CHAPTER V: MANAGERIAL PROBLEMS OF SMALL-SCALE INDUSTRIES IN INDIA AND IRAN

5.1 Introduction

In the earlier chapter, it was pointed out that several factors are hampering the marketing (domestic as well as exports) of products of small-scale industries. In order to boost up the exports it is necessary to overcome these problems. Also the domestic marketing problems of small-scale industries have to be solved for the development and growth of small industries. This can be done by providing skilled and trained educated managers as well as other services and incentives to the small-scale industries. This chapter deals with managerial problems and managerial role in developing small scale industries.

A manager has to have professional approach based on knowledge of modern concepts of management, and leadership skills to introduce a planned change. A greater sensivity to the social environment of the organisation is urgently required now. He has to generate processes in the organisation through his leadership that will align different human forces into a common goal. He will have to create an environment in which mutual trust increases, communication is facilitated, a sense of involvement and identification with the goals of organisation is developed, and self-esteem of employees is supported. For the fulfilment of this task he has to have great deal of support and understanding from the owners of industry, and the government—machinery. The professional managers cannot bring about
change with a 'magic wand'. They have to make systematic efforts to change the culture of organisation, and develop the human resources through better training and education.

In any size of business, managers have to make a broad policy decisions. In small-scale units managers, being limited in number, may have to perform, at all levels, executives, administrative production, supervision, clerical and even provide some of the skilled and common labour. Managers in the small-units have, therefore, to meet two major requirements;

1. To have sufficient knowledge of most if not all the duties of management.
2. To perform effectively while finding time to think, and plan accordingly.

All the problems thus discussed earlier, are in one way or the other management problem underlying all of them is a basic problem facing all managers, development and training system. It was only at the beginning of this century that the realisation grew that the supply of managers could be increased and the quality improved. The industrially developed countries too look upon managerial skills as a key element in economic advancement. Investment in this area increases productivity.

Managers of small industries cannot be specialised in one area. As they must make their own decisions and are forced to live with these choices, whether they are good, bad, or indifferent, the managers are faced with dilemma. Because of the business's limited
resources, it can not afford to make costly mistakes, but because the organisation is so small, it cannot afford to hire assistance to prevent managers from making mistakes. Lack of sufficient time to give attention to the various managerial functions accounts for a vast majority of failure among small industries.

In the developing countries of the world, management is relatively more important factor. Technology and capital can be more imported, and the labour supply (at least the supply of untrained labours) is too often over-abundant. Yet the growth of managerial skills has not kept pace with, the aspirations of industrial growth. In developing countries a low absorption rate for capital is evident. It means that capital can be supplied faster than the economy can supply administrators and managers.

A steady supply of new and small firms is an important part of a healthy economy, either as a source of self-employment or as a service to companies and to the community or as the 'seed-bed' for the future. Inspite of this, little is known to academics, businessmen or government about the factors which determine success or failure, mainly due to the fact that the determinants are difficult to quantify and therefore, forecast.

5.2 India

5.2.1 Managerial Problems of small-scale Industries

5.2.1.1 Management Feature

In a small-scale enterprise, this is mostly an added special
factor to be taken into account while considering the investigation of management problems. Speaking of the management function there will be special conditions related to the joint ownership and management function. Firstly, it has to be emphasised that management function is a profession in itself. The one who manages his own business will find himself in a special situation, involving both advantages and disadvantages compared with other enterprises.

A strong point is that the flexible decision making process that is no conflict between owner and management interest in the decision. The demands on the manager to establish an efficient planning and organisation are great. He has great responsibility in which his autocracy does not lead to inefficiency.

In a larger enterprise with a larger number of owners the division of authority among management and owners will lead to a built in objectivity. The management has to motivate its decisions to the owners, report to them and account for its opinion regarding both the topical situation and future prospects.

In small enterprises there is no need of such action. But still there remains a need of objective judgements for right decisions. That is why there are greater demands on the manager to scrutinize his enterprise in a very critical way.

Even from management point of view one of the favourable characteristics of a small-scale industry is its flexibility. Bureacratic procedures and details in arriving at decisions are difficult to avoid when many people have to be consulted. The
small-scale industry has important advantages when quick decisions are needed. But, as it has been mentioned, it is important that small-scale industries should take not only quick decisions but also right decisions.

The other factor is, the manager of the small-scale enterprise most often the owner, is of vital importance in many other ways. It is he, who has the power and also the responsibility to make decisions vital to the enterprise's other activities. The manager if he is the owner, can affect the enterprise by his desire to have his personal capital, out of which the firm is a part, at his disposal. He and nobody else has the primary responsibility for the functioning of the members of his staff.

The outstanding feature of small-scale industry is the personal character of its organisation and management in contrast with the predominantly impersonal management of large Corporations. Small industrial units, by and large, are started by persons who value independence and are desirous of obtaining the highest rewards for their initiative, technical skill and experience in a competitive market. The owner of a small industry values his undertaking for the job it provides him as well as for any return it may give on his invested capital. In many small units therefore, the proprietor or the director is himself the manager, technician and financer. Generally, therefore, the sector of small-scale industry consists of units in which the form of management is predominantly proprietary with industrial ownership. Though there is a fairly large number of small concerns which are organised as private limited Companies,
their percentage in the total number of small scale concerns in the country is relatively small.

The weakness may be, the problem of ensuring continuity of effective management in the event of a death and retirement of the head of the unit. This is one of the weakest features of the small owner-manager industries. It may cause many failures and represents a very real problem. This can be solved only if the owner-manager is willing to delegate responsibility providing training and experience for those who will succeed him, and thus ensuring continuity of management.

5.2.1.2 Delegation of Authority

Other common characteristics of small-scale industries, from a managerial point of view, are the lack of a clear definition of jobs and of clearly understood lines of authority and responsibility. This arises because the head of the small-scale unit tries to keep everything in his own hands as is unwilling to delegate his responsibility. Or it may arises because small-scale industries are originally family concerns and jobs had to be created in the management team for relatives who were not well-fitted to undertake the job responsibility. Although, formal and detailed definition of functions and responsibilities may be unnatural and unnecessary in the daily conduct of the business, the efficiency of many small-scale industries is impaired by lack of clear understanding of who is responsible for what and to whom.

Delegation is an inescapable necessity in large industries and it is being realized increasingly to be so by senior executives of such
firms. Obviously, with the number of employees being very large and the nature of activities making demands on senior executives' time delegation as a management practice is more or less forced on them. Delegation will be involved in both, small-scale industries with large number of workers as well as industries with small number of workers.

In small-scale industries with large number of workers one would find various levels of hierarchy the more common being that of four levels. The chief executive who will be the owner-entrepreneur, the managerial level, the supervisory level and the workers.

What can the Chief executive in such industries delegate and to what extend and to whom? The easiest choice will be to delegate production activities to the production manager, purchase to the purchase manager and quality assurance to the chief inspector and he can delegate R & D to his chief designer and so on.\(^1\)

But in any kind of small-scale industries the chief executive or in the other word, owner-manager would like to keep certain decision making areas under his own personal control. These areas will include dealing with customers, dealing with bank authorities and dealing with government officials and financial control.\(^2\)

5.2.1.3 **Lack of Training**

A very large population of managers in the developing countries are managers of small under-takings. Most of them have had no formal

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1. Financial Express, New Delhi, Tuesday, October 11, 1983, p.4
2. Financial Express, New Delhi, Tuesday, October 18, 1983, p.4.
training for the varied and difficult work they have to do. If they have had any formal training at all, it has been usually limited to one or at the most a few specialised aspects of their work. Many small-scale industries start as a cottage or workshop undertakings. In these cases, the head of the firms may be good craftsmen who may have little interest in understanding the commercial, financial and other aspects of this work. Other small scale units are started by merchants who have had experience in buying and selling but know little about production or managing a manufacturing company.

Therefore, many of the people engaged in small industries lack education and are not familiar with modern production techniques, management and marketing. They also do not show any interest and initiative in introducing new designs to attract business and usually stick to traditional pattern. In order to improve their competitive position, it is necessary to train them in business management, accounting and new techniques.\(^3\) It is clear that there is a great need to train managers for small undertakings both in the general principles of management and administration and in the more specialised functions.

5.2.1.4 Productivity

Productivity concept involves the full, proper and efficient utilisation of all the resources that go in building any industry. Productivity implies creating the best product with the minimum

\(^3\) Reserve Bank of India, Op. cit, p.32 ch:2
utilisation of industrial resources such as men, machine, materials, power in the money terms of investment.  
Productivity is a relative concept and the emphasis on labour productivity varies from country to country, from time to time and from industry to industry according to the level of development and the relative scarcity of different factors of production. Among the more specific management problems, productivity has been accorded the highest priority. Low productivity is often interpreted to be the result of:

a) lack of appropriate technical help;
b) inadequacy of spares and imported materials, and
c) insufficient appreciation of the importance of material management, critical flows and so on.

Lacking the requisite expertise and information and small firms make erroneous decisions. In most cases the immediate impact is on the short term financial base.

It is often felt that the main hurdle in expanding the productivity concept among small industrialists is the lack of management consciousness. The small industry proprietors do not adopt and implement productivity practices as they are more involved in day to day problems of securing raw materials or infrastructure facilities or in complying with the rules and regulations of the state authorities. Productivity is considered as an activity of leisure time. It is therefore necessary to create among entrepreneurs

productivity consciousness through proper training and publicity.  

Governments in both highly industrialised and newly developing countries have also taken major initiatives in the past two decades to stimulate the productivity of small manufacturing. Consequently, the mix of private and public services now found in different countries shows greater variety.  

Generally speaking there are two aspect of productivity:  

1. The technical aspect covering techniques of production, better management, better incentives, better handling of resources and avoiding wastes etc.  

2. The psychological and human aspects involving better motivation, better attitudes, and better industrial relations.  

While these two aspects are common to both large and small-scale industries there are some important differences in the approaches to these units. The large units, can afford to employ or otherwise obtain the services of experts in the adoption of various tools and techniques of productivity in technical and behavioural aspects. The small-scale units, on the other hand, cannot afford to employ such experts and the entrepreneur himself has to imbibe the productivity attitude and acquire and practice productivity skills.  


5.2.1.5 **Price Control**

Prices play a pivotal role in the regulation of the entire spectrum of economic activities, particularly in small-scale industries. A pricing policy must act as a motivating force for the accelerated growth of small-scale industries, for production, distribution and consumption.

In all business activities, whether in the public or private sector, large, medium or small-scale sector, the selling process influence the management to fix the price to sell the product.

In a sector where a large number of enterprises were organised as either sole proprietorship or partnership the quality of management depends essentially on the abilities of individual entrepreneurs, displaying wide varieties. By and large each of these was found to have developed his own system, however, rough and ready, to keep himself informed of the various operations in his enterprise. Only a few adopted a more systematised approach by instituting flow charts, inventory controls or incentives bouns scheme. Pricing was found to be generally based either on prices of comparable imported items or on what the traffic could bear.9

Price control does not exist in the case of small units. Any increase in the quantum of profits can be attained only by increasing the volume of output. If the firm is experiencing economies of scale there can be effective favourably. The effects of size and profit rate on wages are emperical questions.

Even in small-scale firms wages are not determined by productivity considerations alone. There is sufficient evidence to claim that the external factors are already at work. Hence, unless this fact is realized and suitably wages and income policies defined by the management, the severe climate of industrial relations will only be a myth.

5.2.1.6 **Inventory Control**

The effect of excess inventory, whether in fixed or current assets, is the same. In both cases, the funds are locked up. If the funds are borrowed, avoidable interest will have to be paid on them. All the assets need to be maintained, and therefore, the maintenance cost goes up, so does the manpower requirement. These additional items of expenditure do not contribute to production and the generation of profits, but lead to losses. It is in this sense that idle assets are a drain on profitability.

Appropriate inventory management and capital planning, with a view to ensure full utilisation of capital, are pre-requisites for efficient performance of the small-scale units.

Inventory control is effected by the maintenance of records of stocks. Current assets keep moving, and their movement should be very carefully controlled, stocks should be always maintained at an optimum level, which is pre-determined for each item, depending on its availability, price and consumption.  

According to the study of selected small-scale industries, the general feeling was that the needs of the small enterprises and their problems were different and change over time. Although general guidance could be provided to the entrepreneurs on various aspects of efficient management, it was felt that each entrepreneurs should adopt it to suit the level of operation of his enterprise and its growth. 11

5.2.2 Management Services to Small Industries in India

Small-scale industries in India suffer from various handicaps compared to large-scale industries, one of the most important among these is the non-availability of technical and managerial personnel of the required calibre. Large industries can employ qualified staff who are specialised in different areas of production and management. Further, they can afford to retain from time to time their own supervisory personnel and workers. As against this, the small industrialists cannot afford to employ workers and supervisors having a sound educational background and the requisite experience in production and in trade. Besides, they do not have the equipment and resources to train their own staff.

To meet this lacuna, the training of small industrialists and their workers has been taken up as an important part of the Industrial Extension Service rendered by the Development Commissioner, Small-Scale Industries Organization. The courses provided are designed to familiarise small industrialists and their workers with the latest tools and techniques in their respective fields. The objective of

training the personnel for and from small-scale industries is to equip them with improved management and technical know-how and to apprise them of the different kinds of assistance available from various government organisations. The training programme of such personnel is suitably geared to the needs of individuals with different backgrounds and performing different functions.

5.2.2.1. Small Industries Development Organisation

The basic objectives of imparting training in management subjects is to improve the productivity and profitability of the existing entrepreneurs and to develop the new enterprises. The small-scale industries have to be helped not only to consolidate their existing growth but also for meeting the challenge in terms of products design, quality and reliability in the competitive market.

5.2.2.1.1 Training in Industrial Management

These courses are designed for small-scale entrepreneurs and their supervisory personnel engaged in managerial duties. The following types of managerial courses are conducted by Small Industries Development organisation (SIDO);

1. Industrial Management Courses:

These courses are introductory to the management courses and give appreciation of various disciplines of management such as production management, financial management, market management, inventory control etc. The duration of a minimum 30 lecture hours.
2. **Techno-Managerial Courses**

These courses are meant for those small-scale industries which have already attained a certain level of sophistication and need training in specialised management subjects such as quality and reliability, design analysis, value engineering, cost reduction, packaging, etc. Duration is 4 to 6 weeks.

3. **Special Courses in Management Studies**

These courses provide intensive coverage of the basic fields of management such as financial management, production management, quality control, market study etc. The duration of these courses depends upon the needs of specific areas but is of a minimum of 30 lecture hours.

4. **Ad-hoc Courses in Management Subjects**

These are special short courses on specific tools and techniques of management like inspection, cost control, production development, production planning and control, market research etc. Duration is minimum for 10 hours.

During the year 1985-86, 93 courses in the above subjects were conducted by the Small Industries Service Institutes in which 2905 persons have been trained.  

5.2.2.1.2 Technical Training Courses

In order to improve the skills of workers engaged in the small-scale industries and to equip them with better and improved technologies of production, Small Industries Service Institutes in the workshop and extension centres attached to them organised regular and ad-hoc courses in various technical trades and manufacturing process. The following types of technical training courses are conducted by Small Industries Development Organisation (SIDO):

1. Shop Practice Courses

These courses are for senior artisans and are meant for broadening their field of technical competence so that they can shoulder supervisory responsibilities covering all shop operations. These courses are in Machine Shop Practice, Tool Room Practice, Foundary Practice, Black Smithy and Forging Shop Practice etc. Duration of these courses are 6 months and they are full-time.

2. Trade Oriented Courses

These courses are intended primarily to equip skilled and semi-skilled with advanced knowledge of a particular trade viz. Tool Maker, Fitter, Machinist, Pattern Maker, Carpentry. Duration is 6 months and full-time.

3. Process Oriented Courses

These courses are intended for persons who are already familiar
with the production process in some form or the other or are qualified tradesmen. These are conducted in areas such as Heat Treatment, Electrical and Gas Welding etc. Duration of these courses are 3-6 months, full-time.

4. **Product Oriented Courses**

   These courses are also intended for persons having basic knowledge of the manufacture of products in some form or the other and are conducted in areas such as Foot Wear and Allied Products. Paints and varnishes, etc. Duration is 3-6 months and full-time.

5. **Blue Print Reading Courses**

   These are short duration Courses and are organised in this subject from time to time according to the requirements of different areas. These are part time evening courses.

6. **Ad-Hoc Courses**

   Ad-hoc courses for short-duration of one to three months are conducted locally, particularly in different processes and products to meet the specific requirements of the small-scale units.

   During the year 1985-86, 333 training Courses were organised in 40 different types of technical trades in which 2837 persons have been trained. 13

13. Ibid, p.84
5.2.2.1.3 Training of Officers

SIDO officers are regularly being deputed for training both within the country and abroad to keep them abreast of the latest developments in management, economic and technological field.

With the help of international organisations like UNIDO, APO, World Bank etc., SIDO Officers are trained in highly sophisticated fields in other advanced countries.

5.2.2.1.4 Management Consultancy Services

The Offices of Small Industries Service Institutes continued to provide management consultancy services to small-scale industrialists as a part of the over all industrial extension services of SIDO. This service assumes two forms viz., the problem-oriented consultancy service for solving specific problems faced by small industrialists and in-plant studies for intensive and analytical studies covering all aspects of a unit like finance, production, marketing, etc.

5.2.2.1.5 Consultancy for Technical Services

The need for providing specialised services to small-scale sector is increasing with the rapid development of these industries in the country. Apart from new products and items being introduced, new raw materials have also come into existence throwing open a vast field of operation and exploitation. In order to help small-scale industries in these areas Small Industries Development Organisation (SIDO) has also offered technical consultancy through panels of private
consultants or consultancy organisations, agencies on subsidised basis.

5.2.2.1.6 Entrepreneurial Development

Small Industries Development Organisation (SIDO) has been conducting a regularly structured entrepreneurial Development Programmes since 1970 through various Small Industries Service Institutes and its branches located throughout the country. The programme which were initially started for graduate engineers, have been extended over years to cover various target groups.

For the first time, during 1985-86, SIDO also introduced special Entrepreneurial Development Programmes for beneficiaries selected under the self-employment scheme of the government of India.

5.2.2.2 National Institute of Small Industries Extension Training – Hyderabad

The Government of India set up an institute known as the Small Industry Extension Training Institute (SIETI) in 1960, under the Ministry of Industry for promotion and development of small industries. In order to provide administrative and financial autonomy, it was registered as a society in July, 1962. The Institute has been raised to the level of a National Institute, with effect from September, 1984.

5.2.2.2.1 Functions and Activities

The Institute has six major departments namely; consultancy,
Documentation, Industrial Development, Industrial Management, Applied Behavioural Sciences and Communications. Each of these departments is involved in all the three major functions of training, research and consultancy. Over the years, the Institute has diversified its areas of operation to cover training needs of all developmental agencies in the country and their counterparts in developing countries. It has also been recognised as a "Centre of Excellence" by the UNIDO and has been provided financial and other assistance for augmenting training facilities for both national as well as international participants.

The major activities of NISIET continue to be organisation of the training and workshops, projects and consultancy assignments, industrial potential surveys, research and information dissemination etc.

5.2.2.2.2 Highlights during 1985-86

During the period (April 85 - March 86), the Institute continued to impart training to persons concerned with development of small-scale industries. In all, the Institute has conducted 66 courses and trained 1158 persons. 14

5.2.2.2.3 National Small Industries Corporation

To provide the technology back-up to small-scale industries, the corporation is having four Prototype Development-cum-Training Centres. The highlights of the activities of the above centres are as follows:

14. Ibid, p.95

240
5.2.2.3.1 Human Resource Development

During the year 1985-86, PDTCS have trained 999 persons in various trades as against 899 persons in the previous year. By the year ending 1986, PDTCS have provided 15,155 trained manpower to the industry.15

5.2.2.3.2 Prototype Development

The PDTCS have so far developed 142 prototypes of machines and equipment. During the year 1985-86, the technology packages have been developed for transfer of technology know-how from various PDTCS to various small-scale units.

5.2.2.3.3 Product Upgradation

Some of the prototypes which were developed a decade back have been taken up for upgradation in regard of quality and control mechanism.

5.2.2.3.4 Technology Upgradation

The need of upgradating technology for leather and footwear industry, has been assessed by a team, through a careful study. As a follow-up action, collaboration agreement have been made and experts provided with the assistance in the field of leather training, manufacturing of leather goods and footwear machinery.

5.2.2.3.5 Sub-Centres of PDTCS

With a view to extend the services of PDTCS to the rural and backward areas, the corporation has decided to set up a number of sub-centres of PDTCS at various places, the aim of the sub-centres would be:

1) to develop and upgrade the skill of local workers in various trades

2) to develop new tools and prototypes,

3) to provide common facility services to the local entrepreneurs, and

4) to provide consultancy services to various entrepreneurs and small enterprises to achieve technology upgradation.

5.3 Role of Manager in Small-Scale Industries

In the modern sector of the economy, especially in industry, the role of management is crucial to success and growth. It has gradually come to be recognised that educated and trained managers are the critical resources for economic development. If any single factor is the key for unlocking the force of economic growth, the factor is management. Much of deficiencies during the last few years in respect of raw materials, foreign exchange and other scarce resources can be traced back to defective management.

The manager of the small enterprises may be the most important asset of the firm. The demands upon him can be formulated very
comprehensively:

- Leader capacity
- Sales capacity
- Economic sense
- Public relations sense
- etc.

The manager of the small enterprise must try to bring all these qualities together within himself. These qualities have been a determining factor of the enterprises coming into being, and will affect the future.

The manager, especially the managing owner, is an individual resource of the enterprise. One has to be economical with resources to get maximum benefit out of them. This of course, has reference to the manager also. When his load of work is too heavy, he must be relieved. This can be done by

- better planning of the work
- distribution of tasks to his colleagues
- by the use of short-term assistance

He also might be able to broaden his resources and increase his capacity by developing his talents through practical and theoretical training.

Here, it is worthwhile to see, first, what is expected to be the role and function of a manager in an organisation irrespective of its size and then come to the small-scale industries.
An old classification, which is still widely used is that of Fayol; "Planning, Organising, Commanding, Co-ordinating and Controlling." 16

Therefore, the role of a manager in the small scale industries cannot be an exception. As it has been mentioned earlier, in small-scale industries, being limited in number, manager may have to perform, at all levels, executive, administrative, production, etc. as follows;

5.3.1 Organisation & Planning

The better manager will recognise that the more skilled and able workman may be elevated to the position of a foreman. Slowly, the manager brings together a group of assistants who help him making policy decisions. A wise manager will soon give them some decision making authority. When these assistants take on the full responsibility of a department the firm has entered a stage of maturity.

It has to be made clear that one of the most important responsibilities of management is to train their deputies and preferably those who are second and third in command. This can be done by delegating authority to the respective people at the various executive levels and carefully supervising their work at initial levels. In this way the executives will become more experienced so that ultimately they will lessen the strains on top management and give them more time to consider policy.


244
Another organisational problem is the inability to appreciate the need for planning ability and other skills. Virtually, no small industry manager gives sufficient attention to planning. Hourly tasks absorb so much energy that there is little time to forecast future problems or even to organise for right solution of current problems.

Historically, the ownership and management of small industries have tended to follow the growth pattern as follows. In the first stage, the owner both manages the company and performs all the works by himself. As the organisation grows into the second stage, the owner hires one or more employees to help perform the manual and or mental activities. Later, as the organisation begins to get larger, it enters the third stage, in which the owner hires a manager to run the business. Thus, the business takes on the form, characteristics, and many of the problems of a big business. The process of growth can be described as:

"A company's success and growth is a chain reaction. First, there is the growth which leads to new responsibilities which, in turn, leads to a search for executive talent to undertake the new responsibilities. If the search is successful, the effective management leads to better business and more profits. Again the decision must be made to expand again. Thus, the cycle is repeated. However, the chain reaction can be brought at any point in the cycle."\(^{17}\)

Table 5.1 Stages in the Development of a Small-scale Industry.

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<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Diagram</th>
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<tbody>
<tr>
<td>First Stage</td>
<td>One person operation - where owner does all the activities</td>
<td><img src="image1" alt="Diagram" /></td>
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<tr>
<td>Second Stage</td>
<td>Separation of management and management functions; hired subordinates to do some of the manual and or mental activities while owner manages</td>
<td><img src="image2" alt="Diagram" /></td>
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<tr>
<td>Third Stage</td>
<td>Separation of ownership and management functions; Owner begins to relinquish the responsibilities for the day to day running of the business activities to a professional manager</td>
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In this connection, it should be emphasised that the length of service of professional managers as opposed to owner managers in small organisation tends to be relatively short. They move from one company to another as they progress. Often, owners must give managers an interest in the company to hold them on.

5.3.2. Long Range Planning

A successful small-scale industry must be judged not only by its past and present but also by its ability to usher into the future. Planning for the future must not be the sole responsibility of the top man. He must seek the views of his executives and discuss his thoughts with them. However, he must win the support of his executives for his decision. The days of planning a year ahead will soon pass and it becomes necessary to think in terms of five years. The first two years should be planned in detail but the last three years may be planned only in outline.

The general manager must also face the fact that from the moment he takes office, the company's future is his responsibility. He is not just another senior executive.

One of his first decisions will be to decide on the company's product market policy. This must be clearly understood by all the members of the staff. He must be decisive on the products to be made, the market to be served and the amount of emphasis to be placed on things like quality standards, the design details or any combination of those.
Next, the company’s policy on industrial relations must be examined. This is a field in which consistency is vital. Industrial relations can never be good if management approaches the subject in a superficial manner. This is particularly true in a small company.

Responsibilities, even in a key small-scale industry, should be defined. A review of the past reveals the difficulty in executive encounters in a small company in defining and assigning roles to people. Frederick W. Taylor, the father of Scientific Management was vitally concerned with the proper assignment of roles. The fundamental purpose of a structure and organisation is to get things done, and to achieve this, it is vital that everyone can interpret company policy on at least all major issues.

One of the advantages enjoyed by a small firm is that it usually employs more generalists than specialists. It is, therefore, somewhat easier to develop and sustain enthusiasm for the aims of the Company. There is however, one serious drawback in the development of small firms, and that is the risk of no obvious promotions which prevents top classmen from joining the firm. If they do join, lack of promotion prospects encourages them to leave as soon as other opportunities become available. Manager must plan his expansion and think several years ahead with this problem.

The problems of expansion include developing new products and markets, finding experienced staff and labour as well as land and capital. Opportunities have also to be studied and the agreement of

management sought for the planned expansion which appears most likely to succeed. Once this is agreed upon, it should be explained to all the staff so that everyone knows what the objectives are. The implications of the planned expansion should also be studied so that everyone concerned knows his promotion chances and plans should be made to engage and train new staff to meet future needs.

5.3.3 Control Systems

Control systems must be established before the transformation from personal to functional management can take place. Installing controls without, constraining the company's effort is beyond the capabilities of most managers. However, a manager can obtain assistance from agencies to solve this problem. Experience gained in the operation of controls should not be kept a secret. Managers should be more willing to share information on control techniques than on technologies or marketing methods.

The manager may first see the need for a simple book keeping system that will give him periodical profit and loss statements. Book Keeping is simple when only one product is produced, but when several are made and sold, systems have to be expanded.

The company must know when products are making a profit or a loss, even though the general profit and loss statement may show on

overall profit. That is how one finds the individual product's performance regardless of total company performance. Cost analysis must be carried out for each product before production begins. Finally the alert manager will wish to have the overheads clearly stated as these are often overlooked and yet are substantial items of cost.

5.3.4 **Financial Control**

The manager must also handle financial matters. Seldom the financial environment pay so favourably that the manager need not concern himself with fund raising.

In most developing countries, very little is known about a typical manager's source of funds. In fact, most managers are reluctant to reveal this secret. Certainly banks supply some money but they are not as vital as the commercial institutions in an industrially developed country. Relatives and friends giving loans possibly provide the largest single source of capital. Once established a successful enterprise can find some of its future finance out of its profits.

Effective financial management is based on three factors\(^{21}\); analysis of past performance; planning for future activities and control of current activity. Control is achieved by implementing decisions in accordance with agreed plans. Accordingly, financial planning is of crucial importance in Small-Scale Units.

5.3.4.1 **Cash Flow**

In small company two of the problems which attract the attention are, poor cash collection and money absorbed by the unnecessary increase of stocks. Managers should try to place long term orders with regular but flexible offtake. Next comes the evaluation of the capital cost of large stocks of unfinished products or work in progress. It may sometimes be necessary to keep large sums of money tied up in finished stocks but this should be avoided wherever possible.

Timely and rewarding short-term outlets will have to be found for surpluses, and appropriate outside financing arrangements will have to be made for meeting deficits, to ensure that operations continue unhindered, and planned profits are realised.

It is evident that if the advanced signals thrown up by cash planning are constructively acted upon, most of the problems of cash surpluses and deficits would be resolved by suitable and marginal readjustment in internal operations, without affecting the short-run profit goals.

5.3.5 **Marketing**

The environment exerts an important influence on the market in general. However, a manager can still influence the market for his own products. First he can study the market, estimate current and future demand and estimate the total production that will be available from competing enterprises. Customers' unfulfilled needs are met by new
products. The availability of desired goods may stimulate production and income. There is a possibility of increasing markets through advertising, demonstrations and other sales promotion techniques. Individual enterprises or associations can develop markets by such means, but this can be expensive.

Market research and sales promotion are foreign to the typical small industries manager. They are tied to middlemen who distribute their entire production and provide capital. The manager may lose some freedom of action and the incentives to expand. The middleman has taken over a portion of the entrepreneurial function and expanding enterprises may want to breakaway from the middleman or at least have a number of outlets of their own. Knowledge of marketing will assist this transition. Consultants or management measures will provide added assistance if the manager is aware of his needs and problems.

Advertising and sales promotion activities are important factors to be considered. Too many owners of small industries advertise merely to see their names in print, which is an expensive 'ego trip.'\(^{22}\) It should be used to inform customers of the availability of products or services and to convince customers that the products are superior than that of other competitors.

5.3.6 Production

Decisions made by the manager in production field establishes the cost, quantity and then marketing determines the price of product.

\(^{22}\) Gardiner H. Greene, How to start and Manage your Own Business, McGraw - Hill Book Company, New York, 1975, P.57
The modernised and expanded enterprise may require raw materials of a different type or quantity. The manager may have to check raw material quality carefully and seek out reliable sources of supply. If imports become necessary then advance ordering will have to be guaranteed with a production plan. The production department gives the manager an unlimited scope for innovation.

While, not necessarily, knowledge of capital and labour intensity theories, the manager of small units does try to invest his limited capital so as to obtain the highest return. Significant savings would result where the manager has knowledge of applicable technologies and equipment. Managers also require information on production engineering, that is, the relation of material flow to the availability of men and machinery. Self-education helped by Consultants can attain the required principles.

Mechanisation of a factory brings other problems for the first time. The manager may become aware of maintenance and the need for spare parts. Workers require new skills that often must be imported by the manager. Product quality may suffer if production moves from the work of craftsman to mechanised production. The successful manager is, therefore, one who knows the important relationship between quality and sales.

A private company or a small enterprise seldom enjoys monopoly competitors initiate its products. The enterprising manager has to modify, improve and divert production to maintain and widen his product. Very often the enterprise in search of a new market can over-diversify and find itself turning out a multitude of products at
The quality of national products in competition with imports is often judged by their containers. As a result some managers introduce distinctive packaging. It should be realised that attractive, economically produced packaging has to be developed for different products to boost sales.

5.3.7 Developing Human Resources

Lawrence Appley, former president of the American Management Association, said "Management is the development of people and not the direction of things......Management is personnel administration." This statement indicates that the primary duty of all managers is the proper selection, placement, development, and utilisation of the talents of their personnel. How well or how poorly, they do this is a major factor in the success or failure of the business.

Of all the resources of a company, only people have the ability to vary their own productivity. While a machine can perform only the tasks it was designed and within the limits of its capacity, employees have many productive capabilities which can be motivated, can be innovative, and can adapt to changing circumstances.

Every small enterprise manager is a "personnel manager" in the sense that the work is done through people, with people and for people. Consequently, manager should be personally capable of

handling employee relations until the enterprise becomes large enough to afford a personnel manager.

In the developing countries of the world human resources are perhaps the least developed of all economic resources. There are million of under employed and under-trained people whose talents are idle or undiscovered. Managerial, professional and labour skills can be vastly improved. All human resources could be more effective through institutional changes. A country with relatively poor natural resources can have a high rising standard of living if it has good managers. However a country with rich industrial resources may be condemned to a low standard of living if its resources are dissipated through poor management.

The entrepreneur managers form a very varied group in terms of economic and social background. Some were originally poor rural artisans or factory workmen, others have come from well-to-do merchant and land owing families, some have had no previous experience whatever with industrial enterprise. Other graduates of various engineering colleges and are highly qualified technicians.

It may be true that some of the most essential qualities of a good manager (common sense, good judgement, and ability to handle people) can be acquired only to a limited extent, if at all, through formal training. It is certainly true that such training is no substitute for flair and experience. Therefore, a rich experience for a successful manager entrepreneur is very vital. However, there is a simple evidence that training helps a manager the least to adopt a more systematic approach to his problem.
5.3.8 Personnel Relations and Productivity

The small enterprises use their families as a labour force. If outsiders have to be brought in, they are treated as part of the family. But, a rapidly expanding enterprise, however, usually reaches a point where workers who are not known to the manager must be hired. The relationship thus becomes impersonal. The workers may then organise and join local or national unions. Bitter relations appear to be common during this transition, since the workers have lost the personal tie with their employer. It is important therefore the management to inculcate a sense of belonging to the work force.

Unemployment may make for cheap labour but also adds to management problems. New workers may be taken on reluctantly because of the difficulty of finding workers in the event of a slack period. Any attempt at productivity increase will be met with suspicion until evidence is given that the labour force will not be reduced. The manager may be blocked in his desire to mechanise if labour saving is the result.

Labour has yet to learn that increases in productivity can result in higher wages. Wage incentives have been used to achieve cooperation and a flexible approach to management in small factories permits experimentation. Peace rate payments may over a long period offer no inducement to productivity increases. Profit sharing plans are often quite successful. Once mutual confidence has been established the techniques of productivity increases are not difficult to master.
It has been noticed that in some cases\textsuperscript{24}, even where there is sufficient availability of technical knowledge, management techniques available to the small industries are not being used fully. So that the need of the hour is to use these techniques and increase productivity.

The best way to overcome apathy and ignorance is to concentrate on the direct personal approach for spreading information regarding productivity techniques.

5.3.9 \textbf{Training}

The ultimate efficiency of the enterprise will be determined by the interaction of two related factors:

1- The caliber of the people hire, including their inherent abilities, and their development through training, education, experience and motivation.

2- The effectively of their personal development by the manager after they are hired.

Educating workers in new technical skills has been found less difficult than getting them interested in increased productivity.

Not only must new employees be trained, but also the present ones should be trained and upgraded in order to adjust to rapidly changing requirements.

\textsuperscript{24} Bhagwatgia, M.S., \textit{Loc. Cit}, p.93

257
The employees also have a stake in development, for they acquire a greater sense of worth, dignity, and well-being as they become more valuable to society. They will receive a greater share of the material gains that result from their increased productivity. These two factors will give them a sense of satisfaction in the achievement of personal and company goals.

Training is an integral input of managerial development. The lack of adequate and skilled personnel is one of the bottlenecks in a developing economy. Staff training is essential for entrepreneurs and workers employed in small enterprises.

There are different methods of training non-managerial employees,

1. On the job training is a programme in which the employees receive training while they perform their regular jobs. Thus, they are both producers and learners.

2. Apprenticeship, the purpose of this training is to develop well-rounded individuals who are capable of performing a variety of jobs. It usually involves learning a group of skills that, when combined, qualify one to practice a trade.

3. Intership training is a combination of school and on-the-job training. It is usually used with employees who are prospects for marketing or clerical positions, or who are being prepared for management positions.

4. In outside training, the employees receive training at schools outside the company.  

25. Tate, Megginson, scott & trueblood, Op.Cit, p.183
5.3.10 Developing Appropriate Methods

A number of management methods yield good results in large industries, but these are too complex and too costly, in terms of overheads, for use in small undertakings. The purpose of adopting simplified management methods for use in small scale undertakings is not to overburden management with new tasks. Rather it is to help them to do the work that has to be done and to take decisions that have to be taken efficiently. That means they work in accordance with certain relatively simple principles using such relevant facts as it is economically worthwhile to assemble, instead of doing their work and taking their decisions in an unsystematic, haphazard fashion.

Given a reasonable product and the minimum necessary capital, the basis of success in the first stage of operation is enthusiasm and effort. When the business has matured and the responsibility of finance and organisation weigh heavily it becomes necessary to consider every argument and think out every policy. ²⁶

Thus, the major requirement of the management of a company or any other organisation, is to make the right decisions. This, as every manager knows, largely depends on correct assessment of hard facts. Basing decision on illusion is liable to produce unsatisfactory results.

5.3.11 Problems Solving Through Management Training

The internal problem of an enterprise can be solved by the

entrepreneur manager if he requires the proper skill and knowledge, for example through training. Management training is of great importance to groups of managers facing common problems such as those considered earlier in this chapter. However, there should be no confusion about management training. It cannot solve technical or production problems but will show how planning, administrative and control difficulties may be overcome.

Henry Fayol, after studying early twentieth century French manufacturing industry, reported on the relative importance of these two types of internal problems. Those problems common to all manufacturing plants were grouped under managerial (organisation, planning, personnel relations), marketing, finance, control and security (safeguarding property). Those production problems peculiar to each enterprise were termed technical.

The time a typical manager would spend upon each group of problems was estimated for plants and varying sizes and reported as in Table 5.2.

Fayol concluded that even in the smallest of companies 60 percent of the manager as time was spent solving problems common to all companies in the size group. He suggested that formal training of managers even for small enterprises would assist their development. The relative importance of the problem facing managers varies from country to country. However, no country has been able to claim that the problems shared by all managers, do not justify training in

management.

Table 5-2: (Function of the Manager in %)

<table>
<thead>
<tr>
<th>Size of the Enterprise</th>
<th>Managerial</th>
<th>Technical</th>
<th>Marketing</th>
<th>Finance</th>
<th>Control</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 15 Workers</td>
<td>15</td>
<td>40</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Small (15 Workers)</td>
<td>25</td>
<td>30</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Medium (100 Workers)</td>
<td>30</td>
<td>25</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Large (1000 Workers)</td>
<td>40</td>
<td>15</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Very Large (over 1000)</td>
<td>50</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>State Enterprise</td>
<td>60</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>


5.4 IRAN

5.4.1 Managerial Problems of Small-Scale Industries

As in almost every developing country, one of the crucial problems encountered in accelerating the growth of the small-scale industry in Iran, qualitatively as well as quantitively, is the lack of an energetic and skillful group of creative, innovating, achievement-motivated entrepreneur-managers. This lack has been observed in the production as well as in the financial management.
Although most of the manufacturers in Iran are well aware of specific technical problems, they do not seem to be interested in such specific production management measures as preventive maintenance of equipment, work flow improvement, work simplification, production scheduling and control. It is evident that considerable cost reductions may be initiated by these measures.

The potential investor only shows interest in the production process for a certain commodity and the machine required for manufacture. Any of the above mentioned cost reducing disciplines were apparently regarded as a ballast and therefore, neglected from the very beginning.

Financial management problems such as proper accounting, costing and cash flow budgeting are typically cloaked by the need for greater working capital. The credit needs often lead to consultation, which uncover problems of inventory control, balance between fixed and working capital expansion, and others. Owing to a poor knowledge of the financial management problems, many entrepreneur are running into trouble at the beginning of the factory operations because of insufficient available working capital. In their preparation of pre-investment calculations this working capital is often neglected or only regarded as a balancing financial post on the budget. Many of these small factors are thus starting almost on the brink of bankruptcy.

Besides these purely managerial problems, all the small manufacturers lack the management aid of industrial research. 28

Although research performed by qualified specialists falls beyond financial scope of small industry, there are still many types of applied industrial research which lend themselves to collective performance for the benefit of several firms simultaneously.

The valuable, indeed indispensable role of research in modern industry is well known. In a developing country like Iran, the pay-off from properly directed industrial research can consist of selecting from the world reservoir of already existing scientific and technical knowledge those ideas must immediately applicable in the country and then adopting them somewhat to make them truly markable under local conditions.

The need for applied industrial research is felt in integrating the economic, engineering and some of the already mentioned managerial aspects of specific small scale industrial opportunities and problems. A proper integration assumes the knowledge of the existing and applicable possibilities in each of the above mentioned aspects and creates, therefore, a need for:-

a) Economic research for small industries to assess market aspects, costs and location factors and that for the small manufacturer himself who needs information about these factors as well as for the government policy maker who needs data for programme planning and review.

This research must focus on competitive conditions and anticipated market growth in important small plant products, cost-factors and cost-reducing methods, minimum size of the
economic plant, break even projections and opportunities in particular regions and locations. Suitable balance between economic research for groups of firms and for individual firms must be sought from period to period.

b) Engineering research to screen known technology for adaptation of local resources, labour-capital costs, sales factors, etc. In this context it seems useful to call the attention to the development of specialised production techniques and equipment adapted to small industries with small series production. Normally in different small production units either a production over capacity due to the installation of costly equipment of too high capacity or an under capacity because of the installed obsolete equipment resulting in poor production quality and big production waste and fall out. A study into the possibilities of developing specialised production equipment for small scale industries seems particularly opportune where the big plants such as Tabriz Plant started the production of machine tools for Iran. This complex may accept a leading role in producing this type of equipment.29

c) It is obvious that a close coordination between the economic and the engineering research department may contribute substantially to the development of new ideas in the managerial sphere. New management techniques adopted for the needs of the local small industries may be evaluated.

Strongly felt that key importance for applied industrial research, is the creation of a technical information service. Problems raised by small and large industrialists, extension staff, and research specialists are the origin of most technical inquiries. Ingenuity combined with systematic knowledge of technical literature and information retrieval methods are needed to obtain, screen and adapt information that will be relevant to the local situation. The specialised abilities and resources needed to activate an effective technical information service may require that it be centred in an industrial institute service large as well as small industries.

The above described managerial problems are more or less of an educative nature and involve skill-intensive measures for solution. It is very difficult to make strict calculation of the benefits against the costs for possible solutions of these managerial problems because very often the costs are not expected to cover full costs in view of the long-term returns to society from educational measures.

5.4.2 Management Training

This is a programme which places emphasis on the preparation of the small industrialists for business management and ownership responsibilities to be assumed where business opportunities exist or will exist in the near future.

Training must be undertaken after the identification of industries. This training must cover all phases of management such as pricing techniques, accountancy, inventory control, quality control etc.
5.4.3 Management Assistance

Management assistance programme should be keyed to the establishment, growth and success of small industries. The need of assistance is demonstrated by failures particularly taking place in the small business community.

If the management assistance is of a most obvious interest in a general policy concerning assistance to the small industries, it is of particular importance for companies wishing to enter successfully into the field. The industrialists entering in this field should be assisted fully for it 1. - Technology and 2. - From the point of management.

5.5 Conclusion

The small enterprises needs organised and systematic management even more than the big business. It does not need, to be sure, large central staffs. It does not need elaborate procedures and techniques in many areas. In fact, it can afford neither large staffs nor elaborate procedures. But it does need management of big order.

The small business needs its own control and information system. Its resources are limited, in both men and money. It has to make sure that its resources are deployed where they bring in results. Its ability to get additional resources is equally limited. It, therefore, needs to make sure that it will not outrun its financial base. It needs to know well in advance when and where its financial needs will increase.
The problems of productivity has to be tackled in an integrated manner in small industries. If the rise in productivity on the part of workers helps to enhance the return on investment, it will be possible for small units to retain skilled workers with a promise of higher emoluments. Quick returns on investments helps survival as well as expansion.

Many developing countries need assistance in providing industrial extension and training services to stimulate local entrepreneurship, to impart knowledge and information on industrial possibilities, processes and methods of production, and to up-grade various types of skills. The same may be the case for Iran. Besides, supplying technical and managerial information, advices, training courses in Industrial Management, the Government by organising seminars, semi-training courses in technical problems specially adopted to the technical problems level of the small factory entrepreneurs and by fixing rigid quality requirements for the supplied products the small producer may feel he gets a fair chance to improve himself.