting and Finance used by Marketing and Sales and Supply Chain Management
  - Sales records are important component of sales forecast
  - Sales forecast is used in making staffing decisions and in production planning
  - Records from accounts receivable used to monitor the overall credit-granting policy of the coffee shop

# Accounting and Finance



**Figure 4-5: The Accounting and Finance functional area exchanges data with customers and with the Human Resources, Marketing and Sales, and Supply Chain Management functional areas**

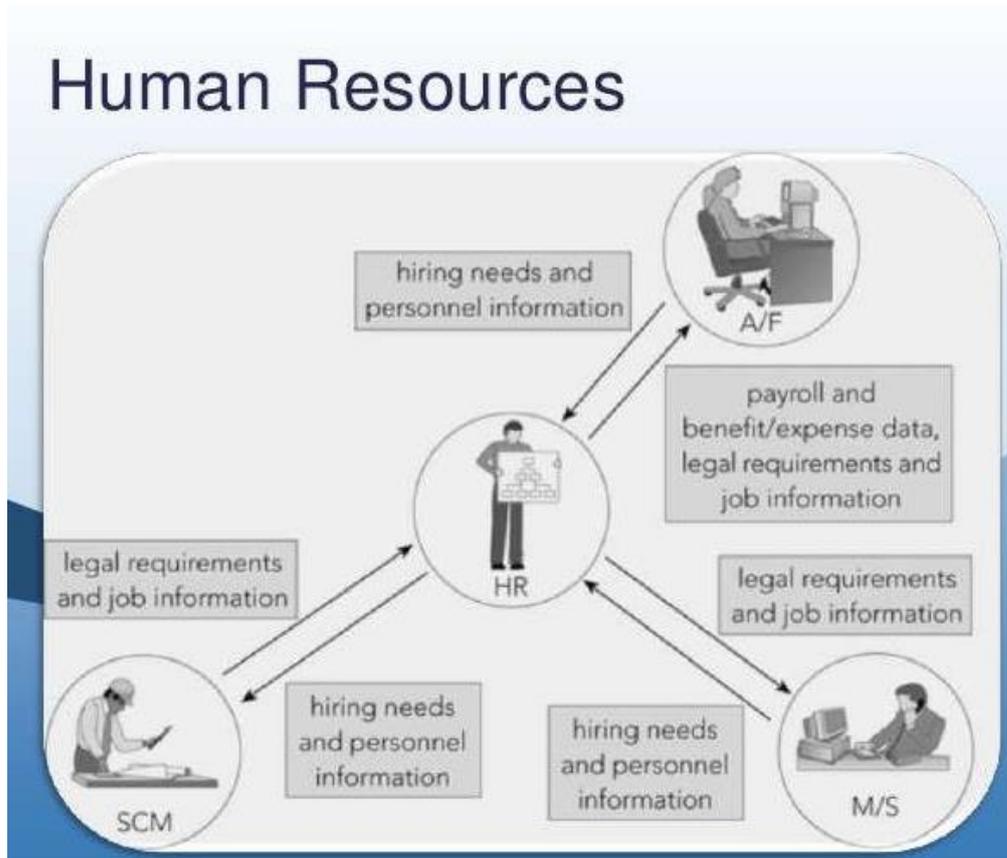
## 4. Human Resources

The basic function of HR is to ensure the availability of competent employees to work positively towards the realization of organizational objectives. The functions of HR can be classified into managerial functions and operative functions.

- 1. Managerial functions:** The five important functions of HR in an organization are planning, organizing, staffing, directing and controlling. Planning is a course of action required to achieve organizational objectives. For an HR manager planning involves forecasting the quantity and quality of the workplace required. Organizing refers to developing an organizational structure, defining, and allocating roles and responsibilities, delegating authority and making the workforce accountable as when required. Staffing involves filling up the existing vacancies with the right quantity and the right quality of people at the right time. Directing function refers to leading, guiding and motivating the employees of organization for achieving organization objectives. The controlling function refers to reviewing organizational plans to identify deviations and to

take corrective and preventive measures to overcome deviations.

2. **Operative Functions:** The operative functions of HR are: Human resource planning(HRP) ,recruitment and selection, placement and induction, training and development ,compensation, performance appraisal, health and safety, industrial relations and managing exit.



**Figure 4-6: The Human Resources functional area exchanges data with the Accounting and Finance, Marketing and Sales, and Supply Chain Management functional areas**

## 4.10 Types of Project Report

### 1. Status Report

This is the most common type of project report and the one that you probably find yourself working on most regularly. You can produce status reports weekly or monthly – and on one project recently you ended up producing daily status reports during the implementation phase. The frequency depends on where you are in the project and how much there is to say. There's not much point reporting daily if your tasks all take over a week, as you won't have any progress to report from day to day. As you will spend a fair amount of time producing status reports, it is worth considering ways to make it faster to write them. Better yet, automate as much reporting as possible. Create a standard status report template or use the one that comes with your project management software (you can check out the reporting features of our tool here as an example), and use the data in your scheduling tool to populate the project progress. Even if you have to amend it afterwards, having some of the fields completed for you will still save you a lot of time.

## **2. Risk Report**

The report is normally the output that comes after a risk review meeting. Of course, you can update your risk log at any time, and you should be encouraging all your project team members to contribute risks to the log whenever they feel something needs recording. The risk report should include a summary of the risk profile of the project, but how you present this is up to you. A good approach would be to only include the detail for the risks that have the potential to create the most problems for your project. Then include a statement on the lower-level risks, perhaps summarizing how you are managing all of these. You will also want the possibility of producing a report about all your risks, regardless of how significant they are. It's probably easiest to do this as an automated download from your project management software, or if you keep your risk log in another format like a spreadsheet, by issuing a complete copy of that document.

## **3. Board/ Executive Report:**

Reports need to be tailored to the people who are going to read them. So the report you produce for the project board will have a different level of detail in it to the weekly status update that goes to your project team and key business stakeholders. For the project board reports, think high level. They will want to read about things that are important to them, like issues they can help resolve, a summary of the budget position, and whether or not you are on track to hit key milestones. Make sure that your board report is in a format that they can easily read. For example, if your executives are always on the road and use their smartphones to check emails, don't produce your report in the form of a complicated spreadsheet that won't display correctly, or include loads of large graphics that will take ages to download. A pdf will render across devices if you're emailing a static report. Or you can grant licenses for board members or senior leadership so they can see real-time dashboard reports on the go.

## **4. Resource Report**

The resource report will show you the breakdown of which project team member is allocated to which task on which day. They can also be used to pinpoint over allocation problems – where a team member is allocated to more than one task. Obviously they can't work on two things at once, so if you don't pick up these problems you'll find that your project plan slips behind schedule. Use the resource report to ensure that you haven't got clashes for individuals and reschedule those tasks as necessary. Resource reports can also be useful for scheduling more than one person. You'll be able to see when someone becomes available, and that is a good sign that they can be

given more project tasks at that point. If you compare the resource availability to the project's timeline you can also plan more efficiently. As one task done by one person ends, you can make sure that someone else is available to pick up the next thing that needs to be done, so that tasks don't stop halfway through waiting for the next person to become available. Overall, resource reports are one of the most useful types of project reports to be had as a project manager, although they can be a bit difficult to interpret at first. It really is worth spending the time getting to know how to read the reports so that you can make changes to your project schedule as appropriate. The right software is going to help you as a project manager. We developed the project reporting and dashboard features of ProjectManager.com to help project managers simplify this fundamental task. The template reports of our software will provide a needed head start on monitoring your projects..

#### 4..Routine reports

These are produced at scheduled intervals

Ex.hourly quality control reports,daily reports on absenteeism rates.

#### 5.Ad hoc reports(on demand)

- These reports are non-routine reports.
- Ex.cheif financial officer might want to monitor cash flow and cash on hand.

#### 6.Exception reports

- These reports include only information that falls outside certain standards.
- Ex.might identify only those cases where sales fell outside an established threshold(only those that are more than 20 percent short of the quota)

### **Methods of reports generation:**

- 1.using SQL queries on ERP database.
- 2.Using standard reports provided by the ERP software.
- 3.Creating custom reports based on the requirements.
- 4.Using third party reporting tools connected to the ERP databases.

## MODULE 5: MICRO AND SMALL ENTERPRISES SMALL SCALE INDUSTRIES

Definition;

- Characteristics;
- Need and rationale:
- Objectives;
- Scope; role of SSI in Economic Development.
- Advantages of SSI Steps to start an SSI - Government policy towards SSI;
- Different Policies of S.S.I.; Government Support for S.S.I. during 5 year plans,
- Impact of Liberalization,
- Privatization,
- Globalization on S.S.I.,
- Effect of WTO/GATT Supporting Agencies of Government for S.S.I

Meaning; Nature of Support; Objectives; Functions; Types of Help; Ancillary Industry and Tiny Industry (Definition only).

### **Definition:**

- An **industrial undertaking** in which **investment** in fixed assets in plant and machinery, whether held in ownership or on lease in fixed assets in plant and machinery whether held ownership terms or on lease or by hire purchase, **does not exceed Rs.100 lakh** is treated as a small-scale industry.

### **Characteristics of Small Scale Industries**

- (1) A small scale industry is generally a one man show even in cases where the small units are run by a partnership firm or a company; the activities are mainly carried out by one of the partners or directors.
- (2) In SSIS the owner himself is a manager also and these units are managed in a personalized fashion. the owner has not only the first hand knowledge of the ongoing business of the firm but also takes effective participation in all matters of business decision taking
- (3) The SSIs have smaller gestation period as compared to larger SSIs that is the period after which the return of investment starts.
- (4) Scope of SSI is generally localized catering the needs of local and regional demands. (5) SSIs can be located anywhere use indigenous resources subject to the availability of these resources like raw material labor etc.
- (6) SSIs are fairly labor intensive with comparatively smaller capital investment as small as 600-700 rupees for an artisan and his family to begin with than the larger units.

(7) The development of the small scale industries in rural areas promotes balanced regional development due to the decentralization and utilization local resources and also prevents influx of job seekers from cities and urbanization.

(8) The small scale industries are more susceptible to change, highly reactive and receptive to socio-economic conditions.

### **Rationale of small scale industries**

- The rationale of small scale industry established which is based on the industrial policy resolution(IPR) of 1956 formulated by the government which states “they provide immediate large scale employment ,offer a method of ensuring a more equitable distribution of the national income and facilitate an effective mobilization of unutilized resources of capital and skill ”
- can be broadly classified into four categories as arguments
  - (1) **Employment argument**
  - (2) **Equality argument**
  - (3) **Decentralization**
  - (4) **Latent resources argument**

#### **1) Employment argument: Arguments:**

(i) That they have a potential to create immediate large scale employment opportunities. which use of more of labor per unit than investment

(ii) That the employment- generating capacity of small sector is eight times than that of large sector as they are labor intensive

#### **Thus the employment argument becomes an output argument**

#### **(ii) Equality argument: Arguments:**

i) That they ensure a more equitable distribution of the national income and wealth due to the widespread nature of the SSIs as compared to large scale units ,more labour intensive than large units their decentralization and dispersal to rural and backward areas and provide more employment opportunities to the unemployed

#### **3) Decentralization argument Arguments:**

(i) That it emphasizes the necessity of regional dispersal of industries to promote balanced regional development in the country

(ii) That it helps to tap local resources such as, materials, idle savings, local talents by starting small enterprises in a group of villages thereby improving the standard of living in the backward villages. One Example is the economy of Punjab which has more number of SSIs as compared to Maharashtra.

**4. Latent resource argument: Arguments:** That the small enterprises are capable of mopping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability.

**Objectives:**

- (i) To generate immediate and large scale employment opportunities with relatively low investment
- (ii) To eradicate unemployment problem in our country
- (iii) To encourage the dispersal of industries all over country covering small towns, villages and economically lagging regions.
- (iv) To bring backward areas to main stream of national development
- (v) To promote regional development of the whole country
- (vi) To ensure more equitable distribution of national income.
- (vii) To encourage effective mobilisation of untapped resources. (viii) To improve the level of people in the country

**Scope:**

- 1) Manufacturing activities
- 2) servicing/repairing activities
- 3) Retailing activities
- 4) Infrastructural activities like transportation, communication and other public utilities.
- Financial activities
- 5) whole-sale activities
- 6) Construction activities

**Government policy towards small scale industries to strengthen the scope for small industrial development in the country**

- 1) Announced the reservation policy for small scale industry development in the country in 1947 which included 47 items for exclusive manufacture in SSI sector
- 2) By 1983 the reserve list included 836 items for exclusive production in SSIs.
- 3) The main objectives being to insulate the small sector from unequal completion of large industrial establishments. Important industries reserved for exclusive development in the small sector are: Food and allied industries, Textile products; leather and leather products including footwear; rubber products: plastic products :chemical and chemical products: glass and ceramics: mechanical engineering transport equipment: metal cabinets all types: pressure stove: electrical appliances: electronic equipments and components: boats and truck body buildings: auto parts components mathematical and survey instruments; sports goods; stationary items, clocks and watches etc.

## **Government policy for small scale enterprises:**

### **IPR 1948**

- 1) Accepted for the first time the importance of small scale industries in the overall economic development of the country.
- 2) Realized that small scale industries are particularly suited for utilization of local resources and for creation of employment opportunities
- 3) Passed a resolution that the central government in cooperation with state governments should solve the problems of SSI like raw materials, capital, skilled labor, marketing etc to protect SSIs

### **IPR 1956**

- 1) Industries development and regulation act was passed in 1951 to regulate and control the industries in the country
- 2) Parliament accepted to develop “**the socialist pattern of society**” as the basic aim of economic policy which came in form in 1956
- 3) Measures were taken to provide sufficient vitality to decentralized sectors and to work with the large scale industry
- 4) Small scale industries board constituted a working group in 1959 to formulate a development plan for SSIs during the third five year plan in 1961-66
- 5) During this period projects like “Rural Industries Projects” and “Industries Estate Projects” were started during this period to strengthen the small sectors
- 6) Thus the IPR 1956 aimed at “Protection plus Development” which initiated a modern SSI in India

### **IPR1977**

- 1) Emphasized new renewal policy was based on effective promotion of cottage and small industries widely dispersed in rural areas and small towns.
- 2) **Thus IPR1977 accordingly classified small sector into three categories**
  - (i) **Cottage and household industries:** to provide self-employment on large scale
  - (ii) **Tiny sector:** promoting investment in industrial units in plant and machinery up to 1 lakh
  - (iii) **Small scale industries:** comprising of industrial units with an investment of Rs.10 lakhs and up to 15 lakhs for ancillary industries.

#### **Measures suggested for promotion of small scale and cottage industries:**

- (i) Reservation of 504 items for exclusive production in small-scale sector
  - (ii) Proposal to set up „district industry centre“ agency in each district which was introduced in 78
- Thus as per this resolution the small sector was thus to be protected, developed and promoted

## **IPR 1980**

- The Government of India adopted a new industrial policy resolution (IPR) on July 23, 1980. The main objectives of this policy were
- i) Increase in investments of tiny plants from Rs 1 lakh to 2 lakh and from 10 lakhs to 20 lakhs for SSIs and from Rs. 15 lakhs to 25 lakhs in case of ancillaries.
- ii) Introduction of the concept of nucleus plants in case of DICSS in each industrially backward district and to promote maximum small scale industries there.
- iii) Promotion of village and rural industries to generate economic viability in the villages well compatible with the environment. Thus IPR 1980 emphasized the spirit of IPR 1956

## **IPR 1990**

- Was announced during June 1990
- Resolution continued to give the increasing importance to small-scale enterprises to serve the objective of employment generation
- **Important elements in the resolution to boost the development of small scale industries of IPR 1990 are**

(i) Investment ceiling increased in plant and machinery for SSIs was raised from 35 lakhs to 60 lakhs and for ancillary industries from 45 lakhs to 75 lakhs

(iii) 836 items reserved for exclusive manufacture in small scale industry

(iv) subsidy introduced for SSIs by the central government for SSIs in rural and backward areas capable of generating employment

(v) to improve competitiveness amongst SSIs programs of technology upgradation was implanted under the apex technology development centre in small Industries Development Organization (SIDO)

(vi) to ensure adequate and timely flow of credit facilities for the small scale industries a new apex bank known as „**Small Industries Development Bank of India (SIDBI)**’ was established in

## **1991**

(vii) Greater emphasis on training of women and youth under **Entrepreneurship Development Program (EDP)** was started.

(viii) implementation of de licensing of all new units with an investment of Rs. 25 crores in fixed assets in non-backward areas Rs. 75 crores in centrally notified backward areas and De licensing took place for 100% export oriented units set up in export processing zone took place with a ceiling of Rs. 75 lakhs.

## **Salient features of the new small enterprise policy of 1991**

1) Increase in investment limit in plant and machinery of tiny enterprises from **2 lakhs to 5 lakhs** irrespective of the location of the enterprise

2) Inclusion of the industry related services and business enterprises **irrespective of the location** as small industries

3) Introduction of the **limited partnership Act**. Which would limit the financial liability of the new entrepreneurs to the capital invested.

- 4) Introduction of a scheme of Integrated Infrastructural Development for small-scale industries
- 5) Introduction of **factoring services** to help solve the problems of delayed payment to small sector
- 6) **Market promotion** of the small scale industries products through **co-operative/public sector institutions**, other specialized professional/marketing agencies and the consortium approach
- 7) To **set up a technology development cell** in the Small Industries Development Organization (SIDO)
- 8) To **accord priority to small and tiny sector** in the allocation of indigenous raw materials. 9) Setting up of export development centre in SIDO
- 10) To **widen the scope of National Equity Fund (NEF)**, to enlarge the single window scheme and also to associate commercial banks with provision of composite loans

### **Impact of globalization and liberalization on SSI in India**

#### **Prior globalization scenarios:**

- 1) Before the introduction of economic reforms in 1991 the SSI sector was overprotected
- 2) The small scale industry had never a strong desire to grow to medium and large scale because of the benefits of protection given to it.
- 3) Many of the policies also discouraged the growth of the small units to larger ones.

#### **Post globalization scenario:**

With globalization the SSI are exposed to stiff competition both from the large-scale sector- domestic and foreign- and from MNCs

#### **The poor growth rate in SSIs during the post liberalization period can be attributed due to the following factors:**

- 1) The government policy did not ensure the interests or priority of the sector
- 2) the SSIs were left to the mercy of the lending institutions and promotional agencies as a result of which the SSI sector suffered deterioration in the quality of its output industrial sickness and retrograde growth.
- 3) also resulted in the delay of the implementation of the projects, inadequate availability of finance and credit, expensive mode of communication, marketing problems, cheap and low quality products, delay in payments, technological obsolescence, imperfect knowledge of market conditions, lack of infrastructural facilities, and deficient managerial and technical skills
- 4) Opening of the markets has also led to stiff competition besides world trade organizations regulating multilateral trade requiring its member countries to remove import quotas, restrictions and reduce import tariffs.
- 5) India was also asked to remove quantitative restrictions on imports by 2001 and all export subsidies by 2003 as a result every individual small or large, exporting or serving a domestic market had to face competition.
- 6) The SSI also had to face competition due to the placing of 586 of the 812 reserved items on the Open General License (OGL) import list which resulted in the import of high quality goods from developed countries
- 7)

8) The SSIs also had to face stiff competition due to the arrival of MNCs and removal of the restrictions on foreign direct investments which witnessed the arrival of many automobiles and electronics companies in 1991.

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

- The following were the steps taken by the central government in order to protect, support and promote small enterprises.
- Providing
  - 1) Industrial extension services
  - 2) Credit facilities in respect of institutional support
  - 3) Developed sites for construction of sheds
  - 4) Training facilities
  - 5) Supply of machinery on hire-purchase terms
  - 6) Assistance for domestic marketing as well as experts
  - 7) Special incentives for setting up enterprises in backward areas
  - 8) Technical consultancy and financial assistance for technological up gradation

### **Impact of WTOS on SSIs**

- 1) Emerging challenges to SSIs are due to the impact of the agreements under the WTO to which India is a signatory along with 134 member countries
- 2) Setting up of WTO has altered the framework of the international trade towards non-distortive market oriented policies.
- 3) This is due to the policy shift that occurred world wide since the early 1980s in favor of free market forces and tilt from the state intervention/regulation in the economic activity
- 4) The main outcome of such policy would be reduction in export subsidies greater market access, Removal of non-tariff barriers and reduction in tariffs.
- 5) This would also bring about tighter patent laws through the regulation of intellectual property rights under the Trade Related aspects of Intellectual Property Rights (TRIPS) Agreement which lay down what is to be patented and for what duration.
- 6) The increased market access to imports will mean opening up the domestic market to large flow of imports.

### **Ancillary Unit:**

- is a subclass of SSIs which is an industrial undertaking which is engaged or is proposed to be engaged in
  - (i) the manufacture of parts, components, sub-assemblies, tooling or intermediates
  - (ii) rendering of services, or supplying of or rendering not less than 50 percent of its production or its total services as the case may be to other units for production of other articles and whose investment in fixed assets in plant and machinery does not exceed Rs.1 crore as on March 31, 2001 and shall be treated as an ancillary enterprise

### **Tiny Unit:**

- is that unit whose investment in plant and machinery does not exceed Rs.25 lakhs irrespective of the location of the unit.

## **INSTITUTIONAL SUPPORT**

### **7.1 NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)**

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote aid and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small-scale enterprises.

1. **Single point registration:** Registration under this scheme for participating in government and public sector undertaking tenders.

2. **Information service:** NSIC continuously gets updated with the latest specific information on business leads, technology and policy issues.

3. **Raw material assistance:** NSIC fulfils raw material requirements of small-scale industries and provides raw material on convenient and flexible terms.

4. **Meeting credit needs of SSI:** NSIC facilitate sanctions of term loan and working capital credit limit of small enterprise from banks.

5. **Performance and credit rating:** NSIC gives credit rating by international agencies subsidized

for small enterprises up to 75% to get better credit terms from banks and export orders from foreign buyers.

6. **Marketing assistance programme :** NSIC participates in government tenders on behalf of small enterprises to procure orders for them.

### **7.2 SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)**

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries Service Institute) 31 extension centers of SISI and 7 centers related to production and process development.

The activities of SIDO are divided into three categories as follows:

***(a) Coordination activities of SIDO:***

- (1) To coordinate various programmes and policies of various state governments pertaining to small industries.
- (2) To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions.
- (3) Implement and coordinate in the development of industrial estates.

***(b) Industrial development activities of SIDO:***

- (1) Develop import substitutions for components and products based on the data available for various volumes-wise and value-wise imports.
- (2) To give essential support and guidance for the development of ancillary units.
- (3) To provide guidance to SSI units in terms of costing market competition and to encourage them to participate in the government stores and purchase tenders.
- (4) To recommend the central government for reserving certain items to produce at SSI level only.

***(c) Management activities of SIDO:***

- (1) To provide training, development and consultancy services to SSI to develop their competitive strength.
- (2) To provide marketing assistance to various SSI units.
- (3) To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.
- (4) To help them get updated in various information related to the small-scale industries activities.

**7.3 SMALL INDUSTRIES SERVICE INSTITUTES (SISI)**

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective.

***The main functions of SISI include:***

- (1) To serve as interface between central and state government.
- (2) To render technical support services.

- (3) To conduct entrepreneurship development programmes.
- (4) To initiate promotional programmes.

***The SISIs also render assistance in the following areas:***

- (1) Economic consultancy/information/EDP consultancy.
- (2) Trade and market information.
- (3) Project profiles.
- (4) State industrial potential surveys.
- (5) District industrial potential surveys.
- (6) Modernization and in plant studies.
- (7) Workshop facilities.
- (8) Training in various trade/activities.

#### **7.4 SMALL SCALE INDUSTRIES BOARD (SSIB)**

The government of India constituted a board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on development of small scale industries in the country. The SSIB is also known as central small industries board. The range of development work in small scale industries involves several departments /ministries and several organs of the central/state governments. Hence, to facilitate co-ordination and inter-institutional linkages, the small scale industries board has been constituted. It is an apex advisory body constituted to render advice to the government on all issues pertaining to the development of small-scale industries. The industries minister of the government of India is the chairman of the SSIB.

The SSIB comprises of 50 members including state industry minister, some members of parliament, and secretaries of various departments of government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

#### **7.5 STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS(SSIDC)**

(Karnataka State Small Industries Development Authority KSSIDC in Karnataka State)

The State Small Industries Development Corporations (SSIDC) were set up in various states under the companies' act 1956, as state government undertakings to cater to the primary developmental needs of the small tiny and village industries in the state/union territories under their jurisdiction. Incorporation under the companies act has provided SSIDCs with greater operational flexibility and

wider scope for undertaking a variety of activities for the benefit of the small sector. The important functions performed by the SSIDCs include:

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.
- To provide assistance for marketing of the products of small-scale industries.
- To construct industrial estates/sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned provide management assistance to production units.

## **7.6 DISTRICT INDUSTRIES CENTERS (DIC)**

The District Industries Centers (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DIC consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government. The main functions of DIC are:

- (1) To prepare and keep model project profiles for reference of the entrepreneurs.
- (2) To prepare action plan to implement the schemes effectively already identified.
- (3) To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e. , industrial sector, service sector and business sector.
- (4) To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for importing machineries.
- (5) To provide guidance for appropriate loan amount and documentation.
- (6) To assist entrepreneurs for availing land and shed equipment and tools, furniture and fixtures.
- (7) To appraise the worthiness of the project-proposals received from entrepreneurs.
- (8) To help the entrepreneurs in obtaining required licenses/permits/clearance.
- (9) To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.
- (10) To conduct product development work appropriate to small industry.

(11) To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.

(12) To conduct artisan training programme.

(13) To act as the nodal agency for the district for implementing PMRY (Prime Minister Rojgar Yojana).

(14) To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.

(15) To help the specialized training organizations to conduct Entrepreneur development programmes.

In fine DIC's function as the torch-bearer to the beneficiaries/entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So the role of DIC's in enterprise building and developing small scale sector is of much significance.

#### **7.7 TECHNICAL CONSULTANCY SERVICES ORGANIZATION OF KARNATAKA (TECSOK).**

TECSOK is a professional industrial technical and management consultancy organization promoted by the government of Karnataka and other state level development institutions way back in 1976. It is a leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, mergers and acquisition, process reengineering studies, valuation of assets for takeovers, impact assessment of socio-economic schemes, critical infrastructure balancing; IT related studies, detailed feasibility studies and reports. TECSOK with its pool of expertise in varied areas can work with new entrepreneur to identify a product or project. In addition to this TECSOK sharpens the project ideas through feasibility studies, project reports, market surveys, and sources of finance, selection of machinery, technology, costing and also providing turnkey assistance. To help entrepreneurs to face the global competition TECSOK facilitates global exposures, updated technology, market strategies, financial restructuring and growth to improve profitability of an industry. TECSOK can identify sickness in existing industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions. In addition it offers expert professional services to various institutions and departments of the state and central government. TECSOK undertake the assignment in the field of

- Technical and market appraisal of projects.
- Industrial potential surveys.
- Fact-finding and opinion reports.
- Corporate planning.

- Collection and collation of information.
- Impact assessment.
- Evaluation of schemes and programmes.
- Asset evaluation.
- Infrastructure development project proposal.
- Event management and publicity campaigns, and
- Organizing seminar and workshops.

TECSOK has over 25 well-experienced engineers in different disciplines, MBAs economists and finance professionals. It has business partnerships with reputed national and multinational consultants and out sources expertise for professional synergy. TECSOK has an exclusive women's cell which conducts training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs and offers escort services to women entrepreneur. TECSOK has many publications. "Kaigarika Varthe" a monthly is published by TECSOK. In addition it publishes "Guide to Entrepreneurs" "Directory of Industries" on a regular basis.

### **Focused Consultancy Areas of TECSOK**

***Promotion of agro based industries:*** TECSOK is recognized nodal agency by the Ministry of Food Processing Industries, Government of India, for project proposal to avail grant and loan assistance under the special schemes.

***Energy management and audit:*** Thrust is given to use non-conventional energy sources for which both state and central governments are offering incentives. TECSOK has been recognized as a body to undertake energy audit and suggest energy conservation measures. TECSOK

undertakes studies and project proposal for availing assistance from the Indian Renewable Energy Development Authority (IREDA).

***Environment and ecology :*** TECSOK undertakes assignments relating to environment education, environment impact assessment, environment management plan and pollution control measures. TECSOK has joined hands with Karnataka cleaner production center (KCPC) to provide total consultancy support in the area of environment.

**Human Resource Development:** TECSOK designs and organizes business development programmes, management development workshops, skill development programmes and in-house training packages. It undertakes programmes of empowerment of women entrepreneurs, organization of self-help groups. In order to encourage local entrepreneurs TECKSOK organizes awareness campaigns and motivation programmes in taluks and districts throughout Karnataka.

Other TECSOK activities:

- Guidance in product selection and project identification.
- Market survey and market development advice.
- Consultancy for agro-based industries of a nodal agency of the government of India.
- Diagnostic studies and rehabilitation of sick industries.
- Environment impact assessment studies environment management plans and propagation of cleaner production techniques.
- Energy management and audit.
- Valuation of assets for mergers and takeovers.
- Infrastructure development project reports.
- Port tariff study and related areas.
- System study and software development.
- Management studies, company formation, corporate plan, enterprise restructuring etc.
- De signing and organizing training programme.

### **7.8 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)**

For ensuring larger flow of financial and non-financial assistance to the small scale sector, the government of India set up the Small Industries Development Bank of India (SIDBI) under Special Act of Parliament in 1989 as a wholly owned subsidiary of the IDBI. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small scale sector. The important functions of IDBI are as follows:

- (1) To initiate steps for technological upgradation and modernization of existing units.
- (2) To expand the channels for marketing the products of SSI sector in domestic and international markets.
- (3) To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas. The SIDBI's financial assistance to SSIs is channeled through existing credit delivery system comprising state financial corporations, state industrial development corporations, commercial banks and regional rural banks. In 1992-93 it has introduced two new schemes. The first is equipment finance scheme for providing direct finance to existing well-run small-scale units taking up technology upgradation/modernization and refinance for resettlement of voluntarily retired workers of NTC. The other new scheme was venture capital fund exclusively for small-scale units, with an initial corpus of Rs 10 crore. SIDBI also provides financial support to national small industries corporation (NSIC)

for providing leasing, hire-purchase and marketing support to the industrial units in the small scale sector.

## **7.9 KARNATAKA INDUSTRIAL AREAS DEVELOPMENT BOARD (KIADB)**

The Karnataka industrial areas development board is statutory board constituted under the Karnataka industrial area development act of 1996. Since then it is in the business of apportioning land for industries and gearing up facilities to carryout operations. The KIADB now acquires and provides developed land suited for industrialization, by drawing up well laid-out plots of varying sizes to suit different industries with requisite infrastructure facilities. The facilities include roads, drainage, water supply etc. The

amenities such as banks, post offices, fire stations, police outposts, ESI dispensaries etc are also provided. It also plans to initiate the provision of common effluent treatment plants wherever necessary. KIADB has acquired a land of 39,297 acres out of which 21,987 acres had been developed till March 1996. Developed industrial plots had been allotted to 7882 units. Application forms for the allotment of land may be obtained from the executive member, KIADB Bangalore or general manager DIC of concerned district or from the Zonal office of KIADB located at Mysore, Mangalore, Dharwad, Gulbarga, Bidar, Hassan and Belgaum. Applications duly filled must be accompanied by:

(a) A brief project report.

(b) Details of constitution of the company

(c) Provisional registration certificate

(d) EMD of Rs 500/- per acre, subject to a maximum of Rs 10,000/- along with 20% , 15% and 5% of the land cost for various districts. On receipt of applications for all districts other than Bangalore, a discussion with the promoters regarding the project will be held in the concerned district headquarters. The district level allotment committee will take a decision on allotment of land to the SSI units. In case of Bangalore, the screening committee comprising of executive member KIADB, director of SISI, chief advisor TECSOK with discuss the project and make necessary recommendation to a sub-committee. The sub-committee will in turn allot the land. Once land is allotted the remaining payment should be made within six months of the date of issue of allotment letter. The industry should be started after obtaining the necessary license/clearance/approval from the concerned authorities. Plans for the proposed factory/ building or other structure to be erected on the allotted sites are executed only after prior approval

of the board. On being satisfied that the land is not being put to the prescribed use, the board reserves the right to re-enter and take possession of the whole or any part of the land. If necessary the leasehold rights on the allotted land may be offered as security in order to obtain financial assistance from the government or corporate bodies. However, prior permission of the board has to be obtained for creating second and

subsequent charges of the land.

## **7.10 KARNATAKA STATE FINANCIAL CORPORATION (KSFC)**

The KSFC was established by the government of Karnataka in 1956 under the state financial corporation act 1951 for extending financial assistance to set up tiny, small and medium scale industrial units in Karnataka. Since 1956 it is working as a regional industrial development bank of Karnataka. KSFC has a branch office in each district; some districts have more than one branch. KSFC extends lease financial assistance and hire purchase assistance for acquisition of machinery/equipment/transport vehicles. KSFC has merchant banking department which takes

up the management of public issues underwriting at shores, project report preparation, deferred payment guarantee, and syndication of loans, bill discounting and

similar tasks.

KSFC give preference to the projects which are

- (i) Promoted by technician entrepreneur.
- (ii) In the small-scale sector.
- (iii) Located in growth centers and developing areas of the state;
- (iv) Promoted by entrepreneurs belonging to scheduled castes and scheduled tribes, backward classes and other weaker sections of society.
- (v) Characterized by high employment potential.
- (vi) Capable of utilizing local resources; and
- (vii) In tune with the declared national priorities.

The eligible industrial concerns for financial assistance from KSFC are those engaged/to be engaged in manufacture, preservation, processing of goods, mining, power generation transport, industrial estate, hotels, R & D of any product or process of industrial concern, weigh bridge facilities, power laundries, photocopying, hiring of heavy material handling equipment, cranes and other earth moving equipments,

hospitals, nursing homes, medical stores, computers, tourism related activities, construction of roads, tissue and horticulture software development, software parks, block board vehicles, office construction, godown and warehouse construction, mobile canteens, commercial complexes, training institutes, office automation and so on.

## **Loan Schemes of KSFC**

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

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