SETTING UP OF A SMALL SCALE INDUSTRY

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CHAPTER I
INTRODUCTION

Every big business of today would have started off as a small enterprise right at the start. It is necessary to have a large number of small enterprises, if true competition is to exist, if freedom of initiative and business enterprise is to be maintained and if we are to continue our progress in extending more goods and services to an ever-increasing number of people. Big business alone cannot provide these things.

Again as far as manufacturing industries are concerned, the level of incidence of small units - employing less than 100 - has been observed to be almost universal in developed or developing countries. Thus the proportion is 89% in West Germany, 91% in Puerto Rico, 95% in United Kingdom, 97% in Australia and 99% in Japan.

In terms of employment, in manufacturing industries, in Japan small units employ 34% of the total workforce, and in the United States and West Germany the proportion is around 27%.

Thus whatever interpretation is put on these figures there would be little doubt that the role of small enterprise is considerable in most countries, irrespective of their state of development. Small enterprise typically comprises over 90% of all business establishments, it is responsible for employing about 1/3 of the total labour force; and not withstanding the greater productivity of large industrial undertaking, small
enterprises are usually responsible for around 30% of gross output. Thus irrespective of the state of development, small enterprises have a major contribution to make to economic life.

Not only is the little fellow a part of the whole economic system, but as he learns from and contributes to the entire field of economic activity. Small business inspite of its ups and downs has stood the test of operating under various economic conditions and is stronger today than ever before. Time and again, irrespective of its geographical location it has been observed that if certain economic or international situations enforce a delay in starting the kind of business an individual ultimately hopes to own, the result may be actually to strengthen the business when it is finally starting.

A small scale manufacturing unit could arbitrarily be defined as employing anywhere between 5 and 19 persons while a medium scale unit would have between 20 and 49 persons. Any small business is characterized by at least two of the following key features.

1. Management is independent. Usually the managers are also the owners.
2. Capital is supplied and ownership is held by any individual or a small group.
3. The area of operations is mainly the local workers and owners are from one home-community. Markets need not be local.
4. Relative size within the industry - the business is small
when compared to the biggest units in its field. The size of the top bracket varies greatly, so that what might seem large in one field would be definitely small in another.

These characteristics vary significantly depending upon the particular situation involved.

With regard to Kenya, for 1972 according to the industrial census taken, the small and medium scale sectors' contribution was 11.60% the major chunk of which belonged to the medium scale rather than the small scale. This itself shows the enormous potentiality that existed then and even today for people to venture into small businesses.

This paper will look into the various aspects involved in the setting up of a small scale unit. Very often each aspect involved, itself may pose like an insurmountable problem to the young entrepreneur. But if dealt with and not overlooked, it may go a long way assisting in the setting up of the unit.

To start with, in the next chapter, the most critical aspect of financing the small scale unit will be dealt with.
The general adequacy or sufficiency of capital for financing small business operations is not completely clear. There appears to be a rather widespread opinion that inadequacy of capital does constitute a significant problem for small business. In particular, the need is believed to be greatest in the area of long term financing. This feeling is reflected in the various governmental programmes designed to provide financial aid to small business. Some inability to obtain funds is expected, however, not all firms can qualify as sound credit risks.

The nature of the need for funds varies with stage of development of a particular firm. In the beginning stages, finances are strained and production resources are used to a limit. Working capital is often less than desirable. As the business matures, available assets become more nearly compatible with the operating needs of the firm. At the same time, capital sources become more plentiful because of the firm’s history of successful operations. It appears then, that the serious unsatisfied needs for funds may be greatest in the case of new and rapidly expanding firms.

To give it a mathematical expression, it could be written as:

Let

\[ N_f \] denote the need for funds,

and \[ A_g \] denote the age of the business being set up.

Then,

\[ N_f \propto \frac{1}{A_g} \]

i.e., For most new ventures, the need for funds is inversely proportional to its age.

The higher interest rates paid by small firms is merely, one
of the higher capital costs of small business, even equity capital is likely to cost more for the small than the large firm. The higher capital costs can be explained in part at least by lenders' cost differences in extending and serving small loans. A more critical underlying factor, however, is the greater risks involved in the small firm. There is little diversification in the typical small business and this implies a greater concentration of risk. The lack of knowledge or experience in financial matters and the deficiency in general management ability tend to accentuate this risk.

Risk Classifications:

Many investments are so risky that they should have an expected return higher than the basic return rate. Uncertainty surrounds every investment. The activity made possible by the investment may not work as predicted; workers may like the change or they may sabotage it; materials and energy inputs may cost more than expected or be unavailable; customers tastes may shift; competitors may react vigorously; pollution controls may be more severe than predicted, etc., etc.,

One way to deal with differences in risk is to place proposals into classifications reflecting the odds for success.

The following table is a simple example:

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<th>Risk Class</th>
<th>Extra discount factor for risk</th>
<th>Representative investment</th>
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<tr>
<td>High</td>
<td>0.2 or more</td>
<td>Exploratory oil well</td>
</tr>
<tr>
<td>Medium</td>
<td>0.5</td>
<td>R &amp; D development of disposable oil can</td>
</tr>
<tr>
<td>Low</td>
<td>0.8</td>
<td>Expansion of frozen foods display cases</td>
</tr>
<tr>
<td>Minimum</td>
<td>1.0</td>
<td>Replacement of 40 year old elevators</td>
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A company can either set a minimum acceptable return for each risk class or the predicted result of an investment can be multiplied by the appropriate discount factor to obtain an "expected return."

In theory, discounting for risk can be greatly elaborated. A whole array of possible outcomes with probabilities for each can be projected, successive contingencies can be recognized in a "decision - tree" computation. Risk discounts can be combined with time (interest) discounts. Rarely in practice do the underlying data warrant actual computations of this sort, but the concepts may help clarify the degree of risk involved.

The smallest company very often tends to be the owner-manager type and in such cases usually the owner has put all his liquid personal assets into the equity of his company. Within small limits he cannot raise anymore equity capital without losing his owner-manager status, an undesirable situation from many points of view. He has only two ways his company can finance growth; through ploughed-back earnings, and through long-term debt. Expansion capital similarly, must come from personally invested funds or from profits retained in the business. He usually knows his bankers quite well but probably has had no contact with the loan department of any insurance company.

The size of the first long term loan he may need will usually be too small to be considered by an insurance company. So, he has to depend on his bank. Fortunately, both his company and his bank are likely to grow in future. How often
we hear of entrepreneurs both small and big having had problems with both small town banks or even big city banks. In fact, it may not be the size of the town or the bank that matters, but in order to get the maximum benefits from the banking institution, it may be good, rather beneficial to try and adhere to the following points:

1. Banking should involve a personal rapport between the bank and its customers, its large and medium sized borrowers, with someone in the bank carrying a torch for each borrower.

2. A smaller bank is more likely to be more concerned about and affected by the future of medium sized borrowers, and more tolerant of their problems. What may be considered a marginal account by a big bank may be a profitable account for a small bank.

3. If a large bank gets tight for money, it will take care of its major customers first, because it dare not alienate them. Rapport between the bank's top executives and the top executives of such major customers is likely to be excellent. The small customer works through say the 3rd vice-president, who must keep the approval of his superiors if he is to progress.

4. It may take years to build up both confidence and a top credit standing with a bank. The entrepreneur who is not used to doing so, may have to eat a humble pie, swallow his pride, curb his temper, listen to much platitudinous advice, and button his lips in his early meetings with his bankers especially if they are strangers.

5. A good banking connection is a very valuable asset to a businessman. Treat it with care, like your best customer.
Finally there may be circumstances where short-term loans from a bank combined with a long-term insurance loan are required or desirable to supply the company's needs. Or the bank may have more long term loans on its books than it should have for desired liquidity. Or it may be short of loanable funds temporarily. If another bank cannot easily be found to handle the requirements, an insurance company could be approached. Another advisable source to secure funds from the many possible sources would be a Small Business Administration loan - SBA loan - (may be called by different names in different countries eg., SSI loan in the Indian sub-continent, standing for Small Scale Industries loan). Infact it may be a very desirable way, for, a new entrepreneur can secure enough long-term capital in his company and still maintain control of it. Very often the would be entrepreneur have owned valuable assets for years which cannot be liquidated to raise cash for a new venture without paying a sizable long-term capital gain tax on the difference between the original cost and the sale price. Using such assets as a collateral for an SBA or SSI loan may be the soundest and most economical way to raise money.

Besides the regular commercial banks of which there are more than a dozen in Kenya, there are also merchandize banks eg., IDB, DPCK, etc., whose services could be utilized in the setting up of an industry. Here mention has to be made of the financial institutions such as the IGDC and KIE, basically set up with the idea of coming to the aid of the small scale entrepreneur.
Another important source of finance for both the small and the medium scale industries would be the Hire-purchase finance companies (e.g., Credit finance corporation, Diamond Trust, etc.,) which provide finances in the form of lease hire and hire purchase mainly for vehicles and office machineries. Certain industrial machines can also be purchased, e.g., Printing equipment etc.. One basic criteria by which they go is that the machine should be of a standard type with a resaleable value. The interest rate usually ranges between 9% for lease hire to 10% for hire purchase.

What a small scale entrepreneur should realize is that he could make use of such companies for getting goods such as say, trucks for delivery, cars for sales promotion, fork-lift trucks for material handling purposes etc., The idea is that without having to resort to high capital expenditure, the small scale entrepreneur need not suffer for the want of it. However, it should be noted that it cannot replace a medium or long-term loan as the period for which it is given is too short and the repayment instalments are more frequent than one would prefer.

Lastly, if neither the banks nor the insurance company or the SBA/SSI will loan your company money, getting political help to try to get such a loan may not be the right thing to do. One may be better off in the long run not to get the loan, but wait until one’s equity is larger.

These facts suggest that small business cannot have the entrepreneur’s "rugged individualism" and independence of management except on terms of severely restricted equity and expansion capital and of limited credit. In contrast, a medium sized or large business that is well managed can procure the needed capital and credit much more easily.
CHAPTER III

LENDING INSTITUTION'S DILEMMA IN PROMOTING SMALL-SCALE INDUSTRIES.

Most if not all lending institutions are usually faced with this rather tricky issue. The lending institutions could be any one such as the DFUK, IDB, ICDC, or even the KIE itself. After looking into the problem from these institutions' viewpoint, in particular ICDC's as was reported in an article published on ICDC's operation, we will see in what way the government could come to the help of both the parties, the would-be entrepreneur and the lending institution.

Even as of recent though there was still difficulties with some of the earlier loans of the corporation, some of which may be wholly or partially irrecoverable, the arrangement for later loans were working satisfactorily. But, these arrangements though they protected the corporation, could be extremely frustrating to the applicants. As it struggled to resolve the inherent dilemma of all such schemes and pioneer new kind of loans without being imprudent, its procedures tended to become so slow and the conditions so restrictive that they impeded the essential purpose.

In the first place, the discussions are often very expensive to the applicant in terms of time and money - sometimes so long-drawnout that when the loan is at last received, it comes too late. The ICDC was not altogether to blame
for the delays and expenses which the businessman incurred. It claimed that applicants seldom produced market surveys, bank statements or feasibility studies, and when asked to present a more detailed information, would go instead to their Member of Parliament to raise support for their application. Their visits to the ICDC offices were often abortive and unnecessary, since they did not bring the particulars required. The ICDC mentioned too that it never required any business to buy from a supplier the business he had not chosen. But these misunderstandings in themselves reflect the cumbersome and the bureaucratic nature of the procedures.

The most serious drawback for the industrial concerns however, was not the red tape, but the lending institution's preferences for loans for equipment over loans for working capital. From these lending institutions' point of view, equipment could be evaluated and specified against the prospects of the enterprise and recovered in case of default. It involved less risk. But without working capital a business could be left without the ready money for supplies, transportation, or advertising to exploit the equipment it had installed. Meanwhile, it was required to start repaying instalments of the loans used to buy it.

The shortage of working capital was sometimes made worse because the business had already used up its own savings to buy land or put up buildings which these institutions would accept as security.
As a public corporation, accountable for its management, the ICDC could not overlook the default. The less reliable its debtors were allowed to become, the less money it could lend to other applicants. Considered simply as a financing organization, its direct responsibility was to get its money back and re-lend to businessmen who could honour their undertaking. But at the same time, it destroyed its own achievements by forecasting businesses which with more money and more time stood a good chance of proving their viability. In actual practice, then the ICDC only grumbled and waited. But it did not perhaps recognize the underlying difficulty. A loan for equipment at 8% interest to be paid in monthly instalments over three to five years from six months after the loan is formally issued, leaves no margin whatsoever for unforeseen snags or set-backs and presupposes that the businessman has enough working capital to use the equipment profitably from the moment it is provided. This is expecting a lot of a new businessman in relatively inexperienced hands — — — — assuming it is the entrepreneur's maiden venture in that particular field. Then, could these lending institutions have reconciled the conflicting pressures upon it less clumsily? It could fairly argue that some of the waste and confusion was caused by the businessmen themselves. If they had provided all the information and the documents requested at the outset, there would have been fewer delays and fewer expensive abortive visits to the corporations office. Even so, the scheme has disadvantages from the lending institution's point of view as well as the businessman's.
In the first place, a revolving loan fund took no account of the speculative nature of entrepreneurship. Whether the business succeeded or not, whether the returns could be expected soon or late, the interest on the loan was still 8% and still to be repaid over a few years. The lending institutions were bound to meet disappointment where the loans would have to be written off, and gained no compensating advantage from its outstanding successes. Nor could they adjust their return in the light of difficulties or development needs. In practice then, they were occasionally forced by circumstances to behave as a partner in an enterprise it wanted to rescue - adding more money, forging repayments, taking part in management, etc., But in these instances they seem to have written off their original loans without any compensating claims or future profits.

Secondly as was the experience for ICDC, it found itself at odds with the businesses it helped to finance as soon as they ran into trouble. As a lender it became a threat, demanding repayments, which the business could not sustain, and entitled to securities which were often the principal assets of the firm. In these circumstances, businessmen were likely to conceal their difficulties as long as they could and the ICDC found it hard to offer any useful help.

Thirdly, it is politically difficult to concentrate preferential loans where they could be most useful. If there are many eligible applications - as there were for commercial though not for industrial loans - the fund tends to be rationed between
the strongest contenders. The amounts were generally much smaller than what the borrowers asked - useful enough, but too small to initiate any radical development. Very often one feels a short-term credit from a bank or supplier would have been as cheap, as useful and much quicker to negotiate, than getting it from these financial houses.

**SMSIE scheme of KCB:** Such a scheme floated by the Kenya Commercial bank is another good scheme established for assisting small and medium scale enterprises. However, some of the conditions that are necessary to be fulfilled have a discouraging atmosphere for the entrepreneurs to make use of its services among the most significant being (a) the firm should be in operation for about 2/3 years or should have experience in related fields to be assured of reasonable success in the new venture, (b) to use the proceeds of the finance in fixed assets rather than for the most needed purpose in majority of cases viz., working capital.

From this we can begin to see the principles which should guide government intervention. Help will be most effective and most needed where new kinds of businessmen and in particular new manufacturing units are unable to raise money because private finance is badly informed about the risks. Government usually has more incentive, in the interests of national development or political equity to discover what the risks involved are. But once it has proved the viability of the new enterprises, it needs to conserve its scarce resources by moving on to pioneer further opportunities. Essentially it has to mediate between the newcomers and the established commercial network, creating links, not separate channels of finance.

Thus if instead of loans at fixed interest the KIE had in-
vested equity in business, some of the difficulties faced by
the industries might have been resolved. It could have been
claimed the right to be represented in the management of the
business. It would then have been continuously informed of
the progress, able to give immediate advices and less depend-
et on formal conditions to ensure that its help was properly
used. They could have even helped them with support for wor-
king capital, with less fear of abuses.

There is no doubt that institutions like KIE, IGDC, DFCK,
etc., would continue to play the key role in developing the
small scale manufacturing sector. This is borne by the fact
that DFCK during the current plan period would also initiate
a programme to assist small scale industries. An allocation
of K£ 0.9 million has been set aside for this purpose.¹

¹ Republic of Kenya, Development Plan 1979-1983 Part 1
(Nairobi, Government Printer 1979)
A guide to Industrial Investment in Kenya, Nairobi, Ministry
CHAPTER IV

ORGANIZING THE SMALL BUSINESS

During the early years of a small business, a proprietorship may be necessary to establish credit and it may also result in income-tax savings. As the business grows and establishes its credit and reputation with the banks, suppliers, and customers and as its net worth builds-up, the need for proprietorship is reduced. The business may then be formed into a private Ltd. Co., without hurting its credits with most suppliers, though the banks may still want individuals to guarantee any loan. In any event the type of organization is not likely to be critical to its success. A good manager can succeed while a poor manager will fail in any type of setup.

Some businessmen feel that a formal organizational chart with supporting manual is unnecessary for a small concern. Before accepting this opinion one should note carefully the values associated with a formal chart. Perhaps the greatest benefit is realised in the process of constructing the chart. The thought and analysis involved in such a process should help develop a sound organization. Furthermore, inter-relationship do exist in a small concern and recording them avoids questions about what these relationships are. They do not exist because of being recorded in chart form. The organization chart and supporting manual merely spell out the authority - responsibility channels soon to minimize mistakes, "buck-passing", duplication of efforts and uncertainty about who is to make a decision or perform a given task. The proper func-
tioning of the organization is encouraged.

To be sure, it is more important to create proper relationships in a company than it is to prepare a picture of these relationships. The chart and manual might be reviewed as tools that will assist in developing and communicating a good organization chart.

While many successful businesses, particularly those that have grown up slowly over the years, pride themselves on no formal organizational chart, most do have. In fact, it would be only correct to say that many have charts but not written complete job descriptions for their key personnel. There is no ideal organization chart for every manufacturing business.

Different charts may be developed for different type of industries. Descending levels of authority and responsibility are represented by horizontal row of boxes one row beneath the other. In a small enterprise those most frequently used begins with the highest box representing the entrepreneur, chief executive officer or general manager as the case may be. The supervisors under the entrepreneur would occupy the next level, that is, the next horizontal row, showing the various department supervisors. More often rather than just occupy the top post, with the other supervisors reporting, the entrepreneur/owner/actually takes responsibility for one department he is qualified in or has handled before and engage other supervisors to assist him in taking charge of the other departments.

In fact in the very small businesses there usually exists a complete one man show where he would have all the workers
directly under him as shown in Figure 4.1

Considering the span of control and effective worker supervision, the above chart may be effective up to about say 10 to 12 employees on the shop floor and 2 to 3 clerical assistants. No doubt this would depend on the type of industry, but when the number is higher, the business is said to enter the next stage, where three levels would exist with the supervisors taking the second level and the workers who report to them in the 3rd level.

The vertical lines connecting the rows indicate the patterns of flow of authority and accountability. The same channels of course would be used for up and down communications. In appearance such a chart is seen to fan out from the top down to both left and right. It should be clearly understood however that no chart will actually show all existing relationships of the complete social organization of the business.

Figure 4.2 depicts this stage and it can be seen from the figure that the chart has now started expanding laterally besides the increase in the number of levels i.e., vertically.

The duties involved in the enterprise are now divided into say 3 main categories.

Supervisor 1 - Production oriented with responsibility for general production, quality control, inventory etc.,

Supervisor 2 with sales and marketing responsibilities which may include purchasing, etc., and

Supervisor 3 handling the remaining third category viz., accounts and finance-related duties including say personnel.

The thing to be noted is invariably two or three departments are combined and placed under a supervisor. These are later on
Fig. 4.1

Fig. 4.2
made into independent departments with each having its own supervisor as and when the work load increases as a result of the business growing.

Model relationship between managerial and operative functions: There is a logical relationship between the managerial and the operative functions within the organization.

The operative functions are those concerned with production, such as drilling, sawing, hammering, assembling and so forth. Selling functions are also called operative functions. Some of the examples are advertising, soliciting customers, delivering merchandise and the like.

Managerial functions are those concerned with planning, organizing, actuating, coordinating and evaluating the organizations, peoples and resources towards its first purpose, viz., producing and selling goods or services to customers.

A typical business of any size including the small ones as just shown in the previous section, will have different organizational levels within it. Its internal structure will almost always be composed of top management, middle management, a supervisory foreman level and an employee level. If we were to measure the time and energy spent by these people in the performance of either the managerial or the operative functions, we would expect that more managerial time and effort would be spent at the top management levels and less at the bottom levels. Likewise, it would be reasonable to assume that more time and energy would be spent in performing operative functions at the bottom levels of the organization than at the top levels. This relationship between the levels of the organizational structure and the types of functions (managerial and operative) is depicted in Fig. 4.3
It is important to note that this model shows that employees do spend some time and energy on the managerial functions. Likewise, the top levels do spend some time and energy in performing operative functions, for example, a top manager might sometimes do some of his own typing or performs some operative work in the shop or sell some products on the sales floor. Likewise the bottom-most employee spends some time in planning his work, organizing his efforts and evaluating the results of his work. The important principle of the model is that the higher the position in the organization structure a person occupies, the more he should perform the managerial functions and the less time he should spend on operative functions.

Now consider a model as shown in figure 4.4. What does this chart show about the management? It shows that the management is spending more time and energy performing operative functions than managerial functions. Will the organization succeed in this relationship? It probably will not, because the management should spend more time performing the managerial functions if the organization is to be successful.

Now suppose we were to draw a chart showing the relationship whereby the employees are managing the business; i.e. we have
a situation of "all managers and no employees". This chart is shown in Fig. 4.5. Would this organization be successful? It probably would not because little operative work would be performed. In other words, few goods and services would be procured or sold because it is unlikely that the higher management would be able to perform operative functions very well or that operative employees would be able to perform managerial functions very well.

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<th>OPERATIVE FUNCTIONS</th>
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Level of Management

Time & Energy of People

**Fig. 4.4**

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<th>MANAGERIAL FUNCTIONS</th>
<th>OPERATIVE FUNCTIONS</th>
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Time & Energy of People

**Fig. 4.5**

The basic relationship depicted in Fig. 4.3 serves as a model for a successful business organization. It depicts a well balanced organization. If this balance changes for a long time, the organization would probably fail. That is, it would not achieve its objectives because the work of the organization (both operative and managerial) must be delegated in the proportion suggested. Analysis of business firms that have failed usually depict a relationship wherein the managerial functions are not performed well enough to achieve the organizational objectives.

Having shown the relationship that should exist between managerial and operative functions, it would now be very appropriate to enumerate a set of management principles which could be followed in general in any organization for it to function effectively. Actually there is a widespread impression that
theory and principles in management are very often at variance with practice, so much so as to be regarded as academic rather than of everyday value to the manager or say the entrepreneur itself of the small enterprise. In management practice, many of the principles have been pragmatical and take the form of rules deduced from experience. Fayol, the frenchman was the pioneer of scientific management movement who formulated a set of principles which he set down in his classic 'General and Industrial Management' is given below.

(1) **Division of work** :- However, it has limits which experience and a sense of proportion teach us may not be exceeded.

(2) **Authority and Responsibility** :- Wherever authority is exercised, responsibility arises. Sanctions must be available in order to encourage useful actions and discourage others.

(3) **Discipline** :- There should be order and discipline at work and this implies a goal of self-discipline.

(4) **Unity of command** :- For any action whatsoever, an employee should receive orders from one superior only. Fayol stressed the special importance of this.

(5) **Unity of direction** :- For any one group of activities there should be one head and one plan.

(6) **The general interest** :- To this individual interest should be subordinated.

(7) **Remuneration of Personnel** :- Should be fair, should reinforce motivation without leading to overpayment.

(8) **Centralization** :- is always present in an organization, the important matter is to find the optimum degree for a particular business.
The Scalar chain: is the chain of superiors from the ultimate authority to the lowest ranks.

Order: - This included a place and the best place for everything, i.e., a material order and an appointed place for every individual employee i.e., social order.

Equity: - Justice should not only be done but should be seen to be done.

Stability of tenure: - Yet one must accept the inevitability of some changes.

Initiative: - Thinking out a plan and carrying it through to a successful conclusion is one of the keenest satisfaction for an intelligent man to experience.

Espirit de corps: - As unity is strength, an esprit de corps must be created.

Next the entrepreneur should develop his own interests. As much as possible, it should also fit the talents and interests of his key men as long as the various functions are covered. Two or even more men may believe that a certain function is theirs. Only under unusual circumstances should two keymen be assigned the same responsibility and function and if so, the ground rules should be spelled out, understood, and agreed upon. It is very likely that lists will not cover all the functions that have to be performed, particularly those that require attention only infrequently. It is possible that the functions may not even be recognized as one and may be ignored until a serious problem occurs.

If every key man performs his functions promptly and properly the company should operate smoothly and recurrent crisis, which
takes everyone's time and attention away from regular operations will occur much less frequently. No matter how capable, hardworking and versatile an entrepreneur is, he will not be truly effective or successful until he develops an organization that can perform its functions properly and relatively automatically without his supervision or prodding. Developing and updating job descriptions for his key people is one of the entrepreneur's most critical and worthwhile tasks.

**WAGE DETERMINATION**

Once the organization setup is finalized and we know what the key positions are, the next thing to be taken up is to determine the wages for all the employees. In a system of employment it is not sufficient for the worker to be subject to the inspiration of a good leader. On the other hand, the employer has to pay the level of wages sufficient to recruit and retain in his employment a labour force adequate for the volume and type of work to be done.

The determination of the rate of wages is not a matter for the employer alone. He has to consider the demands of the worker. This he can do by bargaining with him as an individual until an equitable rate of payment is arrived at. A systematic procedure which is commonly adopted in most companies, very often unconsciously is job evaluation. The intention of job evaluation is to assess the worth or value of each job by consideration of the demands it makes upon the man/woman employed in the terms of a number of factors. Although as many as 25 factors have been used in particular cases, quite a satisfactory outcome
has resulted from only three or four. The chart below gives these important factors and sub-factors thereof which are required in order to perform the jobs completely in any setup.

<table>
<thead>
<tr>
<th>FACTOR GROUP</th>
<th>SUB-FACTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental</td>
<td>Reasoning ability</td>
</tr>
<tr>
<td></td>
<td>Co-operation with others</td>
</tr>
<tr>
<td></td>
<td>Initiative and observation</td>
</tr>
<tr>
<td>Physical</td>
<td>Muscular strength</td>
</tr>
<tr>
<td></td>
<td>Dexterity and motor accuracy</td>
</tr>
<tr>
<td></td>
<td>Stamina and agility</td>
</tr>
<tr>
<td>Acquired skills and knowledge</td>
<td>Education</td>
</tr>
<tr>
<td></td>
<td>Training periods required</td>
</tr>
<tr>
<td></td>
<td>Experience required</td>
</tr>
<tr>
<td>Working conditions</td>
<td>Physical and mental disagreebleness</td>
</tr>
<tr>
<td></td>
<td>Hazards and risks (Heat, cold, vibrations, noise etc.)</td>
</tr>
<tr>
<td></td>
<td>Responsibility for equipment and materials</td>
</tr>
<tr>
<td></td>
<td>Responsibility for safety and work of others</td>
</tr>
</tbody>
</table>

For the evaluation to be made most readily on a comparative basis, some schemes, rank jobs or arrange them in sequence from the extremes of high to low skills. Others adopt a rating in points so that the subsequent conversion to monetary values can be readily made. After determination of the value or points of each job, the translation into cash terms still has to be made. The most difficult feature of this is the fixing of key jobs in relation to the basic rates to be paid.
This is made more difficult by the absence of any method by which the absolute worth of human endeavour can be determined in terms of coin of the realm.

An aid is available however, for the jobs for which rates of pay have been determined by rationally bargaining or in certain industries, from the minimum rates laid down by wage boards etc., Once the key job rates are known all the other jobs in the structure can be translated on the same terms so that the rate of wages paid is determined from appropriate criteria instead of being left to empirical determination.

**MOTIVATION IN THE SMALL SCALE INDUSTRY**

How often we find small scale entrepreneurs and managers show surprise and disregard to the very idea of motivation. To them it makes sense only when it concerns a very big company having a large work force and huge turnover financially speaking. But they fail to understand that size has no role to play in motivating a worker. A rigid structure of wages or salaries, be it in a big or small concern, can kill the initiative if it is accompanied by a certainty that the same rate will be paid regardless of the effort put into the job. On the other hand, an extra merit payment based on the results attained in the job is likely to ensure better attention by the employee to the work which he/she is employed for.

The good leader knows the occasions when the judicious use of praise for a job well done will be an adequate reward for the retention of job satisfaction in the worker's mind. That satisfaction may be strengthened by a more continuous recognition of the quality of the worker by some form of supplementary remuneration.
One of the ways of providing this supplement is by a merit payment. Such rewards are then man-centered and form a useful supplement to the job centered evaluation of the work demanded by the job. The latter determines the base rate while the former the merit award. The size of the merit payment is small compared to the base rate but it does provide some recognition of the outstanding worker. This would be sufficient in motivating a worker in a small industry initially while more sophisticated techniques could be adopted at a later stage as things become larger and more competitive.

The important point very often missed or overlooked in the smaller firms is that the reward should follow as speedily as possible after the work which justifies it otherwise the maximum effort of the incentive will be lost.
CHAPTER V

SETTING UP THE PLANT.

Buildings like almost everything else in business or in life are a compromise between what you want and what you can afford. The limited capital which most entrepreneurs have is required for equipment, working capital and start-up expenses, thus leaving them with hardly any choice but to manage in whatever space or building is available at a cheap price. At a little later date such people find that both the building and the location are unsatisfactory and insufficient making future growth of the business impossible or expensive.

As regards the shape of the building we notice that there is a variety of profiles, some standard and others made to suit particular requirements of the enterprise's product to be manufactured. A square building will have a shorter perimeter per sq ft of usable area. This reduction in perimeter length results in lower and foundation and outside wall costs. At the same time however, the square shape of the building often does not lend itself as readily to be efficient production or assembly line patterns. Furthermore, the cost of structural steel for floor and roof supports in the square building may exceed that for a rectangular building of the same area and may offset the possible savings in foundation and wall costs. The building in practically all industrial situations is composed of combinations of rectangular and square areas.

How does an entrepreneur get the proper building for his early operations and still provide for painless future growth?
The answers are not very simple and there is no particular layout which could be considered as ideal for various purposes. The best layout is the one which makes the most effective use of space for the particular business.

In case of a manufacturing concern some of the principles which should be borne in mind for laying out the plant so as to result in more efficient operations would be as under.

(a) Materials and semi-finished products should follow the shortest and quickest possible route from entrance to exit.

(b) A minimum of physical handling, with as many operations being performed at each stop as possible is essential.

(c) Through layout, management must seek to eliminate "bottle-necks" in the production process, by the slowing down of any one process at a strategic location.

(d) The misuse of space must be recognized as being of equal importance to wasted use of machinery and ammnoewr.

(e) Complete elimination of "backtracking", overlapping of work, and unnecessary inspection should be achieved through constant awareness of possibilities for new sequences and combinations of steps in processing or fabrication.

**PRODUCT OR PROCESS LAYOUT - WHICH TO GO FOR?**

The type of layout depends on whether there are intermittent or continuous operations. Product layouts is more economical in continuous manufacturing where a large volume of standardized products is involved in a continuous flow of materials from one operative function to another. On the other hand, a process layout is associated with intermittent or job-lot manufacturing functions when there is a lack of volume of standardized, and an intermittent flow of materials.
Process layout offers the advantages of maximum flexibility in respect to machine usage and capacity. A product can be moved from machine to machine or machines can be moved to the product when the machines are portable. A process layout requires fewer machines since all of them are grouped where they can be used. With a process layout it is possible to shift work readily to other machines and thus minimize delay when machines become loaded with work or when production is disrupted because of machine breakdown.

Process layout does have some disadvantages, work routing, scheduling, and cost accounting are difficult with this layout because everything has to repeated for every new order. Materials handling costs and internal transportation costs are usually high because materials must be moved out of store rooms, production centers and inspection centers in batch lots thus limiting the use of conveyors to mechanize the handleings of materials and the product. Also the distance between operative functions is usually much greater than when a product layout is involved. The constant repetition of materials handling adds higher costs.

An additional cost in process layout is the higher cost of carrying the inventories. Materials move slowly through the plant so that the inventories of materials in process are always high. In a product layout, the machines and equipment are laid out according to the sequence of operative functions required for the product and are usually grouped along the conveying mechanism, which is the heart of the continuous flow process. This
Automatic materials handling equipment can be used on the fixed routes. This flow cuts down on the costs of material handling, travel distances, inventory in process, and storage. Thus, lower materials handling costs are an advantage of the product layout.

Product layout is particularly vulnerable to work stoppages because the flow of materials between operations are small, because machines do breakdown, and because an employee sometimes causes a stoppage. When the work stops at any point along the line, everything stops. Since product layouts are so inflexible, design changes and work stoppages are costly. Thus inflexibility is a major disadvantage of the product layout. The comparatively simple machine tending jobs make the training of new employees relatively easy. However maintaining employee interest and effective productivity are problems. The highly repetitive nature of the work is monotonous to some employees. Most jobs are machine paced, and the lack of challenge in monotonous jobs make it difficult to motivate employees. In addition, employees with standard jobs become the subject of time and motion studies, which many resent.

The financial investment in the machinery of a product layout is usually high because of the many expensive special-purpose machines and conveyors required. Also whenever there is a need for a machine part time on the line, one has to be installed, even though there may be similar machines used only part time in other places in the plant. The special purpose machinery and the implication of part time machinery make the financial investment fairly high. Even though this is true, most layout experts
prefer special purpose machinery to take the place of human labour. This is particularly true in the more industrially advanced countries such as the USA, Germany, etc., but may not be relevant for the developing countries where plenty of cheap labour is available. Again, in the former countries, mechanization of functions formerly performed by employees, saves money in the long run, which may not be the case in the developing countries like India, Kenya, Pakistan, etc.

Indirect labour costs on the production line are high. The direct machine operators, i.e. those who work directly on the product, are usually few compared to the total labour force. The product layout requires many skilled individuals who work behind the scene to make the products. Machine designers, set-up men, repair men, methods engineers, materials supply men and so forth are examples of the indirect labour. It becomes necessary to have these experts on a product layout and their services are quite costly.

Despite the high costs associated with product layouts, the high productivity of automatic machines and the advantages of reduced inventory and handling costs make the Per-Unit costs of a product low. Provided that volume and standard products are turned out, the product layout, once it passes the break-even point, makes for a low unit cost.

The list which follows on the next page gives a brief summary of the factors which affect the two types of layouts.
<table>
<thead>
<tr>
<th>FACTOR</th>
<th>PROCESS LAYOUT</th>
<th>PROCESS LAYOUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per-unit cost</td>
<td>Low</td>
<td>Higher</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Low</td>
<td>Higher</td>
</tr>
<tr>
<td>Financial investment</td>
<td>High</td>
<td>Lower</td>
</tr>
<tr>
<td>Material handling cost</td>
<td>Low</td>
<td>Higher</td>
</tr>
<tr>
<td>Indirect labour costs</td>
<td>High</td>
<td>Lower</td>
</tr>
<tr>
<td>Employee interest in job</td>
<td>Low</td>
<td>Higher</td>
</tr>
<tr>
<td>Inventory costs</td>
<td>Low</td>
<td>Higher</td>
</tr>
<tr>
<td>Volume of production</td>
<td>High</td>
<td>Lower</td>
</tr>
<tr>
<td>Standardized product</td>
<td>High</td>
<td>Lower</td>
</tr>
<tr>
<td>Employee training costs</td>
<td>Low</td>
<td>Higher</td>
</tr>
</tbody>
</table>

All said and done, the actual decision about the type of layout to be used depends upon the situation in which the producer finds himself. Some factors become more important than others. Quite often we find the small business entrepreneur because of his financial constraints is not able to implement what he feels would be the most suited layout for his type of business. All the same the principles still remain valid and may be necessary to be looked into after he crosses the first stages in growth. However, the kind of product and whether the production functions are continuous or intermittent usually determine the layout adopted.

**ACQUIRING BASIC MARKET INFORMATION AND ESTIMATE**

It may be that we will only divide the existing demand among more suppliers with the redistribution depending on the degree of product differentiation and price variation. It may be,
on the other hand, that we have a product which will appeal to new segments of the market, a potential market as yet not tapped. In this case we are competing with other possible demands on consumer purchasing power.

In any event, we must acquire some basic information about our market which goes beyond the rough quantitative estimates to what be termed a qualitative view.

Actually there are two aspects of detailed market measurements; measuring the consumption or use of the product line, and estimating the potential of the market.

Available statistics to aid in market measurement are usually of two basic classes, population and income, industry sales and employment. The first is useful to estimate the size of consumer goods market, while the latter is of value in measuring the market for industrial goods. These statistics may be used to measure the market population and its buying potential. In addition to market share information, which is current, we are interested in potential market share. Share at the market also can be compared with market share behaviour of products which have been successfully introduced. What is required are market share percentages from month to month of all competing brands. We can then observe the behaviour of brands faced with the entry of new arrivals. We can also use as a standard the historical market share data for the period immediately before the test marketing began. For example, we could calculate an estimated market share value somewhere between the best and the worst market share performance of competing brands. Thus if the market share attainable by the best competing brand is considered as the optimistic value and the poorest historical showing could
be taken as the pessimistic estimate, and assuming that the people concerned can estimate the most likely or probable performance, then a statistically probable figure might be arrived at using the formula for the mean of the Beta distribution, which is given by:

\[ S = \frac{P + 4M + O}{6} \]

where, \( S \) represents the expected value of the market share

\( P \) - is the pessimistic estimate

\( M \) - being the most likely or probable performance deemed likely by the participants, and

\( O \) - the optimistic value.

**PRICING DECISIONS IN A SMALL FIRM**

Under present day conditions the time span of products tends to be shorter than in the past. Since the products can no longer look forward to an infinity of selling, there is much to be said for making the maximum profit as soon as possible and only reducing prices when competitors appear. On the other hand, many large companies today with a product commanding a considerable part of the market would still price the product low enough to afford maximum volume and if possible keep competitors out. The trouble with this policy is that, in a period of inflation, the company is operating its volume on a lower margin which can vanish overnight. The important thing is to attempt some study of the profit-volume relationship by an endeavour to examine closely the various factors affecting the issue. It is necessary to distinguish clearly between the fixed costs, (i.e., those costs
which remain constant over a period and does not vary with the production volume e.g., rent, salaries, depreciation, etc.) and variable costs (those which vary directly over the same period with the amount of business done e.g., ingredients cost, transport costs, labour costs etc.). The difference between the variable costs and the revenue is called the contribution because clearly this amount represents the contribution made by the sales effort to cover fixed costs, and to provide profit. The point where the contribution is equal to the fixed cost is called the breakeven point and from this we can see the margin of safety which is the percentage that sales can drop before arriving at breakeven point.

In actual practice however, the price of a product is usually determined by a combination of three factors - total costs of the product, market demand for the product and the competitive situation that faces the organization. The cost may be classified by the contribution of the inputs - employee, suppliers, owners, managers, creditors, and government. Or the costs may be classified by the organisational function for production, marketing, finance, and administration. In any event the total costs have to be determined in order to ascertain a minimum price to at least cover the costs.

The market demand in terms of price has to be determined in order to set a maximum price that customers would be willing to pay. The price is set somewhere between the minimum, as determined by the total costs, and the maximum, as determined by the value that consumers place on the utility of the product.

The competition that the organization faces may dictate
the pricing strategy by forcing the firm to price above the market price, at the market price, or below the market price. The more competitive the industry, the more likely that prices will approach the total costs of the product. Above the market pricing may be used when price is a neutral factor in marketing the product, and the firm has to rely on differentiating the other factors of product, personnel or promotion. Below the market pricing is used to obtain larger share of the market by rapid penetration of the market. One price determinant may be more influential in some situations than others. The best way to know what is the best price that the new enterprise should charge is best determined by first finding out as to which category would the new enterprise be associated with i.e., would it be in a monopolistic situation, oligopolistic situation etc. Once this is known the job of determining what price should be charged for the product can be more easily and correctly determined.

**QUALITY CONTROL**

In a small firm, where a personal contact between the higher management (very often the sole manager or even the entrepreneur himself) and the operators at the bench is both intimate and frequent and operators consequently are more aware of the significance of their work and can be made more aware of the need for quality, few, if any, inspectors are required. Except for a final inspection of the completed product, it is likely to be more successful to put the onus of passing only good work on the operator. It cannot be done, however, if any slackness or slipshod work is allowed to pass unnoticed and uncorrected. There
must be a pride in maintaining a definite standard. By and large, workmen prefer to do good work and will do so if put on their honour and if the general standard is set by example.

The importance of product quality and reliability is now widely appreciated. There are two different but closely interrelated factors contributing to better value for customers. In any market it is value which is the prime customer requirement. In the buyer's eyes,

\[ \text{Value} = \frac{\text{Quality and reliability}}{\text{Cost}} \]

Value can be made greater by increasing the numerator and reducing the denominator.

Quality and reliability features, arise primarily out of the design and poor production planning and are often not due to bad workmanship. Reliability of product requires,

(a) good design for the purpose,
(b) testing to reveal potential weakness,
(c) good quality manufacture,
(d) follow-up to take quick advantage of field service experience and to eradicate the causes of trouble. The cost of unreliability is not easy to calculate as it falls most heavily on the user. But the cost to the supplier in supplying free replacements and in placating customers is considerable, whilst the loss of reputation and loss of future markets is of course incalculable.

Even for the small scale enterprise, with the enormous scale of modern plants and high production machines, comparatively small improvements in the accuracy of quality control can often achieve considerable savings. The objectives should therefore
be as follows:

(a) Improvement of quality in manufacture which will result in increased productivity and reduced costs.

(b) Improved reliability of product in the hands of the user which will have the effect of enhancing its values to him.

MAINTENANCE AND BREAKDOWNS

In the very small firm an elaborate scheme of preventive maintenance is not required, and it is always more important to get a repair done than to record its cost. Excessive repair costs will be evident to the manager or the engineer. Nevertheless, preventive inspection should be practiced, and it ensures that it will get the attention it requires if the person responsible is methodical, and this involves some simple form of inspection routine or schedule, perhaps one machine a day, which is rigidly adhered to. The idle time of machines which are out of commission when a breakdown is being repaired can best be controlled by paying attention to their maintenance in the same way as with other controls. That is to first of all lay down a plan with which the subsequent maintenance work can be compared. Preventive maintenance cannot be said to be effectively under control unless, in addition to the routine inspection there is also a record of breakdowns which brings to the attention of the management the frequency and causes of such breakdowns. Such records would need to classify breakdowns under the following headings which shows where the responsibility lies:

Faulty or insufficient maintenance,
Faulty design
Faulty operator
Unknown causes.
One of the objectives of maintenance control is to keep production costs to a minimum. This being the case, it is obviously not practicable to make arrangements of such length and complexity that the cost of maintenance exceeds the cost of breakdown it is endeavouring to obviate. A close watch is therefore kept on the cost of maintenance to ensure that this does not become excessive. The extent of the maintenance programming and the detailed work schedule will be determined after consideration of the balance between the cost of prevention and the cost of breakdown, with the exact point of balance varying according to the type of plant and machinery used, and any reserve capacity available. An advantage derived from control of maintenance work is the better utilization of the labour force. Instead of waiting for a part to fail in service, the maintenance worker is given a continuous programme which keeps him occupied throughout his working shift. There must be sufficient flexibility in the arrangements made, however, for a procedure for dealing with occasional breakdown which will occur and call for 'crash' repairs to be made.

LABOUR AND UNIONS

One can never be complacent about union organizing activity. It can spring up too easily. Workers like voters can be fickle minded. They can be taken in by lies, exaggeration and half truths. There are chronic malcontents and never-do-wells around, who never appreciate the good things and are always complaining and trying to stir up everyone else. Normally their gripes fall on deaf ears, but, if others are temporarily unhappy about something, these malcontents can start a fire. There are people who hate the boss just because he is the boss. There are others who do not understand even the simplest basic economics and believe that a
large share of the sales is profit.

Good communications is the first line of defence against union activity. It requires mutual confidence in the truthfulness and validity of the viewpoint of the other. Good communication does not depend on the volume of words put out, the quality and appearance of the written word, or the frequency of attempts to communicate. Communications should be a two-way street. It may be far more valuable to receive than transmit.

If you have something unpleasant to tell your people, do it promptly, face to face, and openly take the blame if it is properly yours. Explain the reasons thoroughly, and offer to discuss the problem. A written memo announcing something unpleasant may save you the embarrassment, but it may appear to be unilaterally decided, selfish action. People resent unilateral actions and the written word is far more impersonal than a pleasant spoken word.

The average worker's attitude toward the company depends largely on his foreman and others with whom he comes into contact including the boss. A foreman who treats his workers impolitely carelessly, or deceitfully can force workers to seek a union to protect themselves against him or get even with him. A foreman can be firm without being offensive. An easy-going foreman who does not maintain discipline, output and quality is not the answer. Another foreman may alienate everyone else in the shop by playing favourites in an attempt to keep his lines of communication open through them.

A profit-sharing plan or other similar system of incentives can eliminate one of the main reasons workers want a union; a bigger share of the economic pie. If you have no profit and no
bonus, explain this more carefully to the employees. Troubles can be multiplied by the rumour mill as can be distorted by the agitators.

Trying to bribe people by giving them more than union wages and fringes can be a disastrous way to fight unions, especially if combined with easy-going discipline and personal policies. Unless a company is extremely profitable and efficient as compared to unionized companies (which it might well be), the extra costs and possible inefficiencies will erode its profits preventing it from buying new equipment and facilities to keep up with the competition. Thus someday it will not be able to exceed the increases in wages and fringes the unions have forced from other companies, and it will either go union or go broke. There must be incentives other than money influencing people to reject a union. Good house-keeping, sound safety programmes improvements in environmental conditions, and consistent and fair policies are all important ways to keep general personnel from being dissatisfied.

Thus having looked into the organization setup, wage determination, plant setup, pricing policy, quality control, maintenance and the union in the last two chapters, we have looked into most of the important matters involved in the running of any manufacturing unit.

In the next chapter we will take up the frequently misunderstood factor that efficiency of a plant is governed by its size.
CHAPTER VI

DOES SIZE GOVERN THE EFFICIENCY OF A PLANT?

There is no one optimum, most efficient size for a manufacturing company, even within a single industry making all similar products.

There are many inefficient small and medium size manufacturers. They may need new, expensive equipments which they cannot buy from their past earnings or from their present sources of borrowed money. They may believe that the purchase of new equipment will solve all problems and turn them from inefficient producers to efficient ones. This belief shields them from finding ways to improve their current operations with the facilities and resources they have. Efficiency is more the result of management skill and hard work. These companies become inefficient over a period of time because their managers fail to keep them up to the level of the industry. A company that starts out inefficiently and never reaches a point of reasonable efficiency will not stay in business very long, even with infusions of additional money.

Many large corporations are grossly inefficient. Most of these become large through mergers and acquisitions, but some grow internally from prosperous beginnings in a concentrated area, using earnings and stock values based on earnings to finance expansion. As they grow, their return on investment gradually declines, their overheads grow more rapidly than gross margins, as well as the number and cost of new products and projects that fail to become profitable.
Regardless of the method of expansion, management problems increase more rapidly than gross high margin unless the expansion occurs entirely through increase in sales on the same line of products though the same sales organization.

A manufacturing company trying to grow through development of new products or merger and acquisition, believing that diversification will make its operations more stable and profitable, has far greater problems.

Much ado has been made about break-even points and most companies have charts which assume that a certain volume of business is needed to carry their fixed, irreducible overhead. Their managers believe that every shilling of additional business above the break-even point will result in a greater net profit per shilling of sales. This is not permanently and unconditionally true.

If a plant and its non-production key personnel, its equipment, its inventories, and its finances are not used to capacity, and additional business can be obtained that requires only the unused capacity and additional production personnel, the conventional break-even chart will hold true.

Expanding the physical facilities of an existing plant seem like the least expensive way to obtain additional production capacity. This is true if there is a bottle-neck or two which holds down production but an across-the-board increase in production capacity is another matter. Seldom does the layout lend itself to maximum efficiency.

In the long run, the most efficient company may be the most competitive company operating at or above the average profit level
in its industry. The point of maximum efficiency will vary widely from one industry group to another.

Thus there is no optimum efficient size for a manufacturing company, neither between industries nor within an industry. Management ability, long range planning and development, and evenly balanced strengths in the company may permit a company to grow gradually without loss of efficiency, but growth rate and size are not guarantees of strength.

The eventful optimum size of a small or medium sized manufacturing company in a healthy industry will depend more on the ability, drive, desire, and self-sacrifice of its owner-manager and his key people than on any other factor. Once he or she or some of his key people become satisfied to a point of letting other interests interfere with giving their jobs and the company 100% effort, thought and dedication, the company's growth has reached the point of diminishing return.
CHAPTER VII

ROLE OF SMALL SCALE INDUSTRIES IN A DEVELOPING COUNTRY.

According to an article published in one of the leading weekly of a developing country - India - it was expected that more than 30 million will be employed in small scale industries in India by 1982 - 1983. 800 items of manufacture have been reserved for development in that sector. The article went on to say that their small scale industry produced Rs. 7,600 crores (1 crore =10 million) worth of goods last year nearly 25% of the country's total exports came from this sector. It should be noted however, that in India a small scale unit would be a plant whose value does not exceed Rs. 10 lakhs (1 million), and in the case of ancillaries Rs. 15 lakhs (1.5 million), an amount which may seem too small in Kenya (for all practical purposes the two currencies are equal). The lower costs for setting up an industry in India is because of the availability of goods and services at much lower costs, particularly land and building costs.

The main thrust for the growth of small scale industries in India is in the backward areas. Government assistance coming in the form of loans, land, raw material and power, with the emphasis being on making the procedure for obtaining that help simple so that the illiterate villager is not driven from pillar to post.

In many states (which is similar to provinces in Kenya) the would be entrepreneur can take loans upto nearly 95%. A mini loanee can take help upto Rs. 10,000, the educated unemployed
Maharashtra’s developmental institutions converge as

UDYOG MITRA

—the one-point contact to speed up your project.

Constant coordination among institutions
To see that your industrial project in developing Maharashtra gets allotments of land, power, finance and other necessities within the quickest possible time, Udyog Mitra is here to ensure a constant coordination among the concerned State Government agencies on your behalf.

High power backing
Composed of key officials from the relevant organisations, Udyog Mitra is naturally in the position to keep things moving in top gear. Especially because it will function as the operational arm of the State Bureau of Industrial Approvals comprising top functionaries from State Government departments and industrial development institutions.

Udyog Mitra thus brings into focus the relevant services of the MIDC, MSFC, MSEB, SICOM and the Directorate of Industries with one objective in mind: speedy implementation of your industrial project in developing Maharashtra.

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INSERT 1
as much as 95%, upto Rs. 50,000. The qualified technician with no experience can take a loan of up to 90% of Rs. 2 lakhs, and the degree or diploma holder with experience can borrow 85% of Rs. 5 lakhs. The interest rate here is only 8 1/2%. The state financial corporations set up specially for this purpose give loans repayable in 10 years with the first two years as moratorium on repayment of principal as well as interest. The loans are given for purchase of land and machinery, construction of factories and even for modernization of machinery which is 5 years old.

Further the would be entrepreneur who generally needs guidance in the type of industry he can start, how he can get a proper market forecast and how he can go about applying for the various schemes he can avail of is done by these state financial corporations itself. A particularly notable feature, a factor which plays probably the key role for the success of setting up more and more of these small scale units is the setting up of DICs (District Industrial Corporations). Their purpose is to bring about a proper co-ordination between the organization supplying loans, land, raw materials, power and clearance of licences - See Insert 1 - which very often becomes a stumbling block for the new small scale entrepreneur. For eg., the moment an entrepreneur avails of a loan from the state financial corporation (MSFC) he is entitled to land in an industrial area of that state's industrial development corporation - MIDC - with no questions asked by the MSFC about the title of the land etc., and the problem of availability of raw material is solved by that state's small scale industries development corporation - MSSIDC. All this does not necessarily mean that it is always a smooth path for the would be entrepreneur from the word go since each
of these institutions have their own limitations. All the same, it definitely goes a long way in alienating or at least reducing some of the common difficulties faced by the smaller would be entrepreneurs.

KENYA INDUSTRIAL ESTATES LTD.

An institution which operates on similar lines in Kenya is the Kenya Industrial Estates Ltd. (K.I.E.), a company now fully owned by the Kenya Government. Having been established as early as 1967. Its success in assisting people to run small and medium-scale industries can be seen by the fact that since its formation the company has started five industrial estates -- in Nairobi, Nakuru, Mombasa, Eldoret, and Kisumu ----, plus eleven Rural Industrial Development Centres (R.I.D.C.) in--- Nyeri, Kakamega, Meru, Embu, Kericho, Malindi, Voi, Homa Bay, Machakos, Kisii, and Muranga. This programme was launched in 1970 by the government keeping in mind the need to increase overall development in rural areas. KIE was charged to supervise the operations.

The establishment of small scale industries has been quite successful and the government has reportedly assured all upcoming Kenyan entrepreneurs of government protection against competitiveness.

At the same time, the government has warned that such a protection should not be a licence for them to manufacture substandard products and sell them to consumers at exorbitant prices. In order to maintain top quality standards it set up the Kenya Bureau of Standards (Kbs).

The Kenya Development Plan for 1979 to 1983 recognizes this
A wholly owned Government company which promotes small-scale industries throughout the Republic by providing the following services:

* Planning, preparation and appraisal of small-scale Industries.
* Provision of industrial premises at reasonable rents.
* Assistance during implementation of projects
* Provision of extension services on management, technical problems, marketing and book-keeping
* On-the-job training at the organisation's workshops.
fact when it states;

The relatively easier form of industrialization through import substitution has been the main impetus for the industrial development in the past. We have now to look for more difficult forms of industrialization and also to enlarge the markets for our manufactured products through exports as the scope for import substitution is limited. To achieve this the quality of our goods has to be improved and at the same time costs of production by our industries must be reduced so that our products become competitive in price and quality in the external markets.

K.I.E. can now advance loans to individual projects of up to 85% of the total investment (including permanent working capital) Normally, K.I.E. advances loans to cover 100% of the machinery and equipment costs and collateral is usually required only when loans are given for working capital. The company can participate in the equity of needy projects subject to a maximum of 25% of the issued shares. However, before a loan is granted to an individual project, the following requirements must be fulfilled:
- The project must be capable of generating foreign exchange.
- It must provide substantial employment opportunities.

In the process of discharging development and promotional activities K.I.E. provides the following:

Planning, preparation and appraisal of small scale industrial projects with a maximum total capital investment of shs. 5 million per project, provision of industrial premises at reasonable rents - See insert 2 - .

It also provides assistance during implementation of projects, provision of repair and tool manufacturing facilities at the
organization's technical service centres (TSC) and common facility workshops (CFW) and provides extension services on management, technical problems, marketing and book-keeping.

The success of K.I.E. can be seen in the fact that by March 1979 it had approved Shs. 147.7 million in loans for 315 projects in the country of which Shs 15.1 million will support projects in the rural areas. The company has already built 135 factory sheds and workshops.

The government's confidence in this organization is indicated by its having approved Shs 340.8 million during the current national development plan.

SMALL SCALE BUSINESS CAN MEAN LARGE SCALE OPPORTUNITY

Unlike most developing countries, a few developed countries have taken even legislative measures to protect and assist small enterprises and business.

Besides creating large-scale opportunities for gainful employment with relatively low-cost equipment and machines, there are several other distinct economic and social advantages in undertaking a programme for the development of small informal industries. Most of these industries utilise mainly local raw materials.

They also do not require large investment in land, building and machinery, specialized skills, high managerial talents or long gestation period. The growth of these industries in most developing and also some developed countries has helped in mobilisation.

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of human and other resources for productive activities which are not always fully absorbed in agriculture and organized industrial sector.

These industries have proved to be a breeding ground for development of entrepreneurship and techno-managerial talents and enlargement of some of these industries into the organized industrial sector.

Moreover, the growth of small industries helps in reducing regional balances and discouraging migration of people from rural to urban areas. These industries have also a great potential to produce certain essential goods and services required by the people in the lower income groups, like processed grains, bakery products, made-up textile goods, leather footwear, bricks and tiles, repair of motor vehicles and motor cycles.

The development of informal, rural and small industries has been given high priority under Kenya's Development Plan 1979-83.
CHAPTER VIII

CONCLUSIONS.

Although some of the best opportunities for small business in the field of manufacturing are in totally new or non-competitive lines, expense control appears to be the key function for the success of most small scale industries.

No matter how new, different, or "non-competitive" the product being made seems to be, it must compete on a price-usefulness basis with all other objects of consumer expenditure. Inter-industry competition exists regardless of the size of business units involved. In pioneering the manufacture of a new product, the ultimate criterion of the commercial value of the item is the cost at which it can be made and sold. And finally, a new article that clicks with the market will soon be copied by competitors, making price competition based on production and selling cost inevitable.

Though industry-wide operating ratios are available in a number of manufacturing industries, their usefulness as standard for the individual firm is somewhat limited because of the diversity of product mix, technology, and other factors from firm to firm, even among those of the same size. Consequently, most small firms will find it more feasible to develop their own standards costs.

Besides maintenance costs the other expenses which are significant to the small producer are packing and transportation costs and selling expenses. In general, there are six different types of expenses which the average small manufacturer will
find it profitable to control:

(1) Direct production costs.
(2) Indirect costs
(3) Material and supply costs
(4) Transportation costs
(5) Costs of method used for market promotion
(6) Miscellaneous costs.

Direct production costs are those which can be allocated to particular orders, products, or departments such as direct labour and direct material costs. The latter is controlled by mainly inventory control methods while the control of labour costs involves the determination of a fair day's output for men and machines as the man-hour and machine-hour amounts required to produce each article. These become output standard with which actual production is compared to serve control. But before adopting such a standard, the operator of even a small factory should study ways of improving productivity.

Indirect costs include such overhead expenses such as management and supervisory salaries, utility bills, rents and similar costs. Though some of these costs are fixed and remain the same at all levels of production, (eg., rent) many others (eg., maintenance, supervisory etc.,) are semi variable and may be partially controlled. In small factories the number of employees engaged in paperwork, maintenance and other activities, indirect expense may be small relative to the number of direct production workers, and it is easy to be careless about efforts to control such costs.
Control over material and supply costs involves much more than shrewd buying. It starts in the factory with a careful study of production needs and processes. Since new materials and supplies constantly appear on the market, many designed for special purposes and others less expensive than ones traditionally used for the same purpose. The small operator always has opportunities for expense reduction in this area.

There are several ways in which transportation costs in the small manufacturing enterprise can be controlled. Packing procedures and materials, small order shipments, leased instead of company owned trucks may be some avenues where transportation costs could be reduced. In some cases an alternate method such as rail-roads instead of trucks and lastly careful stock control, for e.g., can avoid emergency ordering and expensive special freight costs.

Market promotions also offers many opportunities for expense control. At the start personal solicitation of orders may be necessary. Later the expense of personal selling may be lessened by using brokers as selling agents who operate on a very small margin, by selling through established middle-men like wholesalers, or supply houses, or by using some of the many forms of advertising. Solicitation of repeat orders can often be done by mail or telephone.

Thus in these ways a firm's profit, which incidentally is the main motivating force behind every business, may be increased through more effective profit planning and/or more effective cost control. In either case, accurate and up-to-date financial
statements and other accounting records are a necessary factor which many a small and new entrepreneur tends to overlook.

Financing is commonly recognized as one of the most important problems of small business. But bankers and others concerned with the financial needs of small business feel that the real need is for management counsel. Given good management, most of the financial problems of small business become of minor importance, because,

(1) Good management includes efficient handling of finances; and
(2) Lenders are usually anxious to invest money in a well managed business.

Of the many other problems of small business, probably the most important are:

(1) Limited time of the owner-manager;
(2) Wide range of managerial ability demanded of one or a few men; and
(3) Difficulty in making use of research effectively.

Hence for the government it would be a step in the right direction to set up an institution which ensure a constant coordination among the financial institutions such as DIB, DFCK, ICDC, etc., on the one hand and the government arm on the other which provides the physical and other managerial assitence needed, not forgetting the initial formalities one has to go through when one does decide to become an entrepreneur. This institution should be composed of key officials from the relevent organizations functioning in a manner which would keep things moving all the time with the sole objective: speedy implementation of all viable projects similar to that shown in Insert No 1 of the previous chapter.
Method analysis, Work organization and Scheduling so as to take maximum advantage of the basic principles of specialization can be applied to the smallest enterprise. Similarly Technology Know-how or science applied to industry and business may be more highly or more rapidly developed in big organizations, but the little fellow can profit by progress, too. Only certain very restricted phases of technology are appropriate exclusively to the giant enterprise.

That there is need for knowledge of the market and the customer is obvious. Planning in business is an absolute must and controls are indispensable -- if "having the right goods at the right place at the right time and for the right price" is the accepted goal of any business.
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