CHAPTER - 3
ORGANISATIONAL EFFECTIVENESS
- CONCEPTUAL PERSPECTIVES.
Various issues of organisational effectiveness (OE) and the literature on organisations is full of stray conclusions, suggestions and perceptions. Still, the field offers a cluttered and confused view and it is difficult to wade through the available researches, theories and beliefs. However, a few points emerge as the highlights of the scene. First, despite of continuing interest in the problem, the organisation theorists have, with a few exceptions, reflected the issue of OE.

Only a relatively modest number of organisational studies have focused on performance or effectiveness as a principal dependent variable. Despite the absence of a direct focus on OE, researchers have tended to focus their attention on selected aspects of OE. As a result, a large number of mutually competing and divergent approaches and analytical traditions have been generated. The proliferation of approaches thus is an important feature of OE literature and this is likely to continue (Spray, S.L., 1976). Moreover, the present level of diversity in the field does not appear to be a transient state of affairs, since the newer approaches have been offered as additions to rather than replacement of the older models."
Related to or perhaps as the direct result of the multiplicity of approaches, there seems to be no agreement on what constitutes OE and how to determine the effectiveness for a given organisation.

Compared to the earlier models, which were largely univariate, using only one measure of success, performance or effectiveness of the organisation, the recent models are multivariate. It is now widely accepted that OE is a multi-dimensional but there is no agreement as to which dimensions are significant and should be used as the basis of analysis. Every researcher tends to use an unique combination of different variables, in the process of generating different views of OE. Finally, in this state of prevailing knowledge, obviously clarity about what determines effectiveness cannot be expected.

However, even while recognising the limitations of the existing state of art in this field, it should be appreciated that the recent studies using systems model of organisations have tended to generate theoretical unity and coherence. He further suggests that the systems model serves as the basic organising frame work for most theoretically grounded studies of organisational effectiveness. One would also hope that the increasing interest, as indicated by the growing literature, will result in consensus building on the basic concepts, measurements and determinants of OE.
There is an emerging agreement that effectiveness measures should be multi-dimensional (Mulford, Charles L., et al., 1976). In the formal goal approach, OE is conceived in terms of accomplishment of goals. This view is widely accepted but has several limitations. For example, an organisation has multiple goals, some of which are quite intangible. Further, often there is a potential conflict between different sets of goals, for instance, Profitability vs Growth. Moreover, organisations have derived or prescribed goals as well as official or operative goals.

There are inherent dilemmas in measuring OE in terms of accomplishment of goals. Managerial viewpoint of OE is usually in terms of efficient utilisation of resources; return on investment is a typical way to measure this type of OE. However, the outsiders tend to view organisation’s output from society’s needs. In other words, they adopt the social utility or social cost-benefit approach. Thus efficient resource utilisation and social utility may provide differing yardsticks for measuring OE. The choice, between the two presents the inherent dilemmas, and yet a choice is inevitable for evaluating OE. The measurement of OE is likely to be very different in the two opposing orientations (Dubin, Robert, 1976).
The following five dimensional typology provides a comprehensive view of organisational goals (Perrow, Charles, 1970).

1. Societal goals, for example, production of goods and services, maintenance of order, generation and maintenance of cultural values.

2. Output goals refer to the types of output defined in terms of consumer functions. For example, consumer goods, business services, health care and education. There might be shifts in output categories, as when a producer of consumer goods also undertakes to train job aspirants or applicants.

3. Systems goals concern the state or manner of functioning of the organisation, independent of the goods or services it produces or its derived goals. This emphasis upon growth, stability, profits or upon modes of functioning such as being lightly or loosely controlled.

4. Product goals refer to the characteristics of the goods or services produced. For example, emphasis upon quality or quantity, variety, styling, availability, uniqueness, or innovativeness of the products.
5. Derived goals refer to the use of the power generated by an organisation in pursuit of other goals. For instance, political aims, community services, employee development, etc., which affect the state of the economy and the future of specific communities.

The various groups related to an organisation may have different priorities. Goals of managers are usually different from those of investors. Also, goals are hard to observe and measure. For example, are organisational goals to be identified on the basis of the goals as perceived by all or at least majority of the members or as stated by the groups of powerful or top individuals? How to distinguish between a goal and a means? What one observer calls a goal, another may equally well designate it as means. Again the "official goals" are the purposes of the organisations as put forth in its charter, annual reports, public statements by key executives and other authoritative pronouncements. "Operative goals", on the other hand, are inferred from their operative policies. Now the managers, according to Ferrow, are generally interested in the operative goals although other members of the organisations may be more interested in the official goals. If effectiveness then, is defined in terms of achievement of goals, one would have to decide which goals are to be taken into account.
The systems resource approach conceives OE in terms of the organisation's ability to exploit its environment in the acquisition of scarce resources. The emphasis here is on "Institutional Environment". An understanding of this environment affecting industry's profitability is considered important for OE (Hirsch, P.M., 1975). Hirsch compares the performance of pharmaceutical and phonograph record companies. The variations in performance among companies in the same industry may be explained by internal organisation and management styles but performance variations between industries are due to the impact of their respective institutional environments.

Thus, a favourable environment, such as a protected market, resulting in high performance of a company may give an exaggerated view of its capability to exploit its environment. Therefore, the system resources approach has validity in inter-firm comparisons of performance for organisations operating in the identical environment. This approach, however, does not take into account resource optimisation and utilisation which are dependent on internal strengths of the organisation.
The systems approach to OE, also called the derived goal approach, takes a more comprehensive view. It emphasises adaptation to the environment for resource mobilisation and goal attainment. While being more inclusive than the other two approaches, the systems approach is also more abstract and general and needs to be operationalised. For sometime, researchers have been concerned with evolving OE measures which have universal applicability across different types of organisations. However, a view is emerging, according to which global measurements of effectiveness may be too general to allow operationalisation in the context of specific organisations, because of the differences in their goals, environments and internal processes. Evan has suggested that from the perspective of system theory, OE can be conceptualised in terms of the four systematic processes - inputs, transformations, outputs and feedback effects. As a multi-dimensional concept, organisational effectiveness may be defined as the capacity of an organisation to cope with all four systematic processes relative to its goal seeking behaviour (Evan, W.M., 1977).

Evan derives nine OE ratios by operationalising the four processes. The following is the list of OE ratios for a business organisation.
1. Return on Investment
2. Inventory Turnover
3. R & D/Volume of Sales
4. Change in Working Capital
5. Change in Administrative Personnel to Total Personnel / Change in labour unit cost
6. Change in volume of sales/quality of products
7. Change in Inventory Turnover
8. Change in R & D/Volume of sales and
9. Change in Return on Investment.

The list represents an improvement on formulations which favours one or other variables - Return on investment, earning per share, etc., as the ultimate criterion of effectiveness (Steers, R.M., 1975). Managers tend to regard profit as one such measure of effectiveness but it has to be remembered that profit is determined by other penultimate criteria, some of which are internally controlled and some are environmentally determined. Under certain environmental conditions where costs, prices and volumes become subject to external determination, the managers of organisation have little control over improving OE in terms of profit.

Hence, it is necessary to analyse the factors influencing the survival and growth of the organisation which leads to its effectiveness and overall performance.
### 3.1 MODELS OF ORGANISATIONAL EFFECTIVENESS

<table>
<thead>
<tr>
<th>Author's Name</th>
<th>Effectiveness Criteria</th>
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<tbody>
<tr>
<td>Georgopoulos and Tannenbaum</td>
<td>Productivity, flexibility, absence of organisational strain.</td>
</tr>
<tr>
<td>Blake and Mouton</td>
<td>Simultaneous achievement of high production and high people centered enterprise.</td>
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<tr>
<td>Bennis</td>
<td>Adaptability, sense of identity, capacity, to test reality.</td>
</tr>
<tr>
<td>Caplow</td>
<td>Stability, integration, voluntarism achievement.</td>
</tr>
<tr>
<td>Katz and Kahn</td>
<td>Growth, storage, survival, control over environment.</td>
</tr>
<tr>
<td>Lawrence and Lorsch</td>
<td>Optimal balance of integration and differentiation.</td>
</tr>
<tr>
<td>Yuchtman and Seashore</td>
<td>Successful acquisition of scarce and valued resources; control over the environment.</td>
</tr>
<tr>
<td>Friedlander and Pickle</td>
<td>Profitability, employee satisfaction, societal value.</td>
</tr>
<tr>
<td>Price</td>
<td>Productivity, conformity, morale, adaptiveness, institutionalisation.</td>
</tr>
<tr>
<td>Mahoney and Weitzel</td>
<td>General Business Model: Productivity-support-utilisation, planning, reliability, initiative R&amp;D model: Reliability, Cooperation Development.</td>
</tr>
<tr>
<td>Schein</td>
<td>Open communication, flexibility, creativity, psychological commitment</td>
</tr>
<tr>
<td>Mott</td>
<td>Productivity, Flexibility, adaptability.</td>
</tr>
<tr>
<td>Duncan</td>
<td>Goal attachment, Integration adaptation.</td>
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A brief review of the determinant of organisational effectiveness may be useful in sharpening the conceptual perspectives. It is interesting to note that lack of consensus on the nature and content of OE has not prevented scholars from exploring the various factors which determine OE. Further, with a few exceptions, most of the writings on this theme contain essentially normative perspective.

In his well known book Paul Mott defines OE as "The ability of an organisation to mobilise its centers of power to produce, adapt to change and cope with emergencies". On the basis of his research on five non-business organisations,
Mott relates certain organisational characteristics to productivity, adaptability and flexibility as well as to combined scope of these three indices of OE. He has divided the determinants of OE into two broad categories:

(i) Organisational characteristics and
(ii) Behavioural characteristics.

He does not include technology and environment in his model, except to the extent those variables are reflected in organisational and behavioural characteristics. Mott finds that certain aspects of the normative environment like clarity of objectives, rules, policies and guidelines were closely related to overall effectiveness. There was also a strong relationships between functional integration and effectiveness.

Similarly Lawless has suggested a comprehensive model of OE which is based on the belief that effective organisations are "built of effective individuals, who work effectively in groups". Thus the variables determining OE can be placed into three categories, viz. individual related variables, group level variables and organisational level variables. These different variables are inter-related and interact in a dynamic way.
Some of the well known empirical studies have pointed to relationship between selected variables and OE. For example, in his classic study, Chandler found that a multi-divisional structure was more effective than a unitary functional structure. This has been confirmed by recent studies in U.S. and Europe (Rumelt, R.P., 1974).

Similarly, Reimann and Negandhi have noted a positive relationship between decentralisation and organisational effectiveness. More than two decades ago, Lawrence and Lorsch advanced the view that OE is a function of the "goodness of fit" between organisation structure and the relevant environment.

A review of the present state of our knowledge seems to point out that OE - a multi-dimensional concept - is influenced by several important variables interacting independently, jointly and simultaneously. Whereas, it may not be possible to pin-point on the specific impact of a particular variable, the following four can be recognised as being important for OE:

(i) Environment
(ii) Technology
(iii) Organisation structure and processes and
(iv) People, their competence and motivation, etc.
Following the pioneering work of Lawrence and Lorsch (1967), a few scholars have further explored the relationship between organisation and its environment. One of the more elaborate studies of the aspect was conducted by Osborn (1974). He covered 48 small, rigidly structured organisations in a mid-western state in the U.S. Osborn divided the environment into three categories:

1. Macro environment
2. Aggregation environment and
3. Task environment.

The macro environment is the general socio-cultural context of a particular geographical area such as a region or a country. The aggregation environment consists of associations and interest groups, etc., operating within the macro environment. The task environment consists of all those organisational with which an organisation has to interact for achieving survival and growth. Based on this prospective, Osborn sees complexity of the environment represented by risk dependency and inter-organisational relationship. He found that whereas neither complexity nor risk was associated with effectiveness, task environment, dependency and inter-organisational interaction were, individually and in combination, positively and significantly related to effectiveness.
Like environment, technology as a factor of OE, has remained under-explored although much more extensive literature exists on the relationship between technology and organisation structure. Thompson and Bates suggested a number of ways in which Technology can have a bearing or organisational effectiveness, besides affecting the quality and quantity of product. For example, as the technology of an organisation becomes more specialised, the organisation's flexibility in shifting from one goal to another is curtailed. Similarly, as technology becomes elongated, any particular organisation will tend to have less control over the total technological process and would become more dependent on other organisations for prior or subsequent operations in the total process. As a result, the flexibility of the organisation in deciding goals and managing resources would be reduced.

Technological development, which require intensive specialisation of personnel and equipment also adds to the heterogeneity of an organisation; this in turn, brings in problems of integration of several activities. Also the increasing technological complication is accompanied by the proliferation of professional and technical societies and associations, each with its unique values and code of ethics. Hence, there is the likelihood for the organisational members to owe loyalty or allegiance to a profession as well as to the organisation, creating potential conflict between demands of the organisation and the profession.
Organisation structure is generally accepted to have a major impact on OE. In this area of concern reference has been made earlier to the studies of Chandler and Reimann and Negandhi.

Rensis Likert considers structure as the most important factor which influences the performance. He also assures that the relatively decentralised, participative 'System-4' structures are much more likely to lead to high performance than the relatively more autocratic or bureaucratic structure.
3.2 APPROACH TO THE DYNAMICS OF GROWTH LEADING TO ORGANISATIONAL EFFECTIVENESS OF SMALL FIRMS: A REVIEW

Various researches have tried to provide a framework to design and develop an approach to understanding the dynamics of the growth of small firms which lead to OE. Notwithstanding the recent upsurge of interest, there is a considerable body of literature embracing very different approaches towards understanding the growth and effectiveness process. This was broadly discussed under the following four categories as follows: (Gibb, A.A. and Daview, L., 1992)

- approaches exploring the impact of the entrepreneurial personality and capability in growth including the owner-manager's personal goals and strategic views.

- approaches seeking to characterise the way the small organisation develops and influences and is influenced by the owner-manager.

- approaches broadly embraced under the term 'business' which focus upon the importance of business skills and the role of functional management, planning, control and formal strategic orientations and
approaches which are more macro in scope and which usually have their academic base in industrial economics. They include sectoral approaches pertaining either to industrial sectors, or to classification of the business process or market for high technology firms.

The economist's focus upon the entrepreneur as an individual, often very loosely and sometimes implicitly linked with his traits of behaviour: as a risk-taker and bearer of uncertainty; as an initiator and as a creative-destructive force providing new combinations of productive means; or as bearer of uncertainty with associated characteristics.

The entrepreneur also has been identified with someone who incorporates risk and uncertainty, innovation, perception and ability to cope with change.

There have been numerous attempts to differentiate the entrepreneur from the small business owner. It has, for example, been proposed that the term 'entrepreneur' be used to identify the innovative owners of small firms who utilise strategic management practices: conversely, small business owners are those who do not use such practices.
These visions of the economists underpin attempts by management and behavioural scientists to link the growth of firms with the characteristics and competencies of the entrepreneur. They claim links between the personality characteristics of the owner-manager and strategic decision-making. Mintzberg sees strategy as a function of the personal goals of the entrepreneur and Miller identifies strong links between strategy and innovation. Other writers have pointed to the links between organisational goals, personal values and performance.

There is a growing body of literature that seeks to link the personal characteristics of the entrepreneur with planning, and in turn, with performance of the company. Much of this builds upon the behavioural traits and achievement models of McClelland and Atkinson. There are many writers who still argue that the need for achievement, as defined by McClelland, is an essential key factor in entrepreneurship. However, there are very mixed results from attempts to link high scopes on behavioural 'traits' associated with achievement motivation and performance. There are substantial arguments that McClelland's work should be replaced by a variety of other multidimensional models and measures of achievement motivation which are more sophisticated.
A major study that has recently been undertaken for the Agency for International Development concludes that personality variables are not useful predictors of business performance because the personality oriented competency measures which are represented in the data do not relate consistently to the various measures of business performance for the respondents. Overall 'personality type' is not likely to be very important in success.

Finally a number of authors have attempted to relate business growth, directly or implicitly, with entrepreneurial ability as measured by education and training or certain general and specific competencies or knowledge bases.

It has also been argued elsewhere that different types of entrepreneurial behaviour are required in different market places to achieve growth, and different traits, skills and competencies will be needed depending upon the levels of uncertainty and complexity in the market.
3.2.1 ORGANISATION DEVELOPMENT APPROACHES

There is considerable literature in this area led both by organisational development theorists and management specialists. Much of this is speculatively theoretical or normative and seeks to 'explain' the growth of the business in terms of various models of stages. These approaches in turn can be categorised into hypotheses concerning the relationship between personal objectives and business goals, including the influence of the family; literature relating to the stages of the growth model of the firm from small to large with associated characterisation of management and organisation development, including propositions about the changing role of the entrepreneur; and studies of the influence of networks and the impact of these upon entrepreneurial behaviour.

The relationship between the entrepreneur's personal goals and the objectives of the organisation has been extensively discussed. It is clearly evident that particularly when the firm is small, the entrepreneur and the firm's goals are substantially synonymous. Therefore, the inference is strong that the goals of the entrepreneur will also be those that dictate the future of the firm. As the firm develops, so will the manager (organisation development=management development).
It is against this point that the simple profit maximising, profit optimising views of the economist should be seen. If this synonymity between personal and firm goals is accepted, then the single profit objective hypothesis of the economist as a basis for the theory of the firm is to have a wide range of different personal objectives which indeed may change over time and as the firm grows. There is, however, evidence to suggest that the vast majority of small business owner-managers do not have personal objectives to grow their businesses. There is much casual observation and speculation that this is not only to do with limited ambition and/or endeavour to seek status in society through the growth of their firms, but also with a perceived need to avoid loss of control as their firms grow. Indeed, it is this perceived reluctance to lose control and the associated unwillingness of small and medium businesses to use external equity as a resource for growth that makes many venture capitalists limit their market in the area of small firms.

Impinging upon the importance of personal goals is the influence of the family and the conflicts that the family might bring to bear in respect of growth and ownership. Firms may turn down the opportunity to grow because the family is reluctant to dilute its ownership or to take commercial risks. This is obviously of significant
importance. For example, it has been found that 98 per cent of all corporations in the United States are owned and managed by the family. Family influence on organisational development has also been found to be strong in the United Kingdom (Daview, J.R. and Kelly, M., 1971).

The way in which the entrepreneur and the organisation are likely to develop over time, the constraints and opportunities that this produces has also been the subject of much academic speculation. There is substantial literature on the so-called stages of growth of the firm. This usually seeks to characterise both the necessity for changing the style of management of the entrepreneur as well as changing the organisation. The former is frequently characterised as moving from an entrepreneurial mode to a professional management mode. The latter suggests a move from rather holistic forms of management to stages of team building and functionalism, leading on to the ultimate 'professionalism' of the organisation.

These stages usually post changes in market, in finance, in control, in management organisation and leadership style. Most of these are 'normative' in nature rather than built upon substantial empirical evidence, largely because of the absence of longitudinal studies. As a result, there are many loose resultant generalisations that are used.
by others, including the assumption that the entrepreneur should become more ‘professional’. There is, however, recognition that there are various ways of coping with growth, some of which may allow scope for the preservation of entrepreneurship. In particular, it is argued that the strict functional format of organisations has become an anachronism in the modern corporation, and presumably therefore should not be held out as a model for the growing firm. Among the conflicts that may arise in terms of the changing role of the entrepreneur as the business grows are seen to be the entrepreneur becoming a resource manager with increasing emphasis on delegation and maintenance of the business.

Finally, there is in this field an increasing tendency to seek to explain the growth potential of the firm in terms of the personal networks that the entrepreneur creates. Several writers studying the important factors in the growth of high technology firms have emphasised the importance of external networks. There is considerable evidence to demonstrate that the nature of the networks of the entrepreneur changes as the business develops.
Overall, therefore, in this area of work it can be concluded that the personal objectives of the owner-manager (as conditioned and influenced by the family) can have a major influence on the propensity of growth. But there is no hard evidence that the firm's personal growth objectives are themselves predictive of subsequent growth. The reductionist and somewhat normative theories of stages of growth can largely be credited with characterising various types of companies without throwing substantial light on what the growth 'triggers' off. Indeed, it can be argued that they obscure real issues in terms of preserving the role of entrepreneurship as the business grows; and they underspin the metaphor of the business becoming more 'professional' with the leadership style necessarily changing substantially from entrepreneur to manager with the company becoming more functionally managed. Much remains to be tested here. Finally, the importance of the owner-manager's networks in stimulating or constraining growth is yet to be studied in substantial depth. There is evidence to support the proposition that particularly high technology businesses depend substantially upon external information networks in the development of their growth potential.
3.2.2 BUSINESS MANAGEMENT APPROACHES TO GROWTH AND EFFECTIVENESS

The growth and effectiveness of the firm can be also seen in terms of its performance in the market place and, in particular, its financial performance and its ability to operate at maximum efficiency levels. This is also frequently characterised as the ability of the firm to take rational decisions about product/market development and profitability. Implicit in this are statements about the ability of the firm to plan its development both operationally and strategically.

All growth must of course come through the market place. And in this respect Ansoff's product/market scope approach has been widely adopted as the paradigm for explaining the way in which the firm can develop through combinations of market penetration, product development, market development and diversification. Associated with this is the degree to which it is able to improve its competitive position, in particular, to take appropriate 'make or buy' decisions. The metaphor that is frequently used in management teaching in this respect is that of the pseudoscientific model of planning approaches to product/market development and business goal-setting, including the business plan as the main means of assimilating the path to successful growth.
On the financial side as well the economist's obsession with the profit motive as the single overriding objective in the theory of the firm underspins philosophically managerial approaches which focus upon financial performance. The fallacy of the single objective of the theory of the firm has long been exposed, but the economist's perception of the entrepreneur as the rational decision-maker, seeing to maximise is still powerful. This goes along with attempts to predict the potential success of the firm in terms of financial ratios and their changes over time, and is in line with the pseudoscientific approach of the banker and accountant in using past performance of financial ratios to predict future capability. These approaches have, unsurprisingly, largely proved barren because they focus upon indicators which are essentially 'outputs' from the performance of the firm rather than inputs. It is scarcely surprising, therefore, that there is little evidence to support their predictability value in terms of future performance. Strongly associated with this approach, and underpinned by the accountant and the banker, is the value of control as exhibited in terms of ability to provide financial and other information on a regular basis as part of the management of the company. This 'capability for control' is seen as being associated with the concept of the 'well-managed business' to which the banker will lend.
This in turn links with the concept that competitive efficiency is best achieved at least-cost levels. Seeking to explain the small firm's growth in terms of efficiency, building around this simple assumption, has been a preoccupation of much of micro economic literature and this supports macro theory generalisations about equilibrium and optimal size of firms under certain very substantial theoretical constraints. Behind this lies the metaphor that control will be important factor in facilitating growth. Such approaches can in turn lead to excessive concentration upon cost-price relationships and control rather than upon a wider variety of other factors influencing consumer choice and demand for the firm's products.

This national approach leads in turn to emphasis upon the resource constraints on the growth of the firm. It leads to a focus on difficulties in obtaining loan finance because of the perceived weakness of the initial capital base. It underline difficulties in small firms obtaining equity finance because of the unattractive economies of scale for venture capital companies in spending time on appraisal of small and medium businesses. And, it points to problems in the market place in ensuring that a fair share of resources is obtained by small businesses in competition with more powerful firms. The creation of financial crisis in small companies by large ones is well-documented. It is argued
that the large firm uses the small firm as a means of restoring its own liquidity through devices such as failing to pay on time or by passing stock building on to small firm suppliers or consumers while at the same time using exchange power to dictate margins and prices for small firm suppliers or customers.

Not all resource constraints on growth are financial. There is evidence to suggest that there are major constraints in managing time and resources on the firm’s capacity to grow and spend time on planning proactive rather than reactive responses to the market place. One classical theory of the growth of small firms places much emphasis on the importance of managerial slack as a critical factor. But there is little evidence regarding how solving this problem will automatically lead to growth or, indeed, how the problem of time and resources can be adequately solved.

A great deal of literature has been dedicated to the concept of planning in the small firm, much of which is somewhat ambiguous in its results. Strategic planning of the small business is seen as unstructured, irregular, incremental, reactive and insufficient, although there is ambiguity in defining what exactly is meant by strategic planning. There is also growing interest in the strategic vision of the entrepreneur and its influence on growth, and
this merges into concepts such as strategic orientation and strategic awareness which seek to encapsulate the degree to which the entrepreneur can flexibly review and plan responses in a competitive environment, often with limited information and resources. There are some studies that find correlations between planning and performance, but several of these suffer from methodological weaknesses in terms of very open and therefore ambiguous definitions of planning or undue inferences from cross-sectional data. An example of the latter is where evidence of greater planning in larger small companies (that have grown) as compared to small, leads to the inference that planning is a determinant rather than a resultant. Overall, therefore, business approaches can be useful in providing frameworks for understanding the way in which firms might grow through product-market combinations. But they fail to demonstrate clearly how different approaches to dealing with product and market development have positively or negatively influenced a firm's growth. Similarly, financial analysis can demonstrate the way in which the firms grow in profit or asset terms, but there is little evidence, despite claims, that financial ratios can be used as basic determinants of the potential of firms to grow. Nor is it possible to demonstrate that more formal control in reporting procedures related to financial management or cost control leads to growth. Notwithstanding these points, it is often assumed in management literature that more formal
management approaches are important in facilitating growth. Moreover, there is evidence to suggest that for a variety of reasons, small firms have problems in acquiring adequate resources externally, both financial and managerial, and this is a constraint on their ability to grow. Finally, while it is not possible to make firm predictions about the impact of planning on performance, there is some support for the contention that entrepreneurs with wider strategic orientation and awareness will perform better; this, however, is tentative. Notwithstanding this evidence, the current accepted practice in the business financial community is still that the firms with the business plan will be the one with the better growth potential.
3.2.3 SECTORAL AND BROADER MARKET-LED APPROACHES

There have been many sectoral studies of constraints and problems of the growth of the small firms, largely conducted on a pragmatic basis and relating mainly to the impact of external factors and constraints. By and large, however, from the viewpoint of policy-makers, certainly in the U.K., these studies do not demonstrate that formal assistance mechanisms such as counseling, training, etc., have a fundamental impact on a firm's growth.

Particular attention has been paid in numerous studies to hi-tech business both in the U.K. and in Europe. A number of factors have been emphasised, including the importance of building marketing into quality, design and development from the early stages and the importance of keeping in touch with technology with associated ability to harvest knowledge from the environment. In general, the importance of professional management 'in supporting the growth potential of the company' is stressed. But the evidence is by no means conclusive that there is a correlation between the educational levels of managers, their technical ability and growth. Story, for example, finds some relationship between the technical qualification of managers and the growth performance of firms, but the sample is limited and there is no explanation offered as to why this might be of importance.
or 'should be of importance'. There is evidence to demonstrate that innovation does not always lend itself to formal pseudoscientific models identified in the business section above. Indeed it is argued that 'small and medium sized manufacturing company innovation is often unstructured', not well-defined or planned, and there is little question of a well-considered model.

It is evident that decisions made by large companies to spin out or sub-contract can have a major impact on the growth potential of small and medium businesses. There is also the question of the nature and strength of the dependency relationship, and philosophy of the large firm dealing with the small. Overall, therefore, the structure of industry itself in terms of its division of power and markets between large and small businesses will affect the growth potential of small firms in the economy. It is clear that decisions taken by large firms to share technology, provide R & D and financial and managerial support to small firms can influence growth potential (in theory), although in practice there is no major detailed evidence.
Therefore, sectoral studies have concentrated largely upon identifying external constraints and opportunities relating to small business growth; in particular, studies of hi-tech companies have been useful in highlighting certain problems. The industrial economist's traditional description of the functions of small firms in the market place are not overly useful in predicting growth. But they do raise the issue of the relationship between large and small firms and how this can provide both constraints and opportunities. There are no predictive theories which provide clear guidelines regarding the effective organisation of markets to stimulate growth.

Hence, some factors (both internal and external) of the small firms influencing the survival and growth objectives would certainly lead to measure the effectiveness and performance of the units. An attempt has been made to analyse the extent of the relationship of these factors with reference to the small scale units situated in and around the Coimbatore city.