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# UNIT

## 7

### Importance of Managerial Skills for Success in Business

#### Contents

##### Chapter I

1. You need to possess managerial skills
2. You have to be an entrepreneurial manager
3. How to distinguish between manager and entrepreneur
4. Your business has special features

#### Aim:

- Help you understand the need and reasons to possess managerial skills

#### Objectives:

- Identify the reasons for possessing managerial skills
- Distinguish between an owner-manager and an administrator
- Recognize the strategic advantages of being a small scale entrepreneur



## 1.1 You Need to Possess Managerial Skills

“ All of us do not have equal talent. But, all of us have an equal opportunity to develop our talents” – This quote by former President APJ Abdul Kalam bears the key message that developing new talent and skills is important for success, and as an entrepreneur, you need to learn, update, and hone your skills to absorb a holistic development that will help you to run, to operate, to direct, to oversee, and to manage your business as per your plan, successfully.

It is important to remember that creating an enterprise is not the ultimate end of the entrepreneurial process. The challenge lies in continuing the process and earning profits out of your business venture, and a sustainable business by managing it effectively is quite important for entrepreneurial success and earning profits. This requires efficient management of your resources, producing goods and services, and marketing of products to generate profits. The managerial skills of the owner-manager have a positive and meaningful impact on business success.

As the owner of a business, you are responsible for the management of your enterprise. The reasons for the importance of learning managerial skills are:

- a) During the initial stages of business, you may not be in a position to engage or employ competent professional managers. Therefore, you need to be aware of your managerial skills.
- b) As the ultimate risk-bearer, you would like to familiarise yourself with what it takes to manage a business.
- c) To build a competent complementary team, you need to learn about managerial skills. When your business grows, and you recruit a few people, you must know whether they are doing their task properly or not. After all, it is your money and business, and so you need to be aware of all managerial processes.

While listing the functions of an entrepreneur, we have mentioned that the entrepreneur takes ultimate responsibility for managing the enterprise. This means you have to acquire certain managerial skills if you want to achieve success. But as an owner, you may not be discharging managerial skills directly throughout your entrepreneurial journey.



**SAQ 1.1**

i) List two important reasons why an entrepreneur should possess managerial skills

a) \_\_\_\_\_  
 \_\_\_\_\_  
 b) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

ii) Do you think the owner of a business is expected to discharge managerial responsibilities throughout the life of the enterprise? (YES / NO)

Give reasons  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**1.2 You need to be an entrepreneurial manager**

As an entrepreneur, you will have to imbibe specific managerial skills. At the initial stage of your business, you might have to perform diverse functions. Later, when the business grows, you need to build a compelling fusion of complementary values in your team. For that, too, you require to be an entrepreneurial manager.

Ask yourself the following questions:

1. What managerial skills do I need to make my venture successful?
2. How can I equip myself with those skills?



You will be on the right track if you think through the above questions.

### Your growth orientation

When you begin to manage your enterprise, you will realise that your functioning style will differ from that of a professional manager or administrator. Professional managers are those who are hired personnel, and therefore, they do not have any stakes in the growth of your enterprise. Their management orientation will be only to maximise the returns on the utilised resources. But, as an entrepreneur, you must explore every opportunity irrespective of the resources under control. While you perceive an opportunity and evaluate it for its profit potential, you will also explore and analyse how to mobilise resources, and this is a subtle success factor required for your enterprise's growth. Let us examine it in detail.

We have mentioned earlier that entrepreneurship is a process that comprises:

1. Identification of opportunities
2. Mobilisation of resources
3. Committing actions and resources for long-term personal gains

To be a successful entrepreneur, you have to record substantial gains over a long period of time. Your operations have to be different from those who initiate and operate business only for earning a livelihood. You need to have a growth orientation in addition to a survival instinct. Growth orientation is an essential condition for being highly successful.

What is this growth orientation we are talking about? It is nothing but the desired future state of your enterprise, having growth and change as its major components. However, a mere desire to achieve growth may not be sufficient. You must have the ability to manage it.

On the other hand, even if you are an employee of a company, possessing both the desire and ability to succeed will make you an entrepreneur. Larger companies and corporations would like to employ people like you if you possess the desire and ability to succeed. They will call you a manager with an entrepreneurial mindset, and a division or department will be put under your control. You will manage this division or department exactly like an owner-manager. Notice the grid of desire and ability for growth and change given below.

*Entrepreneur needs to strike a balance between ownership role and managerial role to emerge as an “Owner Manager”*



### 1.3 The desire and ability for growth and change

#### Desire

		No	Yes
Ability	No	Ordinary employee	Frustrated potential entrepreneur
	Yes	Satisfied manager	Entrepreneur

In the above diagram, we have shown desire on the horizontal side and ability on the vertical side. The signs 'yes' and 'no' will tell you whether you have a desire or an ability. If you have both, you are an entrepreneur. If you have neither, you are just an ordinary office employee. If you have the ability to succeed and not the desire, then you are a mere manager. If you have the desire to achieve growth and do not possess the ability to manage it, you will only get frustrated or the enterprise may become sick.

Even if you are an employee of a company, possessing both the desire and ability to succeed, you will play the role of an entrepreneur. Big companies and corporations would like to employ you if you possess the desire and ability to succeed. They will call you an entrepreneur or an entrepreneurial manager and a division or department will be put under your control. You will manage this division or department as an owner-manager.

Growth orientation is manifested if you have a higher level of :
Energy – An ability to remain ready for work
Risk-taking aptitude – Not being risk-averse and winning over the fear of failure
Social adroitness - Mixing in society with a view to taking maximum advantage of your acquaintances and networking
Autonomy – Ability to take ownership and work without instructions
Flexibility - The openness for change and being open to suggestions
Interpersonal relationship effect - An ability and willingness to work in a team
Aspiration – Desire for growth
Aptitude for long-term planning
Visionary – An aptitude for long term planning
Problem-solving attitude – An willingness and ease to face challenges and overcome them



You only need basic managerial skills to become a successful entrepreneur if you are growth-oriented.

How will you distinguish between a manager and an entrepreneur

We again emphasize that your orientation to business management as an entrepreneur should be different from that of a professional manager or an administrator. The subtle distinction in the behavioural pattern of an entrepreneur vis-a-vis a manager is listed below.

<b>Orientation</b>	<b>Administrative/ managerial</b>	<b>Entrepreneurial</b>
Strategic or long-term	Use of existing resources	Perceiving opportunities
Commitment to opportunity	Evolutionary, long-term, and controlled	Revolutionary
Commitment and control of resources	Ownership of resources	Pursuing the use of rented resources also
Management style	Formal hierarchical structures	Informal networks
Compensation	Resource-based	Value-based

As mentioned earlier, your long-term goal in the business is to explore every opportunity that comes your way. In doing so, you will take unusual leaps and jumps and emerge with revolutionary ideas and not just gradual outcomes. Unlike an administrator, your aim is not to own the resources that help you exploit these profit opportunities. You are fully aware of the fact that resources are only a means of earning profit and hence you will never hesitate to use hired resources. As regards the organisational structure, you will not rely on formal hierarchical layers. You will prioritize establishing personal and informal contacts with every person involved in your business. You will consider the returns on your business as rewards to your values and not to the resources you have used in producing the goods and services.

You must remember that the following two specific roles of a manager and an entrepreneur will make you indispensable to your business:

- A. Sourcing input: To produce a commodity, you are required to have inputs such as raw materials, machinery, and labour. Usually, you will purchase these inputs from the market. At the same time, specific other inputs are equally crucial for business, but those cannot be purchased from the market. For example, risk-taking, innovation, pursuing opportunities, and motivating your employees to perform better are not available in the market, but unless you supply these inputs, production will not take place. Therefore, If you want to supply these inputs, you have to imbibe them within yourself. Further, the cost of the inputs purchased in the market is known to you but not the cost of the inputs which you possess. The difference between the cost of inputs and the income must be the cost of your involvement in the business. The higher this difference the greater will be the reward for your involvement.





- B. Being accountable: It is not sufficient to have one or two inputs when you require more. You have to provide all the inputs in the required quantities that are necessary for your business, else production discontinues. People working for you will not be bothered if production is discontinued on account of input deficiencies. It becomes your concern, as the owner of a business, to see that all the required inputs are available in the required quantities whether they could be purchased in the market or not. For example, if you require certain raw material to produce a commodity, possessing only the raw material and risk-taking will not be sufficient. You also require innovation for which there is no shortcut.

While acquiring managerial skills, we urge you not to lose sight of these indispensable qualities. Ultimately, these are the ones that will make you entrepreneurial and place you at a rank above that of professional managers. These are the qualities that make small business management subtly different from the management taught in business schools.

### SAQ 1.2

i) Fill in the blanks

While managerial orientation is to maximize resource use, the entrepreneur would prioritise

\_\_\_\_\_

ii) What are the two necessary conditions for becoming a successful entrepreneur?

a) \_\_\_\_\_

b) \_\_\_\_\_

iii) As an owner-manager what are your two major responsibilities?

a) \_\_\_\_\_

\_\_\_\_\_

b) \_\_\_\_\_

\_\_\_\_\_

### 1.4 Your business has special features

Before understanding the process of management, you need to recognise the features of a small business. It helps you manage your business successfully.

- You will require a far lower investment in the operation of your business since it is small. This is true for investment in equipment, machinery, building, and furniture and in day-to-day expenditure on raw material, labour, and utilities like electricity and water. If and when you want to change the line of production, it becomes easier to switch off the existing one. This is because you do not have heavy investments in immovable assets. You just have to tune your workers to new production skills. You will be able to respond and adapt much faster than the larger corporations to the social, economic, political, and technological changes.



- Since the initial investment is less, funds required can be raised from personal sources, family, friends, and relatives. Evidence shows that entrepreneurs operating on funds raised from internal sources perform better in risk-taking, innovating, and flexibility. They are far more committed to achieving their goals since their money is at stake. Larger companies operate on funds raised from the public through equity shares and loans from financial agencies. If they fail to achieve success, the loss is borne by too many stakeholders.
- Your business typically operates with a small number of employees, dealers, suppliers, and customers. This helps you in having better interactions with the people who are directly responsible for your profit. As an owner-manager, you will be able to give a personal touch to the relations you have with them. Because only in a small business do all employees, dealers, suppliers, and customers have a chance to meet and interact with the head of the business at one point or the other. They would consider themselves part of your empire (business), which is crucial for success in all possibilities. Your customers give more importance to your concern for their satisfaction and suggestions. Similarly, your employees lay great value on your affection and concern for them. This ensures the internal motivation of your firm and helps in overall better performance. Working with a small number of people also helps you in quicker decision-making. Such an achievement is possible only in small divisions of a large business.
- Frequent interactions with customers make small businesses more suitable for service industries. It is being observed that businesses are moving towards the supply of services. And small businesses are indeed suited for this. As societies move towards comforts from necessities, it is found that possessing experience helps in day-to-day problems rather than possession of mere physical goods. For example, toothpaste is necessary, but customers are more comfortable with a soft squeeze tube. Further, technological progress is making the life of physical goods shorter and shorter unless appropriate after-sales service is available. For example, audio players gave way to video players. The better option now for marketing the audio players is to provide prompt after-sales service. A time will come when the customers will compare goods supplied by two companies in terms of the after-sales service these companies provide. Companies that could form a niche here only survive.
- Specialisations are more important than routine commodities or services in an increasingly competitive world. By virtue of huge machines and heavy operations, big companies may not be able to cater to the special needs of various segments of society. For example, different groups of people require different types of hair oils. A large company that produces huge quantities of a particular type of hair oil may not be able to satisfy all groups of people. Also, large companies themselves require certain special components that large-scale operators can not provide. This is because the demand for special components such as tailor-made bolts and nuts will not be so great as to be worthwhile for manufacturing by a large company. It is here that they as well as society look towards you. As a small operator, you will be able to supply tailor-made services or goods to large companies or direct consumers. Quite possibly, you may become an ancillary unit to a large firm or a large firm may subcontract certain work to you.



- In terms of production, exports, and employment, statistics show that small businesses have recorded a substantial share in the Indian economy over the past two decades. To bring about regional balance and decentralisation of economic power, governments protect and promote small-scale enterprises. Several incentives and subsidies, tax relief, concessions, and priorities are given to the owner-manager of small-scale enterprises. While chalking out management strategies, you must take these into account.
- Although your overhead costs would be quite low on account of small-scale operations, your per-unit cost of production will be higher. This is because you cannot purchase raw materials and components in bulk and hence, the cost of these will be far higher than that of larger units. But, you will also make substantial profits on account of the fact that you are satisfying the very specialised needs of your customers, which is just not possible for larger companies. You have to remember that your business requires a substantial amount of money for day-to-day operations. If timely finances are not available, you will run the risk of losing customers. Efficient assessment and management of working capital only can help you in such a situation.
- You have to use personal attention to promote sales. This is because on the marketing front, you have certain limitations. Your products may not have a brand image in the market if they are competing with those of large companies. You cannot provide credit to the customers, as you yourself require finances for running the business. You may not be able to branch out of your organization to broaden your market. You may not be able to use advertisement media for promoting sales since the media is a very costly option. You need to remember that your business does not need these strategies during the initial stages. While designing marketing strategies for your business, you have to keep this in view.
- Your potential for motivating employees to perform better and making them feel a part of your enterprise will help you retain them for a long time. This is important because you may not be able to hire competent people as you cannot afford better salaries or better growth. If you recruit unskilled labour, you have to arrange for their training. After accomplishing the development of skills, the employees may not like to remain in your services. They may either move away to a company where they have better prospects or establish a firm that could become your competitor. Your recruitment plans and human resource development strategies should consider these aspects.
- Information on technological changes is normally costly. But, several information agencies and industry associations will help you keep up-to-date. As a small business owner, you have this advantage. However, you have to constantly keep in touch with them. You may also subscribe to one or two important journals. Since you cannot invest in libraries and research and development, you are vulnerable to finding your products becoming obsolete. While society is moving ahead, you may find yourself in outdated processes.

The Covid-19 outbreak caused a global health emergency and a worldwide economic slowdown. While small businesses were the worst hit, it was easier for them to cope with the adverse effects of the pandemic on trade, investment, growth, and employment. For many



such small businesses, innovation, technology, virtual platforms, government schemes, and support enabled them to survive the unprecedented crisis.

### SAQ 1.3

i) What is going to be the competitive advantage of your enterprise? (select the right choice)

a) Personal touch _____
b) Low price _____
c) Less number of employees _____
d) Flexibility to switch over _____

ii) List the limitations of your (small) firm in terms of following functions:

a) Production: _____
_____
b) Personnel: _____
_____
c) Marketing: _____
_____
d) Finance: _____
_____

List three inherent advantages of a small business

a) _____
_____
b) _____
_____
c) _____
_____



# UNIT

## 7

### Managerial Aspects of An Organisation

#### Contents

#### Chapter II

1. Managerial tasks
2. Managerial skills
3. Managerial functions
4. Organisational structure

#### Aim:

- Help you develop an organizational plan for the success of your business

#### Objectives:

- Understand managerial tasks, skills, and functions required for an efficient business
- List out issues on which your plan should provide focus and direction
- Identify what needs to be done to remain competitive
- Decide on growth strategies



## 2.1 Managerial tasks

The first and foremost task is to define the objectives of your business and thereafter plan the actions in order to achieve them. There could be several such plans for different short-term and long-term targets. You may plan long-term objectives stretching over 3 to 5 years or even more. You may also plan short-term objectives relevant for just 1 or 2 days. You may plan medium-term objectives for a few months or even a year. For example, expanding your market to national or international boundaries could be a long-term objective; achieving a break-even level of capacity utilisation could be a medium-term objective; obtaining loans and sanctions could be a short-term objective. You may plan objectives for a specific area of your business. For example, objectives related to raw material purchase may be separately planned. Planning provides the basis for action and you can compare the results of what you have achieved with what you had targeted.

The second task is to organise people, time, money, machinery, materials, processes, etc. so that you can achieve your targeted objectives as efficiently as possible. This enables you to turn the plan into reality.

After having established an organisational structure as a result of the task mentioned above, your success will depend on how you are able to control your operations. You have to establish performance standards, procedures, targets, and budgets. This will help you in measuring the performance of your business. You will be able to monitor workers' performance, job progress, financial conditions, etc. You will come to know when you fall short of your planned performance and why. Then, you can take corrective measures and resolve the problems that arise.

The final and most important task is that of leading, supervising, coordinating, and motivating. In other words, getting other people to perform will lead to your plans being achieved and objectives being met. This may be termed directing or executing.

Task 1
<ul style="list-style-type: none"><li>▪ Clarity of purpose</li><li>▪ Deciding upon business focus</li><li>▪ Defining objectives</li><li>▪ Laying down vision, mission, goal</li></ul>
Task 2
<ul style="list-style-type: none"><li>▪ Planning with foresight</li><li>▪ Laying down long-term, medium-term, and short-term plans</li></ul>
Task 3
<ul style="list-style-type: none"><li>▪ Deciding upon resources (men, money, material, machine, and method)</li></ul>
Task 4
<ul style="list-style-type: none"><li>▪ Founding organization structure</li></ul>



#### Task 5

- Execution of business
- Leading, supervising, directing, controlling, and motivating

### 2.3 Managerial skills

You need to possess four types of skills to handle managerial tasks.

1. Communication
2. Decision-making
3. Problem-solving
4. Measuring or quantifying

Communication is key to the functioning of an organization. To run your business, you are required to constantly be in touch with your employees as well as customers, suppliers, professional advisers, government officials, investors, financiers, and other stakeholders. You communicate with a specific objective and you become effective in communication only when your objective is fulfilled. That is why this communication is not spontaneous but strategic, deliberate, and has to be cultivated. Communication can both be informal or formal depending on your purpose, context, and target audience. For formal communication, there is a need for sufficient planning in order to be effective. Here, you have to make several decisions and solve diverse problems, and to do that successfully you need to communicate effectively.

Making decisions is important as it is an indispensable aspect of the business. Once you have made a decision, you also need to think about its consequences. Making a wrong decision is not necessarily harmful. In fact, it can provide a learning experience. The important thing is to understand how and why you made that decision to make better decisions in the future.

Your expectations may not always come true. These situations can be viewed either as 'problems' or as 'opportunities'. They need to be tackled or managed. Ignoring them could be disastrous. Worrying about them would not help either. So, you have to be a problem resolver. You have to transform these problems into opportunities.

Information about the performance as well as the environment around your business is available in the form of factual data. This needs to be collected, processed, analysed, and interpreted for using it for the growth of your business. You should be able to understand what this information means and use it to monitor the performance of your business and make necessary adjustments if required.

We do believe that you possess all these skills to some degree. How to realise it and develop these skills to a level required for success in your business are dealt with in the remaining chapters of this Unit.



## 2.4 Managerial functions

One of your primary functions as an owner-manager is to procure raw materials, components, machinery and equipment, and utilities such as electricity and water. You must plan how much of these are needed and when, how to acquire them and where to store them, which technology to adopt for resource mix and transforming the inputs into outputs (finished goods), etc. You have to implement these plans in such a way that you keep up with the flow of production with minimum possible wastage of either inputs or finished goods. This is what is known as managing production.

Employing the right kind of labour and professionals, improving their skills, and ensuring adequate and appropriate performance form an equally important function. The contribution of your employees to the production of goods and services could be far higher than that of physical inputs such as raw material and machinery. Let us see how is this possible. There are two special features of human resources:

One, without their involvement, physical inputs cannot transform themselves into outputs. Two, physical inputs cannot improve their performance, but human resources do and by doing so they will improve the value of the physical inputs in the outputs. While the contribution of the first role mentioned above could be quantified in terms of wages, the contribution of the second role cannot be easily quantified. This depends on the motivation of the human resources concerned, which you could successfully improve. The more you motivate your employees the more will be the value of your output. This is what is known as managing personnel.

Once you have produced a product, you have to sell it to consumers. This is a function that pays you back for the labour and money you have invested in your business, probably in excess so that you can make profits. What, where, when, whom, and how to market are the crucial decisions which you have to take. You must learn to market rather than sell your products. Because while selling, you sell your needs but while marketing, you sell your customers' needs. You alone, as a small businessman, cannot influence the needs and styles of the consumers. So, you have to understand your customers' needs and innovatively satisfy them. This is what we call 'managing the marketing'.

You require finance for all the above-mentioned functions. You have three ways of procuring funds:

- i) Raise funds internally
- ii) Borrow funds from external sources
- iii) Use the income generated by selling the products

Which source needs to be explored, when, and to what extent is a question on which you have to take decisions from time to time. When you start the business and when you want to expand or diversify, you would definitely need substantial finance for investing in fixed assets. Even for day-to-day operations, you would require money. You have to assess how much money you would require on hand and how to acquire it. Further, you must also maintain details such as how much money you have spent and what, how is it procured, how much profit could be earned,





how much more will be earned, and the prospects of expanding the operations. Planning and acting on these issues is known as financial management.

Different core functions of management that an owner-manager should be aware of are:

- Planning
- Organising
- Staffing
- Directing
- Coordinating
- Controlling

There are several tools and techniques for effectively managing these functions. The other functions that should support the core functions are:

- Leadership
- Communication
- Decision-making
- Motivation
- Supervision

**SAQ 2.1**

i) List the four managerial tasks

a) _____
b) _____
c) _____
d) _____

ii) Fill in the blanks.

The success of your business depends on your communicating effectively with _____, _____, _____, _____ and _____.
---

iii) If you make a decision, you are not fit to be an owner-manager. (TRUE / FALSE) Please explain:

_____
-------



v) Measuring or quantifying information will help you in (choose the correct answer):

a) Motivation _____
b) Communication _____
c) Performance evaluation _____
d) Delegation _____

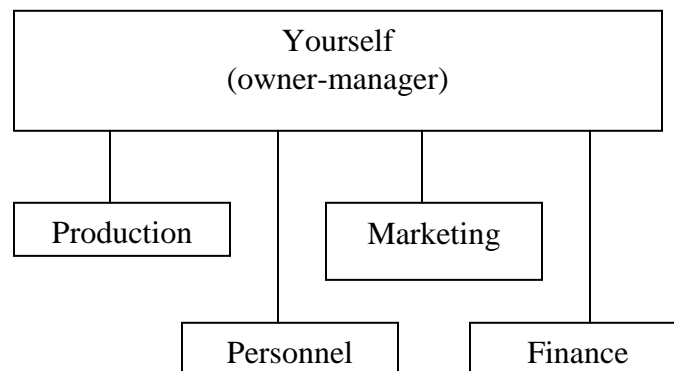
vi) List the four functional areas of management.

a) _____
b) _____
c) _____
d) _____

## 2.5 Organizational structure

Every business, whether large or small, invariably needs an organisational structure. However, the size of operations dictates this structure.

As a small entrepreneur, you have to respond to all your business requirements. Since you cannot afford to hire competent professionals in the beginning, all these functional responsibilities will be yours. You will have to buy inputs, hire people, commit the inputs to produce goods, market the products, arrange for financing for your activities and do the accounting. The organisation structure will be, perhaps, as shown in the chart below.



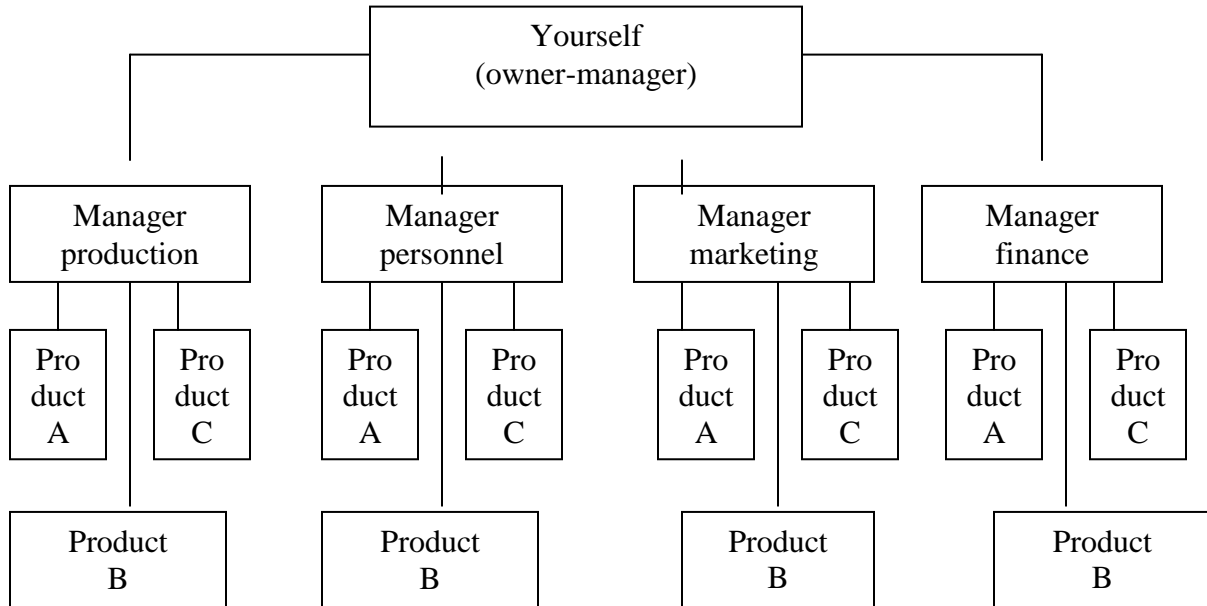
You may not like to call this a structure. But, as your business grows, you will be required to devote more time to higher-level problems and less time to day-to-day details. You need to have a definite structure. Initially, you may be producing one or two products. But, as your business grows you may produce more products.

Then you may require one of the three following organisational structures:

1. If the market in which you are operating is stable and predictable, you will want to ensure

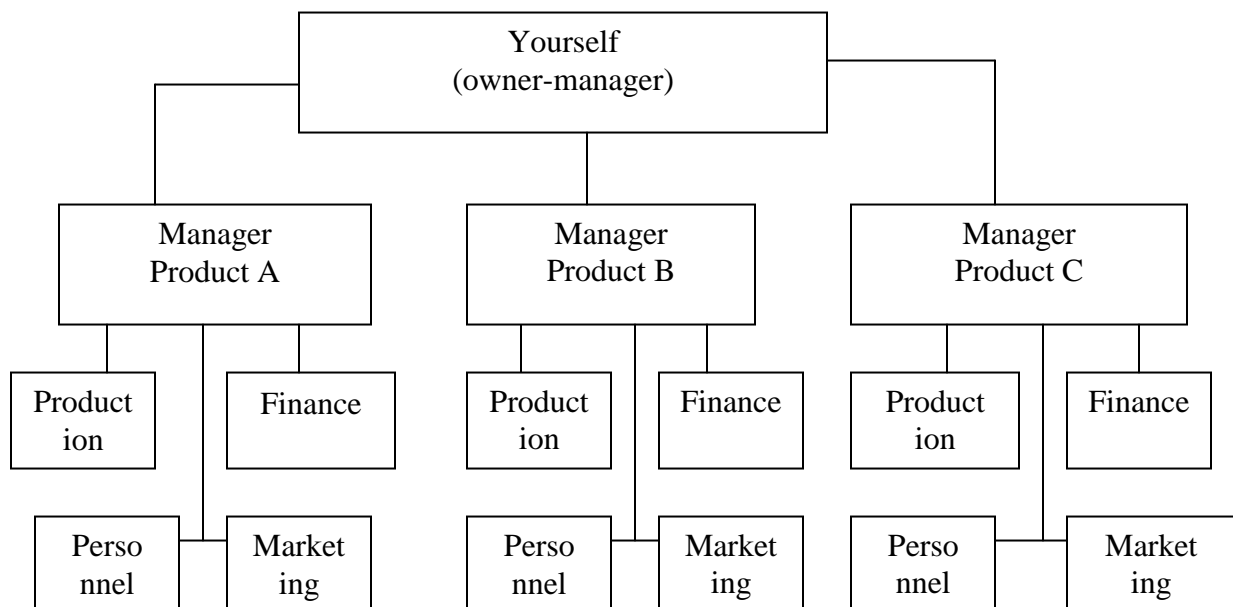


better performance of human resources and organisational structure, where each management function will be handled by a manager who will directly report to you. Each functional manager will, in turn, handle the requirements of the concerned function in all the products your business deals in. The structure may be something like the following:



But, it is important to remember that the transition from your entrepreneurial structure to this functional one is gradual. Success in this transition depends on your ability to delegate responsibilities to your subordinates. It is true that you will continue to have an attachment to your business. But, as the business grows you will not have time to handle the increased load personally. And so, you will have no option but to delegate.

The same is true even in a structure where the responsibility of each product will be handled by a manager who will be directly reporting to you. Here the manager in turn looks after all the functional requirements of producing a product. Look at this:

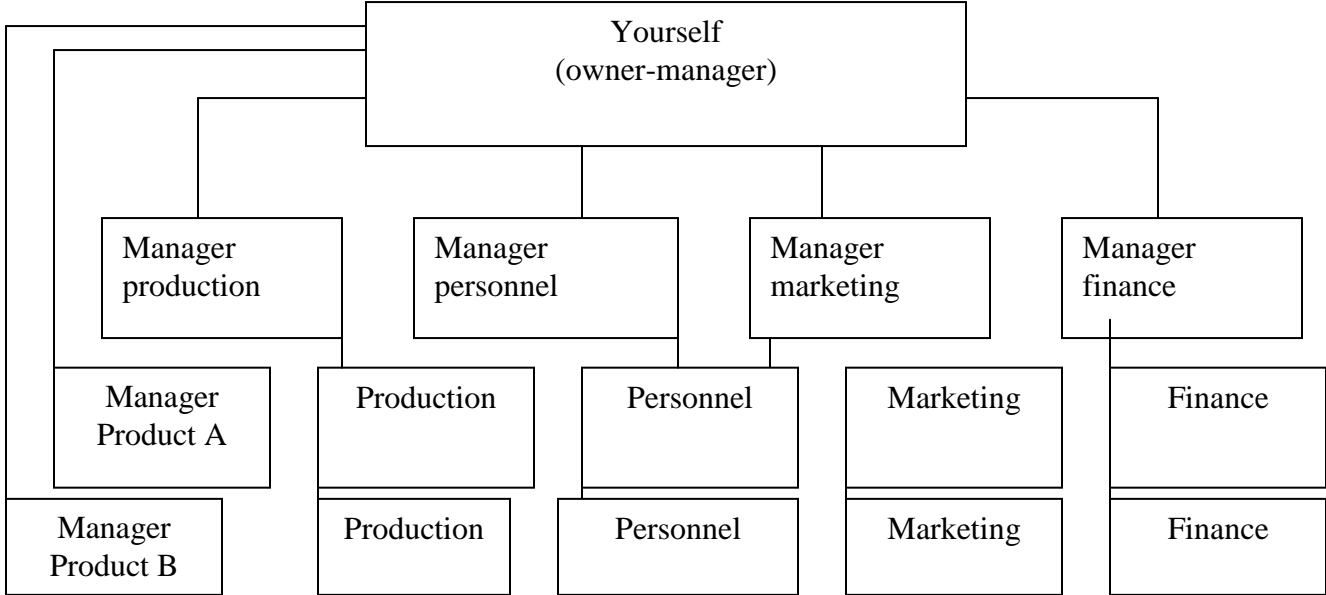




This product-based structure is appropriate where the competitive situation is volatile and decisions have to be made quickly at a decentralized level. Particularly, when your business starts producing more than two products, such a structure is more functional.

When you can afford it, especially when your products' designs and composition are required to change continuously to suit the market demands, you may need a slightly complex structure. In this type of organisation, a manager is assigned the responsibility of coordinating a particular product with each functional area. Both the product managers as well as functional managers will be reporting to you directly.

Diagrammatically, the structure may be presented this way:



Organisational structure may also specify the other shift involved in the business.

**SAQ 2.2**

i) Design an organisational structure for your business.



ii) Specify why have you chosen this.


iii) Match the following:

a) Stable and predictable market	Complex organisational structure	(            )
b) Volatile and unpredictable market	Functional organisational structure	(            )
c) Flexible product design	Product organisational structure	(            )



# UNIT

## 7

### Business Environment Matters

#### Contents

#### Chapter III

1. Business environment
2. Be sensitive to environment
3. How to be aware of change
4. How to manage change

#### Aim:

- Help you understand why and how to manage external factors.

#### Objectives:

- Identify the changes in your environment and the implications they have on your business
- Innovate to cope with the changes in order to sustain and succeed
- Decide on the actions to be taken regarding the changes in the environment.

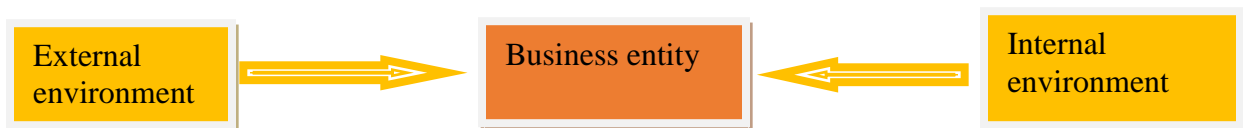


### 3.1 Business environment

It is that condition, atmosphere, or specific activities that influence or affect business. It consists of external and internal conditions and forces of a business under which it operates or is considering entering. These forces and conditions are dependent on social, economic, political, technological, and legal factors that influence the business. The business environment rapidly changes. Hence, it is essential to scan them periodically and adapt accordingly. The core idea behind environment scanning is the dynamic nature of the business environment.

Environment scanning is a process of periodically gathering, analyzing, and utilizing information about trends, patterns, conditions, and threats to a business's external and internal environment.

Environment scanning involves how information is gathered and incorporated to make necessary changes. This requires careful monitoring of opportunities and events that may influence the current and the plans of the business on time.



### 3.2 Be sensitive to the environment

Developing your business is as entrepreneurial as establishing your business. You must strongly believe that the development of your business will bring you long-term personal gains. In the previous chapter, we have attempted to make you understand the scope and importance of managing your business. But, you must also remember that your business is situated in an environment where several external factors influence your performance. Changes in external factors may either reduce the demand for your product or provide you with new profitable opportunities. Merely managing the functions of your business is not enough; you must know how to manage these external factors else, you may lose out either on the possibility of exploiting new opportunities or on producing products that are not consistent with the demand of society at large. This chapter will help you understand what external management is all about.

While planning for development, you will have to make certain assumptions about the environment you live in. For example, since the ultimate aim of producing goods is to market them for profit, you will have to estimate the demand for your products. After having assumed a certain demand, you will next schedule for the production. If your products are more in demand during the winter season, you will obviously produce more of them during winter. If they are more in demand in a neighbouring city, you will have to market them more in that region. But, your assumptions may not hold good forever. Reality changes with time. Several factors in the environment influence the prospects of your business. You have to study the environment in order to identify these changes constantly. Once the changes are identified, you have to accordingly alter your assumptions. Otherwise, your plans will fail and development will halt. At the same time, certain changes in the external environment may create new opportunities too for you and you must have the capacity to exploit them gainfully



The environment around your business comprises of four broad areas:

1. Social
2. Economic
3. Political
4. Technical.

Let us look at some of the critical elements of change in these areas of environment and examine what possible implications they may have on your business.

### **Social**

Changes in social attitudes will have major implications for your business. For example, the following changes are likely taking place in your region:

- People are moving towards the purchase of video cameras in place of still cameras. If your business deals in developing negatives of still photographs, it is worthwhile pursuing recording, processing, and editing video files.
- The percentage of working women is increasing steadily. With fewer women at home, door-to-door selling may not be of great use. Since working women now have less time for household work, the demand for ready-made food may go up. Since working women have fewer children, demand for products meant for kids may also fall. With working women supporting the family, the demand for care homes may go up. Demand for convenient garments may also increase since working women prefer comfortable garments for the workplace.
- The percentage of the population above 60 years is increasing steadily. Demand for entertainment such as programmes on satellite channels as well as demand for old age homes and garments may steadily rise.

To keep pace with such changes, you may need to either diversify your business into a new activity or may even have to change the product line. Of course, before exploring these options, you have to check whether these changes affect your business line because you should react only when your profitability is affected. You have two options before you. You may either react as and when the changes in consumer requirements are detected, or you may anticipate the changes in advance and be pro-active

### **Economic**

Changes in the economic position of your country or region, your competitive position in the market, and the position of suppliers of raw material and machinery and the buyers of your products will have a direct and indirect impact on your business.

For example, a lower rate of economic growth reflects a much higher energy cost, less productive labour, a shift towards larger government service sectors, and a shift of business





investment from traditional industries to service and high-technology sectors. Similarly, higher rates of interest would make an investment in physical and long-term assets uneconomical. A perennial increase in rates of interest encourages shortened investment horizons.

If your line of operation is in an industry where employment is declining such as rubber, textile, and automobiles, or even if you are a supplier to these industries, you have to make a shift to a comparatively modern sector such as electronics. This is because a declining rate of employment is a sign of sickness.

If setting up a business in your products line is easy, you will have too many people producing the same products, which means you will have many competitors. A situation may arise where the supply may exceed the demand. This would bring down the price of your product and eventually your profit. If the entry into your business is not so easy, you will enjoy higher profits. For example, if you are manufacturing an electronic product the design of which is known only to you, nobody can enter that business. In a situation where a few other businessmen are also producing a product similar to the one you are manufacturing, there could be a possibility that you enter into an agreement with them and jointly fix up the price or share the market. You have to explore such possibilities.

The type of product you are producing is bound to have a life span beyond which it will not have any demand. For example, manufacturing radios may not have any demand, at least in the cities, say maybe 10 or 20 years from now. People may like to acquire pocket televisions. Therefore you must always be ready for such changes in customer requirements. Similarly, the market in which you are selling your product may not continue to demand your product for long. Your market also has a life beyond which it does not need your product. For example, if you are selling water coolers and all households in the region have procured one water cooler each over a period of time, then you will have no further customers to purchase your product. You will either have to change your line of production or move on to another region.

The changes in the economic environment, such as the ones we have discussed above, will affect your business, in one way or the other, and affect the business of your suppliers and the behaviour of your buyers. You must keep a watch on these changing influences and respond accordingly. Suppose your suppliers decide to quit their business. In that case, you have to either locate alternative sources or change the line of production or do the needful to keep your suppliers' business alive. If the average family income of your consumers goes up, try to trace on what they spend their excess (disposable) income and endeavour to enter that every line of production.

## **Political**

The continued growth of government intervention in the economy, the power of trade unions, and the rise in public interest significantly influence your business's performance, operations, and markets.

Over the past few decades, government intervention has led to regulating the business environment. It has protected small businesses against big companies and corporations. However, there has been substantial deregulation of the economy and liberalisation of policies



for the last few years. While some of these may provide opportunities for you, the remaining may cause a concern. For example, relaxing the ceiling limit on investment in plants and machinery for a small business would help provide scope for expansion of your business and up-gradation of technology. But, import liberalisation may depress the price of your product if it is an import substitute. In such a case, you may have to shift to the production of a product that is not a substitute for cheap imports.

The political ideology of the ruling parties has an impact on the business environment. Several lobbies attempt to influence political decisions. These decisions favour some businesses and disfavour others. Often, the directly affected groups are the larger companies. If you are a supplier of products or services to these companies, these decisions influence your business potential. For example, over the past few decades, the Government of India has been supplying cheap imported oils to the vanaspati industry to make the production of vanaspati a viable proposition. This would depress the price of indigenous edible oils such as groundnut oil and mustard oil since they are substitutes for vanaspati. But, if you are entrepreneurial, you would produce oils such as cotton-seed oil and mahua oil and supply these to the vanaspati industry for use in its manufacturing.

### **Technological**

Combined with critical elements of change such as those listed in the above three sections, technological changes will upset stable markets and competitive relationships. It has also been seen that new technology sometimes makes winners out of losers. When adopted, it may help you in reducing the cost and consequently the price of your product. It may also help you in creating a new business.

Technological change is particularly important to smaller businesses. Many small businesses have achieved success through technological innovations. You must constantly try to obtain information on the changes in technology and examine whether they could be exploited for improving your competitive position.

### **SAQ 3.1**

i) Give two reasons why you should manage the external environment.

a) _____
b) _____

ii) Identify one recent change in each area of your external environment and project its implications for your business.

	Change	Implication
a) Social		
b) Economic		



c) Political		
d) Technological		

### 3.3 How to be aware of change

You are required to constantly stimulate your thinking and curiosity regarding critical changes in the market area. You have to focus on the following issues:

1. Changes in the attitude of people
2. Trends in population
3. Composition of population
4. Trends in the rate of growth of the economy in your region
5. Trends in interest rate, unemployment, and inflation in the economy of your region
6. Entry barriers in your line of business?
7. Life of your product
8. Life cycle of your market
9. Recent changes in government policy
10. Recent technological changes that are relevant to your business
11. Changes affecting your business, your suppliers' business, and your buyers' behaviour

These are a few of such issues on which you should obtain information. Large companies often possess public affairs departments that specialise in thinking about and analysing these issues. Since you cannot afford this investment, you have to explore alternative avenues. Several departments, committees, and ministries of the Government of India and the state governments periodically publish several books that will provide you with factual data. In addition, industry associations, trade associations, research organisations, and premier organisations like the Reserve Bank of India also publish periodical information on various issues. Many of these publications are available with the libraries and government offices in your area. Your employees, customers, suppliers, competitors, and bankers are also a good source of information. They can not only provide you with the latest information but also suggest its implications for you.

#### SAQ 3.2

Search, identify, and write the sources of information on the eleven issues listed above.

i) _____ _____
ii) _____ _____
iii) _____ _____
iv) _____ _____
v) _____ _____
vi) _____ _____



vii) _____
_____
viii) _____
_____
ix) _____
_____
x) _____
_____
xi) _____
_____

### **Internal environment analysis**

Internal analysis refers to the analysis of the microenvironment of the business. This includes access to natural resources, the structure of the organization, operational efficiency, employee interaction, skills, etc. Following are a few more examples of Internal environment analysis:

- The threat of new entrants: To be able to maintain the competitive edge or advantage when other similar businesses are encroaching your market
- The threat of substitutes: Substitute products are products that influence each other in such a manner that if the price of one product goes up, then the demand for its substitute product increases. Hence, they occur on the consumer and the producer side of the market. For example, petrol and diesel, tea and coffee, etc. are substitute goods.
- Bargaining power of customers: This factor represents the ability and power of the customers to affect the pricing of products and services. If the number of customers decreases, they have more power to affect the prices and vice versa.
- Bargaining power of suppliers: This factor represents the ability and the extent to which suppliers can influence prices. If the number of suppliers is high, the bargaining power is low as customers can switch to the competition.
- Competitive rivalry: The rivalry among existing firms determines the extent to which they can exercise control.

### **3.4 How to manage change**

Once information is obtained, you should make a list of the critical changes. Each of these changes should be analysed separately in the following order:

1. Check whether the change has any impact on the profitability of your firm. If it does not have any impact, then do not worry. But, if it has an impact, then go on to the next stage.
2. Check whether you should take any action to prevent the change. This depends on whether you can succeed in preventing change. If you cannot succeed in preventing the change, go on to the stage (4) or go to the stage (3).



3. Check whether you have properly understood what it takes to prevent the change and whether you can afford it. If you think you can afford it and are fully aware of how to go about it, just do it. Otherwise, go to stage (4).
4. Accept the change and adapt to the new situation. Explore new strategies. Either change the line of production or move over to another market area.

Successful small businesses tend to follow orderly and systematic patterns with respect to managing the external environment, even though these patterns are seldom consciously recognised by them. Unlike larger companies, you cannot always involve yourself in preventing changes. Therefore, at least during the initial stages of your enterprise, you have to manage change in such a way that it contributes to your profitability. However, if you take a positive decision to be involved in the process of change, participation in industry associations is a worthwhile option.

For example, during the Covid-19 pandemic, there was a sudden threat to lives and livelihood. Several business sectors had to slow down alarmingly, and some needed to close down. In this situation, you need to be sensitive to your environment, understand the threat, and transform the threat into a particular opportunity. If you have a small school, it won't function in the normal way as children need to socially distance themselves from each other for health and safety. So, that is a difficulty for your business. You need to quickly scan your environment and move onto digital platforms to sustain. **SAQ 3.3**

Select an issue of change and analyse it. Write down on a separate sheet the issue and the process of your analysis. What have you decided to do with this change element?

Change element: _____ _____
<b>Analysis :</b> _____
Stage 1 _____ _____
Stage 2 _____ _____
Stage 3 _____ _____
Stage 4 _____ _____
Your decision: _____



# UNIT

## 7

### Significance of Planning

#### Contents

#### Chapter IV

1. Planning is essential for success
2. It provides focus and directions to your business
3. Plan indicates how to remain competitive
4. It ensures growth
5. Planning to remain competitive

#### Aim:

- Help you develop a plan for the success of your business.

#### Objectives:

- List the issues on which your plan should provide focus and direction
- Identify what needs to be done in order to remain competitive
- Decide on growth strategies.



## 4.1 Planning is essential for success

Planning means deciding on actions well in advance. Planning increases competence and reduces risks. As the number of activities increases, you will find it increasingly difficult to control your business unless you make and implement an appropriate action plan. When you employ 10 or more workers, you are making an investment at a level where you cannot afford to fail. Therefore, you must plan your future and check periodically whether the plan is accomplished. Once you start planning, you will attempt to make your business as sound as the professionally managed big businesses. However, the process of planning has to be somewhat different from that of big businesses. This chapter will explain to you all that you need to keep in mind while planning for success in your business.

Experience tells us that successful entrepreneurs constantly evaluate the impact of alternative decisions on achieving their goals. They also study and analyse all possible outcomes or pros and cons of a given decision. After analysing the advantages and disadvantages of various managerial options, they develop strategies suitable for probable alternative future scenarios. These are then documented in the form of a plan that helps the owner-managers ward off the effect of the changes in the environment we had referred to in the previous chapter.

Planning must be a continuous activity. There could be several plans catering to various functions of your business, but you must prepare an overall plan for success. Such a plan, when implemented, should serve the following purposes:

- i) Provide focus and direction to your business
- ii) Help you retain your competitiveness in an ever-changing environment
- iii) Help you grow and develop

## 4.2 Plan provides focus and direction to your business

If you provide a clear definition of the following, then your plan gives focus and direction to your actions:

1. **The mission of your business:** A powerful mission statement helps in your business decisions. Such a statement describes accurately the true identity and goal of your business. You must be able to specify what product you will produce and what gains you will make. If your mission is properly understood by the people connected to your business such as your workers and suppliers, they will be able to contribute effectively to your success.
2. **Your vision of the future of your business:** You must specify what promises your business has for you, your employees, your suppliers, and society at large. You must also be able to indicate how your business will become an important activity in society for years to come; and what your business's growth potential would be over time. Such a



statement on the future of your business would energise the people working for you and provide inherent incentives to them.

3. **Core skills of your business:** Identifying the skills and specialties of your business that provide you with the competitive edge over other businessmen, prevents your business from dangerous deviations. Your vision of the future is dependent on these skills. By defining the core skills of your business, you and your people will be able to gauge whether to make any changes in the line of production and whether to make any changes in the market. You will also be able to nourish your business and further your competitiveness.
4. **Environment of your business:** Listing down the external factors and changes that may affect your business will help you obtain relevant information and narrow your focus only to a few important change elements. Once these factors are clearly defined and made known, even your employees, suppliers, and customers will be able to keep you informed of their perceptions of the trends in relevant changes, so that you can take timely actions.
5. **Your suppliers, customers, and competitors:** Knowledge of the nature of your suppliers' business is important because the success, failure, or changes in their business plans have implications for your business's availability of major resources. You have to quickly respond to the shortages in raw materials, components, equipment, or machinery if you want to keep up with the production schedule. You must identify new suppliers and ensure regular supplies of the resources. You must also know who your customers are, the nature of their behaviour, and their position in society. Changes in the environment may affect their behaviour and position, which would affect their demand for your product. In other words, knowing who your customers are will help you and your employees identify and keep track of those factors that might influence their demand for your product. You must also identify who your competitors are and their strengths and weaknesses. This helps you in formulating strategies in order to improve your competitiveness. You will know explicitly what and who you have to compete against

#### SAQ 4.1

How will the following provide direction to your business? Write in one or two sentences.

Mission: _____ _____
Vision: _____ _____
Core Skills: _____ _____
Environment: _____ _____
Suppliers: _____ _____
Customers: _____ _____





Competitors: _____ _____
-----------------------------

### 4.3 Plan indicates how to remain competitive

You must specify in your plan the strategies that help you retain your business's competitiveness. Described below and on the following pages are a few tips which will be of immense use in designing strategies for competitiveness.

1. There are three types of competitors you will have to deal with. The first type of competitors is those with whom you can work out an agreement so that you can share the markets appropriately among yourselves. If you market your products in one market or one segment of the market, they can market their products in other markets or other segments of the market as the case may be. In such a case, the same products or substitute products produced by you and your competitors could be sold at almost the same price. You must constantly search for and identify businessmen with whom you can work out such agreements.

The second type is those who, for some reason, do not agree with this kind of proposition. These are the ones with whom you have to wage battles. You have to compete with them from a position of strength. You must choose the place and time for the battle in such a way that you have a clear edge over your competitors.

You can exercise several options, such as using your interpersonal skills to attain brand loyalty of your customers, improve upon the quality of your product, reduce the price of your product, or cater to a market segment to which your competitors cannot reach out. You must carefully examine and evaluate all these options and adopt the one where your competitors cannot win. The strategy you adopt will give you your market niche. As and when your competitor(s) enter your market niche, you will lose your competitive edge. You must be flexible enough to identify and then switch over to a new market niche. Or else, you stand to lose in the competition. You must always select such a market which gives you maximum flexibility.

The third type is those with whom you cannot compete. These are normally larger companies. You must either avoid a confrontation with them or if possible agree to be a sub-contractor to them. As a sub-contractor, you will supply the products to them which would be marketed under their brand name. Their marketing network would market your products under their brand name.

Making agreements with the first and the third type of competitors require effective negotiation skills while competing with the second type of competitors requires intelligence and presence of mind.

2. A sure way to remain competitive is to go in for a partnership with every key person concerned. Ultimately, customer satisfaction determines your competitiveness. While taking any action, you must always consider its impact on the customers. What your



customers want may differ from what they need. It is important for you to satisfy their wants rather than their needs. You must observe and consider customer demand and understand their concerns and problems. It would prove to your advantage if you could establish a network of customer-manager nexus and provide them with services your competitors do not. This would make them feel that they are a part of your business and a sense of belonging which ensures loyalty to your product. Customer satisfaction ensures a high rate of unsolicited repeat business.

Making mutually beneficial contracts with your employees is a form of partnership. You should provide your employees with a clear set of incentives which would encourage extra commitment on their part. You could thus share with them the responsibility of working in unison for the growth of your business.

Suppliers are an integral part of your business. They contribute actively to the competitive edge of your business. You should communicate your plans and requirements to them and honour valid suggestions for innovations.

Financial agencies, commercial banks, industry associations, government agencies, and of course your family are the support network for your business. Work in close confidence with them. It will contribute to the growth of your business. You should be able to clearly define what your support network is, and allot some time for managing it efficiently.

3. You must positively respond to the increasing demand for product quality and services. By adding value through quality improvement, you would be in a better position to charge premium prices. The needs of your customers should define the quality levels of the product. Every person concerned with your business should be aware of the definition of quality and the ways to implement it. Businesses that have quality as their competitive advantage will be in a better position to maximise profits.

You must understand the definition of quality in terms of a documented quality system such as BIS mark or ISO 9000, and be committed to achieving it. The product which you manufacture should have a distinctive range of features. This is only possible if your business responds to the customers' wants consistently and continuously. You can also attempt at changing the beliefs and attitudes of your customers by integrating them into the process of change. This would help them to easily adapt.

Quality improvement should necessarily entail a price rise, higher than the product of the competitor. This would reflect the benefits provided to the customer. If you have taken into consideration the quality consciousness of your customers, the increase in prices will not affect their demand for your product.

4. You must establish functional systems, both formal and informal, to provide quality information to enable effective decision-making. Your business must be able to identify and acquire critical information and communicate the same to all the people concerned with the business.



Computerised systems of information on suppliers, customers, markets, and opportunities would provide a clear competitive advantage to your business. Such systems should be constantly upgraded and improved upon.

With the help of customer perception surveys, the performance of your business could be evaluated. It is important to monitor and document your performance and communicate it to all concerned.

Based on the assessment of your business performance you need to take immediate action to bridge the shortcomings. Taking action should be an integral part of your business culture and appropriate incentives should be given for taking positive actions. You must remember that taking actions should be a constant process and should not be done on an ad-hoc basis.

#### SAQ 4.2

i) Classify the three types of competitors to your business.

a) _____
b) _____
c) _____

ii) List the alternative strategies which can help you to remain competitive.

a) _____
b) _____
c) _____
d) _____

iii) List the group of people with whom you should have partnership relations.

a) _____
b) _____
c) _____
d) _____



iv) Identify the important steps involved in quality improvement

a) _____
b) _____
c) _____
d) _____

v) What steps should you follow to assess your performance and what should be your actions once you have assessed your performance?

--

#### 4.4 Plan ensures growth

Despite the possibility of mistakes while implementing change, you should constantly try to stay in tune with the changing world. In an increasingly competitive world, people working for you will continually strive to determine their prospects and growth in your business. If your business does not hold any promises for them, they may leave. It is important to note that mere survival is not sufficient. You must grow and develop and eventually establish an empire. You definitely would like people to remember you as an achiever for years to come. Your planning for success, apart from helping you become competitive, should aim at increasing your profits. So now we shall examine a vitally important issue: How do you develop your business?

You have three alternatives:

- i) Expansion
- ii) Diversification
- iii) Merger

If you continue with your production line, you can expand your capacity to produce more. This can be done if the demand for your product is on the rise. If your customers are satisfied with the quality and service, the demand for your product will increase. Alternatively, you may explore new markets where there is a demand for your product. You could even successfully manage and improve the corporate identity of your business by creating trust and goodwill. Your image, which supports your business objectives, will help in generating expansion opportunities.

In the course of your business transactions, you may be able to identify new opportunities that are consistent with your core skills. You should immediately explore them. If you delay doing so, your competitors will take over. Therefore you should act fast.



Incorporating customers in the process of identifying your core skills would help in developing these skills into new opportunities. You can even attempt at converting individual idiosyncrasies into new opportunities. Once you have identified a new viable opportunity, you must diversify your business into producing the new product. This is being "innovative". Innovation assures handsome profits because you will keep enjoying high profits until a competing business unit enters your line of manufacture. As and when you sense stiff competition emerging in your business arena, you must try to innovate by producing either another new product or a new resource or by adopting a new technology that brings down the cost of your production. This process is continuous. If you falter at any stage, then you cease to be an entrepreneur. Remember to pursue new opportunities in your major function. You cannot compromise on that.

When there is no scope for expansion or diversification, you should either consider acquiring a competing business unit or amalgamating your business unit into the competing one. This is called a merger of two units. Which of these alternatives to pursue is dependent on the strategic and financial position of the two units. In either of these situations, you stand to gain. The strengths of one business will compensate for the weaknesses of the other. Contrary to popular belief, a merger is not a losing option. It safeguards you from risks and helps you succeed.

### SAQ 4.3

When should you adopt the following strategies for growth?

Expansion: _____
Diversification: _____
Merger: _____

### 4.5 Planning to remain competitive

The following points can be followed while planning for success in order to get the competitive edge:

- Planning is a useful and productive technique. You will realise it only when you start implementing it. It will provide direction to your actions. It also helps in evaluating your performance periodically. Even if it's a long-term plan, it will help you to check and verify your actions at shorter intervals.
- As an owner-manager, you should draft plans for the future well-being of your business after careful analysis. You will be able to draft a realistic plan only when you take into account the facts and figures collected through standard and reliable information sources. However, do not get obsessive about numbers. The main aim of planning should be to specify what you are going to do or what your actions would be in order to achieve the set goals.
- Agility and flexibility with which you can respond to change are the two most functional tools that depend on your business's growth. Even though you are required to be positive and decisive in policy matters, rigidly clinging to a strategy once adopted is often harmful



to growth. You have to adapt to the changing situations and should not hesitate to try alternative strategies. You do not always have to work perfectly and qualitatively. Your aim should be to win over your competitors and consequently earn a reasonable amount of profits in the long run. If that calls for a compromise on perfection, you should not attach or give too much importance to any preconceived notion or dogma.

- Whenever you implement a plan, you will realise that it helps you in developing your business while preventing all possible crises. As a small businessman, you will encounter several crises throughout your business life. What these crises are and how planning helps in managing them will be explained to you in the following chapters.

You should be able to use The Six Ps of planning -- purpose, philosophy, promise, policies, plans, and priorities to plan effectively.

**Purpose** – Planning cannot be done without the object or goal in mind. The purpose is necessary to give direction and focus on planning. These are measured and assessed in the end to evaluate the effectiveness of planning.

**Philosophy** – The philosophy of planning states the beliefs and principles as to the methodology to be adopted to achieve the objectives.

**Promise** – Planning should promise to utilise the strengths and curb the weakness of the business.

**Policies**- Planning ultimately leads to the preparation of policies prepared for guidelines for the system and methods of functioning. These guidelines can be prepared only after the planning is done.

**Plans**- Plans are the action statements as to how the functions are to be performed. Plans lay the process and approach of work.

**Priorities** -The goals and objectives of the business cannot be achieved in one go. They are to be achieved in the order of priority, starting from the vision, mission to goals, and aims.



# UNIT

## 7

### Managing Crisis Part 1: The Starting Crisis

Contents

#### Chapter V

1. How and why does starting crisis occur
2. How to avoid starting crisis

#### Aim:

- Caution you against the starting crisis of your business

#### Objectives:

- Diagnose your business for possible starting crisis
- Take action to prevent starting crisis



This chapter attempts to make you aware of some precautions you should take to avoid getting into difficulties and problems in your new enterprise. Thousands of small-scale industrial units come up every year and a considerable number die within the first two to three years. It has been found that every business faces certain specific problems. We, through our experience, have identified seven major ones and call them 'Seven Crisis.' Not that every business faces all the seven crises, but at least some of them do sometimes or other. We are going to tell you how to ward them off.

### 5.1 How and why starting a crisis occurs

You are going to set up your enterprise and at the initial stage itself, you have to be aware of many aspects that are likely to affect you in your business. Otherwise, you may face the 'starting crisis'.

Starting crisis occurs when:

- You do not have an adequate and all-around experience and understanding of the managerial aspects of the business line you have chosen.
- There is no proper arrangement for keeping accounts.
- Your estimates of the money required for the business turn out to be below the required level.
- Your ignorance of taxation, particularly sales tax

Let us look at each of these in detail:

1. It is a known fact that when you set up your enterprise as a small-scale entrepreneur, you cannot afford to employ managers or personnel for the different functional areas. This means that you are the owner, personnel manager, marketing manager, production manager, finance manager, etc. -- all in one.

If you make a mistake in any one of these management areas, it would mean monetary loss. So, you must know everything about your industry. This can be made possible if you are either qualified for this through education and work experience or make up for the lack of these two by gathering knowledge on your own.

Let us look at the case of a salesman who had a long experience looking after an industrial firm's sales. One day, he felt that the firm was successful because of him and his marketing skills. So why work for a salary? Why not start an industry of his own and make a lot of money! He set up his enterprise and took a person with manufacturing experience to join him as a partner. So far, so good. But he did not understand anything about finance and costs. He neglected them and ended up selling his product at a price below the cost of production.

This is also true in case of engineers and technicians starting their ventures. They know how to manufacture a product, but they generally fail when it comes to marketing. And lacking knowledge of finance and its management, they eventually fold up.





There is another example of two sons of a businessman. Both had degrees in business administration from a top business school. They decided to set up their industry. They came across a person who had developed a new product. This new product seemed to have a market too. So they set off. But it took quite a long to develop the new product and start production. They needed more money and asked their father for it by this time. This went on for two years and they kept on asking for more money. Their father finally got fed up and refused to oblige. By then, due to the delay in delivery, they lost the demand for their product. Finally, the unit was sold off to an uneducated but experienced person who started producing what he knew well and succeeded.

The examples on the right show that you have to know all the aspects of an enterprise you intend to set up. What we mean is that a lack of all-around management experience is the cause of the failure.

You should have an experience or understanding of the specific line of business which you take up. There are cases of people who venture into a business as others are doing well in it. This is called the 'me too' syndrome. But if you do not have an understanding of the business or relevant experience, the outcome is a failure. So do not plunge into a business seeing the success of others.

2. When a new entrepreneur sets up an enterprise, he/she feels that he/she cannot afford an accountant. He/she also thinks that he/she knows everything about the business and need not spend (waste) money on an accountant. But the fact is that most of the entrepreneurs lack understanding of accounts and do not know what financial information they must have to manage their business well. They always keep themselves busy with the production or marketing of their products.

We asked a high-ranking officer of a bank as to what his best advice to a new entrepreneur would be. He said "invest some amount to engage a good accountant as soon as you start your venture".

Look at this owner of a construction business. The business was one or two years old and he thought that he was making a good profit. However, at a later date, he was told by the accountant that his business was running at a loss. He just could not believe this. He immediately engaged a finance expert to do an audit of his business. The expert studied the accounts and confirmed that he was really making losses. The owner was under the wrong impression that he was making good profits.

What had gone wrong here?

The owner had not included depreciation of two items of his equipment (because no money had gone out). He had not taken into consideration the salary of his wife who was helping him in the business (she had left her job to do so). He had not remembered the overtime paid to the workers. Interest in the capital brought in by the owner was also not added.



And this is not an isolated case. If you talk to a banker who advances funds to industry, the first thing he would tell you is that owners of most of these businesses do not have a clear idea about the actual costs incurred by them for their business. As a result, they run short of working funds.

You can learn from this that only with proper accounts you would have a clear idea about the actual cost of manufacturing the product you have selected. And you would also know how you arrived at the figures of your profit/loss.

3. Be always careful about making a correct estimate about the investment you would require for your project. Otherwise, one fine day you are going to discover that you are short of money halfway through and have either to give up or borrow money at a high rate of interest. Correct investment estimation will help you avoid other problems like no money left to buy raw materials or to pay wages.

This reminds us of the case of an enterprise manufacturing electronic items, described on the right.

Two partners set up a unit to manufacture electronic items. Both had a good background in designing such items while working for a big company. Each of them invested his entire life savings in the enterprise and borrowed money from relatives and friends. Their idea was to take sub-contracts for some items to ensure a steady income and also to develop and manufacture certain new products. But the money they raised was not enough to manufacture even the routine products. One partner had to devote all his time to raising money for a few months. The result was that they could not start production and started fighting and blaming each other. Finally, the unit was sold to a large unit at a loss. Of course, this shows not merely the underestimation of funds required but also poor management.

One of the common mistakes made by new entrepreneurs is the underestimation of working capital requirements. You should consult your banker about the amount of working capital required. This way, you could know the requirement and the amount you will have to put in as working capital margin.

We would go further and say that if your margin is to be 'X' amount, you should provide for 'X+', i.e., a little more than the required amount, to be on the safe side.

4. Lack of knowledge about taxation as applicable to the small-scale industry could make your enterprise sick in two-three years.

Generally, small entrepreneurs worry about income tax, which is to be paid on profits, but they forget that there are taxes like sales tax, excise tax, etc., which one has to pay even if there are no profits. Even if you are making a loss but selling your goods, you have to include sales tax when you charge your customer and then pay up the amount thus charged to the Sales Tax Department.

So, be sure you familiarise yourself with various types of taxes payable by your enterprise before you start your industry.



We shall narrate here the case of a technocrat who lost his unit just because of his ignorance about sales tax liabilities.

A technician set up his electronic motor-winding unit. He had a previous work experience in an engineering unit and knew all about the technical aspects. But he did not know anything about sales tax liabilities and the Sales Tax Department. After he started his unit, he bought the raw material from suppliers without proper bills. After some years of working like this, the Sales Tax Department became aware of the fact and he was made to pay sales tax right from the day he had started production and sales up to the date he was contacted. And this was not all; he had to pay interest on that amount and a penalty. The poor man's unit was auctioned off to recover the dues and all his property was attached. A very heavy price paid for ignorance!

### SAQ 5.1

Present your knowledge in two sentences each on the factors that could lead your business to 'starting crisis.'

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

## 5.2 How to avoid starting a crisis

Do not lose heart - you can avoid all these mistakes. You can take precautions, take advice from experts, bankers, etc., and prepare yourself by learning as much as you can about your business.

### 1. Listen to all available advice

Every new entrepreneur is enthusiastic when he sets up a unit. He makes plans and projections. But in most cases, these are too optimistic.

Generally, entrepreneurs overestimate their sales turnover and underestimate expenditure. When you are in the process of setting up your enterprise, please think through questions such as 'who will buy my products and why? Why should the customer buying the products from other suppliers until now leave them and buy mine?' You may think that the quality of your product is better than theirs or as good. But who has to judge that? Not you, but the customer. Also, remember that a cheaper price is not always the criterion for a customer to buy a product.



- i. Sleep over your scheme. Once you have prepared a report of your project, do not be in a hurry to submit it for a loan or to start the process of setting up. You give some more thought to your plans and projections. May be your second look and the changes that you make would be more realistic especially about the capital needed for your project.

The time is yours before you start your project. Once you begin the process of setting up, you will not have the time or opportunity to change your decisions.

- ii. When planning for the investment required for the project, you should be a little conservative. Go through every item minutely. In brief, be frugal when you estimate your income and lavish when you estimate the expenditure. Play safe.
- iii. Get your project/project report scrutinized by bankers and consultants and those who are directly or indirectly interested in your project. Their advice on the weak points in your project and how to take care of them could benefit you.

Bank officers say that a typical small-scale entrepreneur never came to meet them until his unit got into problems. And he would never discuss his project plan with the bankers before taking various decisions.

## **2. Organise up-to-date business information**

Before you start your enterprise, you should set up a system to get good financial information on production cost, income from sales, profit/loss, and cash flow reliably. This system should be such that you get the information periodically. It would help you know the outcome of the business decisions that you want to take or have already taken. Without such a system you would not know the outcome of your decisions. Consider the expenditure involved not as a cost but as an investment. And of course, engage a good accountant too.

## **3. Encourage participation of investors**

Whenever you start looking for additional capital for your new or existing enterprise, ensure that you identify the right type of investors from whom you can obtain as much finance as possible. One reason for this is that these investors, who could be the state financial institutions or developmental banks, would examine each and every aspect of your scheme thoroughly and objectively. Besides, these investors do not panic easily. If you are in some temporary financial trouble and cannot keep up with your repayments, they do not withdraw their support. While if you borrow from private investors and are in financial trouble, they would immediately ask for their money back and harass you. And this way, they may also indirectly ruin you.

Do not be secretive. Share your financial problems with the financial institutions/bankers. Take their guidance and advice and financial help. If you keep them informed of your real situation, a lack of finance will not hinder the growth of your unit.

## **4. Meet your tax consultant or officer often**

When you start your enterprise, do not rely too much on your accountant or managers in matters of tax liability. Let them do routine work like writing accounts, filing sales tax returns, etc. But acquire knowledge yourself and monitor their work. Before you start your enterprise, check what tax laws are applicable to your line of business and what benefits or refunds are available to you from the government. Make it a point to often discuss this and other related matters with your tax officer.



Do not forget that income tax is payable by you when you make profits, but sales tax is payable by you on sales that you make. It is irrespective of the fact that you might have made a loss. So, you should not underestimate its importance. Besides, other taxes like excise and octroi etc. are applicable to your enterprise. So get to know all about them.

## 5. Estimate the investment figures realistically

We have already talked about making a realistic investment estimate in your project and what happens if you underestimate it. It is easy to make estimates of investments in land and building; they can be checked easily. But an estimate of investment in plant and machinery is often made with less care than necessary.

When you select machines for your project, it is a long-term decision. You are going to use the machines for years. You cannot easily change your machinery once you have selected it. Yet we have seen entrepreneurs who take the decision without due consideration. They look at the machinery used by similar units or their competitors and purchase the same. 'If it is O.K. for them, it is O.K. for us'. This is short-sightedness.

Let us give you a typical instance of how an entrepreneur took the decision about the machinery for his project and got into trouble.

Mr. Jaiswal put up a ball-bearing project. He decided to buy eight turning lathes for turning rings of the ball bearings. He took this decision because an earlier project for the manufacture of bearings also had eight turning lathes. He did not think of any other aspect. For example, he did not consider whether buying the rings from outside would be cheaper than making them. After he started production, he found that the cost of the turning rings was almost double the price quoted by a neighbouring unit for the same rings. Where did he go wrong?

The earlier project had these lathes because it was located in an area without any ancillary unit nearby making the rings. So the owner had to make them himself. Besides, it manufactured different bearings with higher accuracy.

The result was that he stopped production of the rings and all the eight lathes remained idle.

Here is an example of selecting the wrong machinery. He did not give thought to anything else, but went by the example of another unit.

This is an example of electing the wrong machinery. Mr. Jaiswal did not give a thought to anything else but went by the example of another unit.

This can also happen when you select a machine without considering its production capacity aspect.

Suppose your market demand is 10 tonnes per day and you purchase a machine with 50-tonne capacity. What happens if there is a waste of the capacity until you can generate that much demand (market)! And when you get the 50-tonne machine, you obviously have to pay more. As a new entrepreneur, you cannot afford this. So do not rush; think and then decide.



The fact is that the decision to purchase machinery requires careful thinking. We suggest here some questions, which you should be able to answer for analysing your selection of the machinery. It is a kind of a checklist:

- Does the machine have the specifications of performance that I need?
- Does the machine need skilled labour? If yes, can I get the required skilled workers in the area where my unit is going to be established?
- Are the specifications of the machine compatible with those of other equipments in my proposed unit?
- Does the process (built into the machine ) generate effluent? If yes, how can I treat the effluent and at what cost?
- Is the technology of the machine appropriate to my needs and my environment?
- How effective is the after sales service? How much does it cost?
- Is the machine energy efficient?
- Is the machine within my budget?
- Can I avoid buying it altogether?

### SAQ 5.2

What do you propose to avoid 'starting crisis'?

1. _____ _____
2. _____ _____
3. _____ _____
4. _____ _____



# UNIT

## 7

### Managing Crisis Part 2: The Cash Crisis

#### Contents

##### Chapter VI

1. How and why cash crisis occurs
2. How to avoid cash crisis
3. Two categories of cash

#### Aim:

- Caution you against finance crisis of your business

#### Objectives:

- Diagnose your business for a possible cash crisis
- Take action to prevent a cash crisis in your business
- Select an appropriate source(s) of finance for funding growth



Many small entrepreneurs are so engrossed in production, marketing, profits, and growth that they do not realise that their business depends on the availability of cash. Only if they have an adequate amount of cash, then can they achieve their targets. That means they run into a cash crisis. The important point is that they become aware of it only after they get into it.

### **6.1 How and why cash crisis occurs**

1. Excessive attention to profits and sales growth rather than cash-on-hand; over-investment in raw material stock, rising outstanding amount. When an entrepreneur sets up a business, what does he/she generally concentrate on? Increasing the market and making profits. But, he/she forgets one important aspect -- keeping adequate cash in hand (which includes cash in the bank) for raw material, wages, utilities, and any contingencies required for for-profit/sales growth. That lands him/her in trouble.

Sometimes, entrepreneurs buy a lot of raw materials and block most of their money.

They may also extend credit to customers. If the recovery is delayed, it causes a cash shortage.

2. Excessive investment in fixed assets by drying up funds. When an entrepreneur spends a huge amount on getting a loan for land, building, plant, and machinery and gets starved of cash.

3. Unplanned expansion in time and stages. It also happens when an entrepreneur, once her/she starts doing well, goes in for expansion without considering whether the time is right or whether he/she has adequate cash reserves/resources for it.

When your business grows, you require more money for raw materials. The number of your debtors, those whom you have given your goods on credit, also increases. The result is a shortage of cash in hand.

Let us take the example of an electrical goods manufacturing company:

The company's three partners worked day and night to establish the production of three new products. Finally, they succeeded, but the income from the sales was much less than expected. Three of the customers they depended on for orders could not order the products for various reasons.

After some time, they could succeed in getting good orders for two of their products. By that time, they were short of cash. They did not even have enough money to pay wages to their workers, purchase raw materials, or meet any other production costs. They had mortgaged all their fixed assets, and to buy more raw materials, they even mortgaged the remaining property. But, they were still short of cash.

The partners rushed to their original investors for more funds. But, the investors also did not have surplus funds. By this time, they were worried about whether they would get back the money, they had already advanced.

Then, they tried their bankers. As they had enough orders on hand, they were confident that





they would be given finance. The bankers, however, had their doubts. The company was 'red' - loss-making. One customer they contacted also gave an adverse opinion about the company's products. So, they also did not grant loan to them.

As you can see, this is a classic case of underestimating the required working capital. Had they concentrated on just one product at a time, there would not have been such problems.

Giving too big credit to customers also causes a cash crisis.

One textile mill in Ahmedabad was experiencing a working capital shortage despite good sales. They engaged experts to identify the reasons. Experts observed that debtors blocked a large number of the mill's funds. As a result, there was a chronic shortage of cash on hand. The credit period in the textile industry is 45 days, but the mill management allowed a period of 120 days. The directors of the mill did not take notice of this phenomenon. They were concentrating on production. And hence the problem.

Here is one more case where a manufacturing unit experienced a cash shortage because it had blocked a lot of money in the raw material.

A small-scale unit manufacturing electrical laminations and stamping located in Ahmedabad, always experienced a working capital shortage. The proprietor consulted some experts, who discovered that he had invested considerable money in stocking raw materials. The unit manufactured 30 varieties of stamping and 8 varieties of laminations. For this, it required three different varieties of special electrical steel. As some of these were in short supply, the proprietor kept a large stock without thinking of his real requirements. What he should have done was to calculate the requirement of each variety depending upon the production quantity of the various items. But, he did not do this. Since his forte was marketing, he concentrated on that.

So, keep this in mind when you start your industry.

### SAQ 6.1

In two sentences each, present your knowledge on the factors that could lead to a cash crisis.

1. \_\_\_\_\_

2. \_\_\_\_\_



3. _____
_____
_____

## 6.2 How to avoid a cash crisis

Here are some tips for avoiding a cash crisis:

1. Understand the relation between profit and cash in hand.
2. Constantly watch for ways of economising on cash.
3. Consult a good accountant, bankers, financial experts.
4. Constantly assess cash position, prepare cash flow statements in advance every three months.
5. Monitor raw material stocks, semi-finished goods, inventory of finished goods, and outstanding recoveries.

We think the above five factors are self-explanatory and we need not go into details. But, the first and foremost way to avoid this crisis is to keep a watch on the amount of cash in hand, which includes money in your bank account. You should also prepare a cash budget, say for a period of six months. You should review and revise the budget every three months. The estimated figures of income should be checked with data of actual income to avoid errors.

Actually, you should prepare a complete cash-flow statement for a period of three or six months. At any given moment, this statement can tell you about your cash position, whether your outgoing amount is more than the incoming one or the other way round. If you have less cash in hand than required, you have to think of ways of obtaining it. But it is necessary, rather essential, that you are aware of it beforehand.

Ready-made forms for preparing cash budgets are available in the market to analyse the past as well as a projected budget item.

More importantly, when you have this (analysis) in your hand, you can think of ways to see to it that you have cash on hand. For example, you can purchase your raw material at a discount during the slack season and be more vigilant about giving credit. Instead of purchasing land, building, and machinery you can rent or lease the same or outsource some of your production and thus save on expenditure which can be avoided.

Moreover, this can help you decide which product to concentrate on, if you are going to manufacture more than one product, depending on the profitability and market demand. And if there are any contingencies and you require immediate cash, you will be prepared for them.

A good accountant can help you learn cash management and set up a good cash management system. You might feel that the only way to avoid a shortage of cash would be to acquire



additional cash. But if you have a good accounting system that provides you with the relevant information, you can really operate to make the best possible use of the available cash.

Remember, as, in case of a starting crisis, a cash crisis can also be caused by the underestimation of capital required for the project as well as faulty cash management.

### **6.3 Two categories of cash**

It will be easier to understand cash if we divide it into 'long-term capital' and 'short-term capital.' The money you invest in fixed assets like land, building, plant, machinery, etc., is called 'long-term capital.' While the cash that you invest in raw material, work in progress, finished goods, working expenses, and debtors are 'short-term capital.'

Unless you keep a close eye on the above items of short-term capital, you will end up with a cash shortage. If you do keep a close eye, you will rarely face a cash crisis. Let us now discuss these items one by one.

#### **1. Raw material**

You should purchase only the minimum requirement of raw material. But if the material is available under the quota system or is usually in short supply or seasonal, then it may be necessary to stock the material. In such cases, the best thing you can do is go to your banker at the beginning. You can discuss the situation with him and ask for the necessary working funds. But, otherwise, never stock more than the quantity required.

#### **2. Work in progress/process**

It means the production time taken in converting your raw material into finished goods. Some types of products take more time in the process and some others less. You should keep your inventory based on this factor, which is then taken for conversion.

You should also avoid a mistake commonly made by small entrepreneurs. Sometimes an entrepreneur gets an order for the manufacture of a special item that he/she normally does not produce. Then he/she stops the regular production work and uses the machinery for making the special product. Avoid this. You must first complete the manufacture of your regular item/s in hand. Then only you may consider taking up the special product. Otherwise, you are likely to face a cash crisis.

For instance, there are five machines installed in your factory to manufacture one or more products. If you decide to manufacture another product on the same machines, they can be used for the purpose. But, you might have to change the settings and the tooling of the machines to suit the manufacture of that particular product. What does this mean? Waste of time as well as piling up of the raw material of the regular product and of course a possible shortage of that finished product. This, in turn, would mean fewer sales, and you might not be able to recover the loss from the sale of the special product.



So, it is wiser not to disturb your regular production work for the sake of short-term gain from the manufacture of the special product.

**3. Finished goods**

This is another aspect you have to be careful of. See to it that the stock of finished goods does not accumulate. The decision for this can be taken depending upon the size of your regular orders and market. If it happens that your flow of orders is reduced, go and check the market - your customers - and find out the reason for it and if possible, rectify it. Always talk to your customer about his needs and his expectations from your product and try to satisfy them.

**4. Working expenses**

You might recollect from Unit 2 that working expenses also form a part of your working capital. These include wages to be paid to workers, cost of utilities, repairs, maintenance, etc., and adequate provision has to be made and kept aside for these. Otherwise, you will end up with a shortage of cash.

**5. Credit collection**

From the example of the textile mill given earlier, you know what happens if you give too big a credit to your customers. Besides, you have to make sure about the timely collection. While we are at it, be always sure to check your customers for their creditworthiness. If customers place a huge order, check for the reasons for it. It does happen that a customer is on the verge of winding up his business, and he acquires a large stock of goods from his supplier, which can be you. So, you might end up losing your money.

So, ensure that you keep control of these five areas, and you will not face a cash shortage - crisis. And importantly, be up to date about the information on financial matters. Our advice would be to get weekly information from your accountant on key financial matters.

**SAQ 6.2**

A) Distinguish between short-term and long-term capital.




B) What do you propose to avoid a cash crisis?

1. _____ _____
2. _____ _____
3. _____ _____
4. _____ _____
5. _____ _____



# UNIT

## 7

### Managing Crisis Part 3: The Delegation Crisis

#### Contents

#### Chapter VII

1. How and why delegation crisis occurs
2. How to avoid delegation crisis

#### Aim:

- Caution you against delegation crisis of your business

#### Objectives:

- Diagnose your business for possible delegation crisis
- Take action to prevent delegation crisis



We would like you to know and put into practice one important adage -- delegate. Always delegate your work and responsibilities when you find that you cannot cope with them. Do not be afraid to delegate - that is, to share work as well as decision-making authority, powers, etc., when you need another set/s of hands.

Is it not better to delegate and increase your work efficiency rather than create chaos or mismanagement?

### **7.1 How and why delegation crisis occurs**

At some point in your enterprise, you reach a level where it is difficult for you to do everything single-handedly. You have grown. At the same time, you cannot hire managers for each functional department yet. What you should do then is to look for someone to delegate some responsibilities. This would let you look after more important matters.

This need arises when the number of your workers goes beyond 20. The number of workers can be lower or higher depending upon the nature of your business. For example, if the production process of your business is simple or if you have only one product and the market consists of a few big customers, then you can control the entire thing yourself even in the case of a big workforce. But if the production process is complex or your market is widespread, then you may need another person to help even if the number of workers is less than 20.

You will ask, 'why would I have a crisis just because part of my responsibilities need to be delegated to someone else?'

There are three main causes of this crisis:

1. Inability to delegate responsibilities and share decision-making burden
2. Psychological problems (only I can do better, lack of capability to guide and groom others, and lack of trust in subordinates).
3. Business grows, responsibility grows, time does not - business suffers, and success ends in failure.

The problem is that some entrepreneurs cannot delegate. They either resist or postpone delegating under some excuse or the other. Their attitude and mindset prevent them from delegating responsibilities or even work. They feel that they have to do everything themselves and take all the decisions as they do not want to lose control. They do not trust others. As a result, their business suffers when they fail to attend to the growing workload by themselves.

Initially, when you set up your independent enterprise, you make all the decisions yourself and do all the managerial and other work related to the enterprise. You also put in, in most cases, all your savings as your part of the investment in the project. So, your enterprise is your baby - you nurture it and put your blood and soul into it. How could you entrust it to anybody else? That is understandable. But, you will have to you cannot look after everything yourself.

If you cannot delegate, it is to your disadvantage. It might even ruin of the business you have set up with so much effort and love. You would become so harried that you would not be able to



function effectively. You would even begin to snap at customers, workers, and even your family members because of the work pressure.

Always remember that once the business is on the growth path, you cannot stop. If you take any wrong decision about new orders or growth in production, you will lose good customers and of course money.

We shall narrate a case that is a good example of an entrepreneur's inability to delegate.

### **Case: Inability to delegate**

Ramesh, a technician, worked for several years in a precision instruments company. While working there, he acquired experience in almost all functional areas of that business. Then, he set up his own manufacturing unit for the same products. After five years, his earnings reached a considerable high level. He also employed 30 workers. Ramesh had good entrepreneurial competencies and was also ambitious. On the advice of his bankers, he floated a public issue to enable him to expand. His bankers advised him that he was too talented to remain a small-scale entrepreneur and should become an industrialist.

Ramesh raised Rs 3 core through the public issue and added a lot of new machinery etc. in his unit. But with this expansion, he had to make more efforts to sell his products. Before he went in for expansion, he had a few loyal customers and it was easy to deal with them. Now that his production had increased he had to sell the products to wholesale dealers and many retailers all over the country.

It was obvious that the sales manager had to be appointed. But, Ramesh was reluctant. In fact, there were five sales managers, one after the other in two years. But he either sacked them or they resigned, as he did not allow to work without interference.

Ramesh had, thus, to look after both production and other matters as well as sales. He could not cope. And for the first time in the history of his company, he suffered losses.

**SAQ 7.1**





Present your knowledge in two sentences each, of the reasons that might cause a delegation crisis.

1. _____ _____
2. _____ _____
3. _____ _____

## 7.2 How to avoid delegation crisis

You can limit your business to such a level that you can handle everything yourself. But is it a solution? Not if you want your business to grow.

We will suggest the following solutions:

1. Find or associate a capable second person who will supplement you.
2. Test him, watch him, and start sharing responsibilities.
3. Consult with management experts or colleagues to identify your weaknesses and select a second person who is strong in the management areas in which you are weak.
4. Be prepared to pay high salaries, give status, authority, or share of profits to retain the valuable second person.

### **Appoint a competent person**

The main difficulty in implementing this could be that you may not be mentally prepared to hand over some responsibilities to that person.

We reiterate that the person whom you appoint or select should be strong in the areas in which you are not good. And please do not be afraid to admit your weak points.

If you cannot identify such a person, there are executive search organisations as well as a consultant who can help. These organisations or consultants would talk to you, appraise you of your strengths and weaknesses, your company, and its needs and arrive at the type of person who would be suitable for the purpose. They can even locate such a person for you and help you are overcome your reluctance to delegate and accept a new person.



There are many advantages to having such a person:

- He can share your burden
- He can help in the smooth functioning of your unit
- Being strong in the areas in which you may be weak, you can benefit from "all-round knowledge and experience".

But do not expect miracles. There can be a few problems:

- It might take a long time to find the right person
- Both you and the new person might have difficulty working harmoniously
- If the new man is very competent, he might expect a large salary or a share in the company

But remember that it is much better to have an 80% share in a thriving company than to have 100% ownership of a sick or loss-making one.

Let us have a look at 'Tushar Interiors' a furniture-making company of Ahmedabad and what happened to them when they were not prepared to pay their expert well.

Tushar Interiors was set up in the late sixties when most people in Ahmedabad were still not very conscious about decorating their houses with expensive furniture. But still, the enterprise did well and made good profits. Later on, the owner, his son Tushar, could very well manage the company.

But a time came when both the production and sale increased along with the population and its awareness about decorating its homes. The number of workers also increased. It became difficult for the father and son to manage the show. Luckily they could find a young man from Ahmedabad itself. Within a few years, this man, Animesh, could take over a lot of the management work of the business.

Then Animesh asked for a salary much higher than the one he was getting. The owner and Tushar requested him to continue and promised that he would be later made a partner in the enterprise. He agreed. After a year, he again demanded a raise or a partnership. Again, they gave him a bonus and more empty promises. After the sixth year, Animesh got fed up and left his job.

Not only that, he set up his own furniture manufacturing company. Today, he is established and making good profits. So is Tushar Interiors. But neither company is doing as well as Tushar was doing before the new company was set up.

One word of caution. Before you accept the new person on a permanent basis, 'wait and watch' for a while. In short, there should be a kind of trial period before you make your final decision about taking him/her up on a long term basis with adequate financial rewards. you should get to know how well you work together and whether he/she really is the right person for your needs.



Often, it also happens that the person who takes on may also have money to invest in the business. In such cases, you have a double advantage - money, and manpower. But again - a word of advice - do not accept a person who has money to invest but does not have management skills. The requirement is mainly for a competent second-in-command and not merely money.

Do not over-delegate. You should occasionally check the person's performance of various tasks assigned to him.

Sometimes, it happens that you put full faith in the person and leave everything to him and that person misuses his powers. So monitor his work.

Take the example of 'How Ravi was Financially Ruined'. He over-delegated and suffered.

Ravi was a marketing manager for a large multinational engineering company in Mumbai and well settled. But still, he was restless. He was too independent-minded and did not like working under somebody. One day he decided to resign and set up his own small-scale unit. He came to Ahmedabad and started a unit manufacturing the products which the multinational he was working in produced.

But, he was new to Ahmedabad and weak in the financial aspects of the business. So, he took help from a cousin, who was a chartered accountant. This man, Rahul, was more than willing and agreed to work with Ravi. Ravi put full faith in Rahul and delegated all the work related to accounts, sales tax, etc. to him. And never checked anything.

A few years later, Rahul died in a road accident. After his death, while going through Rahul's and the firm's papers, Ravi received a shock.

He found that sales tax returns for a number of years were not filed and he had to pay a huge amount to clear the outstanding. There were several fake entries where the firm had not received any money. But the money had been diverted by Rahul. Actually, unknown to Ravi, he had also set up his own venture manufacturing the same items.

As a result, due to his own negligence and over-delegation, Ravi was financially ruined.

In short, delegation is a must if you want to grow. But, over-delegation or delegation without monitoring can be as dangerous as not delegating at all.

## SAQ 7.2

What do you do to avoid a delegation crisis?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_



# UNIT

## 7

### Managing Crisis Part 4: The Leadership Crisis

#### Contents

#### Chapter VIII

1. How and why leadership crisis occurs
2. How to avoid leadership crisis

#### Aim:

- Caution you against leadership crisis of your business

#### Objectives:

- Diagnose your business for the possible leadership crisis
- Take preventive action

A leadership crisis is similar to a delegation crisis. But, this is not merely a matter of delegation, a lot more is involved here. You should be able to not just delegate, but also lead your personnel and enterprise.

This crisis occurs when your enterprise reaches a level where a team of managers is required to shoulder responsibilities of varied functional areas and the workforce is increased to 150 or more.

So, what is the necessity to know about this now? Our aim is to make you aware of all the eventualities and prepare for them. The knowledge will stand you in good stead when you are a successful growth-oriented entrepreneur.



## 8.1 How and why leadership crisis occurs

Leadership crisis occurs when:

1. You or your partners are not able to manage all the responsibilities and have to delegate to the managers not just your tasks but also a few of your responsibilities.
2. You fail to develop a management team. You have been till now successful as an owner/manager. You are used to looking after all the areas of your enterprise, viz., marketing, production, accounts, finance, etc. and you have been managing fine till now. But is it possible now - with such a grown workforce - to look after everything yourself? Or to take each and every decision yourself? No! You have to appoint professionals to manage these various functional areas and delegate powers and responsibilities and groom them to replace yourself in managerial tasks.
3. You fail to change your management style. You have to learn to change the way you manage your unit or company. Your small unit has undergone a transformation. Now, you have to become a leader instead of a 'do-it-yourself person'.

To be more specific, you have to make the following changes:

1. Delegate more powers to others.
2. Instead of doing all tasks yourself, develop yourself to be an effective leader.
3. Keep control of your enterprise through efficient paperwork and information system.

We will again talk about delegation now, but the delegation is different here. When you are facing or are likely to face a leadership crisis, you have to delegate most of your powers and responsibilities to your competent managers. You should delegate the responsibilities of almost all of your functional areas.

### **Being an effective leader**

Being an effective leader means that you have to become a guide and leader to others. You do not have to deal directly with most of your personnel. As an owner-manager, you are used to directly interacting with, say, for example, your supervisors, salesman, etc. All this has to stop now. You deal directly only with your team of managers. In short, you have to keep away from the functioning details of your company.

Besides, to ensure your company's smooth running and growth, two-way communication between the management and personnel has to be established. This way, the company's policies can be made known to everyone, and there can be an upward flow of information from the personnel.

Keep one important thing in mind. The goals and objectives of the company should be made clear to all the managers. They should also be clearly explained their roles and responsibilities. You now become only the planner and thinker of your company.



## Managing through effective written communication

As we earlier mentioned, you have to be in direct touch with or manage only your team of managers. This communication should be in written form. Day-to-day interaction would be a waste of time. Apart from this in oral communication, there is a possibility of distortion of the message.

We understand that as a small-scale entrepreneur you would hate paperwork, but it's important now.

We would give you one example of a leadership crisis, where the outcome was disastrous.

### Case: Inability to change management style

Mr. Pillai was the works manager of a medium-scale unit manufacturing textile machinery components. He was not satisfied with the fat pay and good working conditions. The bug of entrepreneurship and independence bit him. He left his cushy job and set up his venture making the same products. He was not merely good at production but also kept good relations with his workers. The market was also not a problem. But, he was ambitious and gradually expanded his production as well as his market- from local, it became national.

This meant a grown workforce, managers for all functional departments, and controlling all of them. And there, he failed. Instead of leaving all the work of his new unit to others, he tried to see to everything himself and interfered in everything.

He stretched himself too much physically and mentally. This taxed his health. One day, he got a massive heart attack. He was saved, but his doctors advised him long bed rest. They also asked him to take it easy for the rest of his life. As he had no son to take over, he had to sell his business.

### SAQ 8.1

Present your knowledge in two sentences each on the factors that could lead your business to 'leadership crisis'

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

## 8.2 How to avoid a leadership crisis

Let us have a look at how to face or avoid this crisis:

1. Train, discipline, and re-educate yourself in new management skills and style for growth.



2. Old knowledge and management as a small-scale entrepreneur and personal physical check on everything would not work.
3. Act more like a leader than owner/manager/supervisor.
4. Constantly evaluate how you spend your time.
5. Concentrate on business strategies, planning for the future, competition, government policies, etc.
6. Develop a team of executives, give them authority.

Of course, there are no quick solutions to the leadership crisis. There is one class of entrepreneurs who, however hard they may try, are unable to change. They do understand the need for a change, but they do not have a flexible mind.

There is a big number of others, owners of small-scale units, who do have the potential to change once they face this crisis. You should belong to the group, who if he tries hard, can change. How?

- i) **Obtain management training:** Till yesterday, there was a traditional approach to management. Training meant that you acquired experience and learned on the job. Today's approach is to learn it in a management school. And, one has to admit that the traditional approach lacks several respects, especially with the changing industrial scene.

A large number of entrepreneurs have begun to undergo training in management at seminars being organised by ASSOCHAM and other institutions.

Attend short-term training programmes and seminars conducted by management schools or management associations. These programmes not only give you some training on how to behave, the effect of the behaviour on others, look into yourself (self-assessment), and some change from the routine. Interaction with other like-minded participants also would help.

- ii) **Develop the qualities of leadership:** As has been said, 'leadership is to business what oxygen is to life'.

If you want to change in order to become a better leader, you have to take stock of how you behave with people around you and how you deal with them. This itself will bring changes to your behaviour.

Have you ever thought of how one wastes time in unnecessary meetings, conferences, and having a so-called open-door policy? A number of entrepreneurs engage in such activities and other similar behaviour. And they consequently neglect what they really should be doing.

Always remember not to form such habits. And if at all you have, try to get rid of them. No one is going to point this out to you. You have to realise yourself. We accept that this is not easy, but try – try hard.

You will ask: how can I become a good leader?



All we can say is to have a tough leadership style when dealing with people who like to be told at every step what they have to do and who are not themselves motivated enough to do it. While with people who know what they have to do and how to do, you have to become a kind of facilitator. Which means, being there to help only when needed. So it depends on the people you lead and also the situation.

Here is a check-list that can help you.

1. A good leader inspires a vision amongst those who work with him/her. He/she makes them share the overall aims of his/her enterprise.
2. He/she strains every nerve to inspire confidence in his/her people and makes them effective through mutual trust.
3. He/she makes effort to ensure a high quality of work life in his/her enterprise.
4. He/she listens to the employees and communicates with them effectively.
5. He/she leads by setting example. Personally, he/she is a fountainhead of energy, enthusiasm and commitment. People love to work with him/her and for him/her.

Do you think that reading practical books on effective leadership will help? Gaining a few tips and hints on leader behaviour, you can change your ways of thinking and behaving? No.

Take our advice and consider the suggestions we are going to give you. And please take some action on these suggestions.

- iii) **Conduct a feedback survey:** Conduct a feedback survey among your employees to find out what they think of you. This can be done through professional experts who can have personal meetings with your employees or through letters. The expert can also advise you on how to utilise the feedback.
- iv) **Make a periodic audit of time-management:** It would really be an eye-opener if you keep a record of how you spend time. Try it for a month or so.

One entrepreneur found that he spent more than 60% of his time looking after sales and marketing. The reason is that marketing was his strong point and he loved to do that. What happened was the other aspects of his industry were neglected.

Another established entrepreneur frequently has visitors who came to him for advice about their projects. He liked helping the newcomers and being active in his industries association. As a result, he could not really interact with his employees, know their grievances, etc., or build rapport. And they in turn did not give their loyalty and support to him.

Of course, there are no hard and fast rules as to how much time you spend on each activity. You have to plan that as per the needs of your enterprise.

But ensure that your time is spent productively.

- v) **Develop a team of managers:** We have already mentioned that a team of competent, suitable managers should be developed with responsibilities for various functional areas. You should do this very carefully by selecting one manager at a time. And keep a close watch on each new person until you are sure that he/she always has a profit angle in mind.





You should also keep a time limit for selecting the team. Then delegate the powers and responsibilities and get along with your role.

And make sure to keep a record of how you spend your time.

You also have to make sure that the company's goals, as well as their own roles and responsibilities, are clear to all managers.

You should run your entire company by managing your four or five senior key managers. Your managers in turn will manage the operations of your business. That gives you enough time to concentrate on planning for expansion, diversification, and eventually for growth and success.

You will realise that after you have successfully delegated responsibilities and power to your managers, you are not required to look into the day-to-day minor details. However, to be relieved from the routine functioning of your enterprise and yet assured of continuous growth you need to instill in the management team trust and confidence in your leadership. Remember that mere ownership does not entail leadership of the enterprise.



# UNIT

## 7

### Managing Crisis Part 5: The Financial Crisis

#### Contents

##### Chapter IX

1. How and why finance crisis occurs
2. Sources of finance
3. How to avoid finance crisis

#### Aim:

- Caution you against the financial crisis of your enterprise

#### Objectives:

- Diagnose your business for possible finance crisis
- Take action to prevent finance crisis
- Select the appropriate source(s) of finance for funding growth

A time will come when your enterprise is not only established but is also growing. You would need additional funds or money to take care of your expansion/growth needs.

Initially, when you set up your enterprise you either invest your money or take loans to augment it. But now, the requirement will be for a considerable sum of money. The reserves you might have or the profits you must have made might be there. But would those be adequate for the purpose? Not possible, especially after a sizeable chunk of the profits has gone towards income tax.



So, you have to consider various sources for the required funds. Major sources are the following :

- Promoters (that is you) by way of increasing equity or loan
- Public through equity/shares/bonds, debentures, or unsecured loans
- Financial institutions by subscription to equity or term-loan under their available schemes
- Commercial banks through term-loan
- Suppliers by way of short term or long term credit
- Financing and leasing companies
- Venture Capital funding agencies

Money can be raised from any of these sources depending on their suitability for you. Then why and how does this finance crisis occur?

### **9.1 How and why financial crisis occurs**

It occurs because of:

1. Failure to choose the right source of funding for expansion (too much dependence on borrowed funds)
2. Failure to go public
3. Over-ambitious and unrealistic expansion plans using up surplus funds
4. Psychological problems of losing control - 100% ownership to 80% or less ownership.

Failure to realise the various sources of finance and their advantages and disadvantages lead to a financial crisis

Dimensions of the financial crisis:

These are the perspectives from which the crisis needs to be analysed and remedied. These dimensions are-

- Sources of funds: The source form which the funds are arranged, i.e. internal or external, owned or borrowed, etc
- Time element associated with finance: Long-term or short-term finance needs
- Stage of business: The commencement stage of business, expansion stage of business, regular business finance needs
- Costs associated with finance: Interest to be paid for arranging funds, opportunity cost
- Cost, profit and finance relation: The relation between the cost to be incurred for gaining profit and the sourcing of funds

### **9.2 Sources of finance**

#### **Promoters**

Funds can be raised in two ways:

1. Equity
2. Loans



## 1. Equity

The big advantage for you is that the money is easily available without getting into the hassles or procedures for obtaining it from outside sources. Here, money can be acquired without any cost.

Another advantage is that the increase in the amount of your equity would automatically bring down the debt-equity ratio. This fact would help you in getting additional funds when you need them from your investors like financial institutions or banks.

You might as well know the disadvantages here.

As we mentioned, in a proprietary/partnership firm no permissions from regulatory authorities are required. In case yours is a private limited or public limited company, such permission is needed. This would cause delays and costs would have to be incurred.

As a small-scale entrepreneur, you would not have money adequate for the purpose. So, you shouldn't utilise this limited source, your money, for expansion, but keep it for contingencies.

## 2. Loans

The main advantage is that money can be brought in without going through procedures. And as it is given to the enterprise, you, as an individual or your family members, can earn interest. If you avail the loan in the name of a number of family members, the tax liability of every member gets reduced.

One of the problems here is that the interest paid by you or your family members is not a tax-deductible expenditure for your business if yours is a proprietary or partnership firm. But if your company is a private limited or a public limited one, it (the interest) is deductible from the gross income of the enterprise. This reduces the tax liability of each individual.

The second problem is that the loan given by you to your enterprise is an unsecured loan. If your enterprise is in financial trouble, the loan given by you will be returned after all other secured creditors, like financial institutions, banks, or other agencies, etc. are paid off.

Look at the following:

Aravind, a small-scale entrepreneur, is a classic case of using up his own money for expansion. Why did he do that? - Fear of losing control over his enterprise. He was a small company manufacturing electrical laminations. Now he wanted to launch the production of motor stampings for fans. Because of his fear of losing control, he neither approached the financial institutions nor looked for a financial partner. He invested all the money that he could spare from the unit as well as his savings in the new venture.

In the beginning, he had some problems with the dies for making the stampings. The production was delayed. The problem was finally solved, but the stampings did not take off immediately in the market as the quality was not up to the prevailing standards. He needed to consult a



technical expert for the required modifications. Money again was needed for this.

He approached his banker for finance, but he refused as the performance of the unit was not good. Aravind was in a problem.

Aravind could have gone to the bank at the beginning itself when he needed money for the new stampings project and kept his funds for contingencies of this sort.

Learn that you should always keep some reserve funds for unforeseen circumstances.

## Public

You can float a public issue (shares) or invite fixed deposits from the public. This should be done when you need a large amount.

Here are the advantages:

- Your company can get funds without substantially increasing its equity. Do not fear that by inviting money from the public you would lose control over the company. It can be avoided by retaining 20% of 30% of the shares with you.
- By becoming, thus, a public limited company, you can get the opportunity of inviting experts on your board of directors. The money acquired through shares would also increase the total equity of the company, which would also make you eligible for borrowing more money. This is because your debt-equity ratio also becomes healthier.

Another way, as mentioned, is inviting the public to place deposits with your company for a certain fixed period - one year or three years. Here you pay interest to the depositors at the market rate. This source is possible when your company has a good credit rating. Though you have to pay interest for the money, it is an expenditure deductible from your profits. One more advantage here is that fixed deposits are unsecured loans, so in times of trouble, the assets of your company will not be attached to recover the money deposited with your company.

But like every good thing, this also has a dark side.

Though everything sounds so easy, raising funds from the public is not a simple matter. You require approval from the Securities and Exchange Board of India (SEBI) and also the financial institutions if you have taken any loan from them in the past which has not yet been repaid.

If you want to float a public issue and raise the required money, you need to be cautious and knowledgeable about all aspects involved before taking the plunge. Look at the example of Sudeep Panchal.

Panchals are an entrepreneurial community of Gujarat specialising in the fabrication and manufacture of engineering components and our Sudeep Panchal was no exception. He was an established entrepreneur who had been a very successful manufacturer of precision instruments.



But the trouble started when under the advice of share-brokers he floated a public issue and raised about a crore of rupees. Of course, he could expand and acquire two more companies. But now the activities also expanded and Sudeep tried to look after all the day-to-day administration, production, and marketing activities. And this was not possible. And the company began to make losses from the very year of the public issue.

This was disappointing. Sudeep was a capable, motivated, and enthusiastic person. Unfortunately, Sudeep had no experience or knowledge about the business of the two companies he had acquired. Besides, the production processes of these products were complex and needed experience in several years which he did not have. So he could not really manage the businesses.

Another reason for the losses was that neither Sudeep nor his merchant bankers knew much about the acquisition of new companies. They had made certain mistakes because of his ignorance.

At present, the scenario for Sudeep is that both the new companies have gone into liquidation. His original precision instruments unit is doing well, but most of the profits from that company go towards paying the liabilities of the acquired companies

Besides, floating a public issue means that numerous procedures must be followed and considerable expenditure must be incurred. Only if your company has reached a stage of growth, i.e., if your project/company is worth Rs 1-2 crore, then this source would be suitable for you.

Another disadvantage is that your company gets listed on the stock exchange by going to the public for money. So there is a danger of speculation and even a takeover by somebody who acquires the majority shares. You might be saddled with him or directors appointed by him on your board of directors. You may even lose your voice in the company.

As regards public deposit, it all depends on the creditworthiness of your company and the rate of interest offered. Here too, the Reserve Bank of India has prescribed certain guidelines. And do not forget that in the case of deposits, you have to pay regular interest to the depositors.

To put it briefly, we would like to caution you, a small-scale entrepreneur, to consider the following:

1. Do not go in for these two sources unless you have crossed both the delegation crisis and developed a team of managers
2. If you want to go public, do not do it in haste. Try other sources of finance first. You might face problems if the share price of your company goes down. You would not be in a position to raise money from elsewhere.
3. The responsibilities of your company would also increase. You have to be accountable to your share-holders and government departments



## **Financial institutions**

We, in India, have both national and state-level financial institutions that provide loans to entrepreneurs. The state-level institutions give loans for projects up to Rs 3 crore, while the national ones to projects worth more than Rs 3 crore.

The advantage of raising funds from financial institutions is that the repayment period for the loan is quite long. On top of it, there is a moratorium period for repayment in the beginning, which allows you time to establish yourself and then start paying.

Besides, financial institutions are not very reluctant to help out in case of temporary requirements. And when you apply to them for funds, they go through your project minutely and examine all aspects before giving you the money. Once they loan you the money, you can assure yourself that your project is viable.

There are some disadvantages of borrowing from financial institutions. When you take a loan from financial institutions, all the existing as well as future assets of your company have to be mortgaged. Once that is done, it becomes difficult to raise money from any other source.

The example of Nikhil is a case in point.

Nikhil has been manufacturing blow-molded plastic carboys etc., for years. His once established market is in danger due to considerable competition from other manufacturers of the same items. He has to make changes in the design of the items to cope with them and regain his lost market. But for this, he needs money which he does not have.

How can he raise the required money? All his machinery has been hypothecated/mortgaged to the financial institution from whom he had taken his loan. So it would be almost impossible to get finance by giving it as security.

Now, because of this problem, Nikhil has to try and get finance from private sources at a high-interest rate.

This source still is the main and acceptable funding source for all entrepreneurs

## **Commercial banks**

Normally commercial banks provide money/finance for working capital and not for fixed assets like land, building, machinery, etc. In some cases, they do give long-term finance for fixed assets too. However, the repayment period is 5 to 6 years and not 8 to 10 years, as in the case of the financial institutions.

The advantages and disadvantages here are similar to those of financial institutions.

The only difference is that the repayment period for the loan is shorter than that of the financial institution and the rate of lending interest is higher. The moratorium period is also short.



One specific advantage of banks is that branches of various banks are spread all over the country. This means that it is easier for you to visit them frequently when needed. Their rules are also a little more flexible than those of financial institutions.

### **Suppliers and distributors**

This source is not yet popular in our country. But, you can consider it especially when your company is growing. The catch here is that you can avail of it only when your need for money is temporary.

Your suppliers can give you credit for machinery and equipment, raw material, and even technical know-how.

There are many advantages and almost no formalities. This source can be tapped if the requirement is for buying machinery, raw material, and equipment, or technical know-how.

Another advantage is that if the machinery supplied by the supplier is defective, the supplier has to correct the defect or replace it as the payment period is spread over three to four years. Apart from this, since the machinery is purchased under credit to the suppliers, depreciation can also be claimed. Besides, sometimes, the profit margin on some machinery is so high that the supplier may not even charge you interest.

Another source similar to that of suppliers is distributors. Suppose your product has a good market and you have an established network, then for your new product, which is introduced through growth. In that case, you can even ask your distributors to deposit a considerable amount of money with you to ensure stocks. They can also be appointed as agents for the product, in which case also they have to make a deposit.

Of course, this amount cannot meet all your needs, but some of your working capital requirements can thus be fulfilled.

### **Leasing companies**

In recent years, leasing companies have grown by leaps and bounds. These companies are prepared to meet the needs of expansion of small and medium-scale enterprises. Lease finance can be availed for installing machinery and equipment, R & D facilities, computers, and vehicles.

If your growth requirement is for investment in new machinery, then this is the best source. Because by investing only 15% to 20% of the cost you can have the required facilities. And the procedure is also simple.

As the lease is generally for three to four years, if the equipment becomes obsolete by that time, you can lease/buy that time and lease/buy new machinery with the latest technology.

Another advantage is that only the leased machinery or equipment has to be hypothecated to the leasing company. When you need to borrow any money, you can borrow against other assets of the company.





## Venture Capital Funding Scheme

This source of acquiring funds is very popular in the West. But in India, it is emerging and not yet utilised widely.

The Small Industries Development Bank of India (SIDBI) has introduced a scheme of direct assistance under the Venture Capital Fund (VCF) scheme. The scheme is designed to provide VCF assistance to new or existing industries for :

1. Encouraging the commercial application of indigenously developed technology
2. Adopting imported technology to widen domestic applications and
3. All matters connected with or incidental to the above.

The above-mentioned objectives limit the utilisation of the scheme as a funding resource. Besides, the size of investment under this scheme should range between Rs 5 lakh and Rs 250 lakh. Anyway, if you have a unique, innovative project in mind, you can think of this source too.

### SAQ 9.1

Present your knowledge in two sentences each on factors that could lead to a 'finance crisis'.

1. _____ _____
2. _____ _____
3. _____ _____
4. _____ _____

### 9.3 How to avoid a finance crisis

What preparation should you make to avoid getting into the crisis? Here are some pointers:

- Sufficient delegation, good team, and monitoring effective planning to avoid finance crisis
- Consult experts and bankers to choose the best source, time, and mode of expansion funds
- Do not be afraid to go public
- Remember, 80% ownership of growing firms is better than 100% ownership of a stagnant or declining one
- Do not be afraid of losing power As long as you perform well, the real control will always be with you.

#### Exercise caution in time

When you need more money/funds for your business, do not delay in getting them from financial institutions. The delay would cause a cash crisis or worse, your creditors would file a suit against you. And then nobody would help you.



### How to obtain funds

We have suggested various sources for expansion or growth and their advantages and disadvantages.

However, it depends on you to decide which source is the best for you. That would depend on the size of your company, your product, the amount of money required, a period of requirement, etc.

You may therefore consider the following major factors for selecting your source of additional funds :

- 1) Cost of raising funds
- 2) Cost of retaining funds
- 3) Time is taken for raising funds
- 4) Tax implications
- 5) Terms and conditions for getting funds.

We are sure that this will help you in avoiding this crisis or facing it squarely.

### SAQ 9.2

How do you propose to prevent the financial crisis?

1. _____ _____
2. _____ _____
3. _____ _____
4. _____ _____



# UNIT

## 7

### Communication for Business Success

#### Chapter X

1. What is communication
2. Communication process
3. When does miscommunication occur
4. Non-verbal communication
5. Developing communication skills
6. Importance of communication skills for success in business

#### Aim:

- Help you become a good communicator.

#### Objectives:

- Recognize the process of communication
- Realise the importance of Meta-verbal communication
- Develop effective communication skills
- Realise the importance of effective communication and listening.



## 10.1 What is communication?

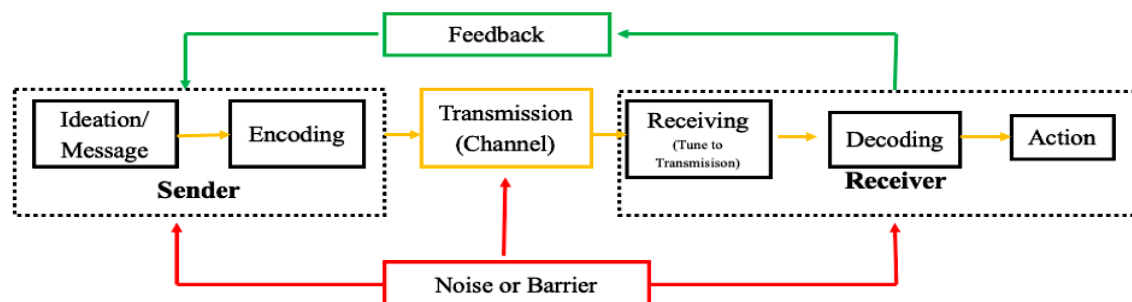
It is a medium through which we transfer and share our thoughts, needs, feelings, ideas, and messages to others. While talking about your business, we do not refer to our natural, spontaneous communication ability. Here, we are referring to communication that needs to be strategic, planned and cultivated to be effective.

Communication is all about creating and displaying messages and interpreting messages and displays. We communicate intentionally as well as unintentionally all the time. When we use words of a language, it is verbal communication. For example, oral and written communication is verbal communication. We also communicate continuously through facial expressions, gestures, images, ambiance, colour, dress, tone, etc. All these are examples of non-verbal communication.

Until yesterday, communication was verbal, written, or through telephone, public speeches, radio, etc. There has been great advancement in the area of communication. With communication satellites, we are in a position to establish not merely audio but also visual contacts anywhere on the earth. The recent Covid-19 pandemic has shown the necessity of an entirely digital mode of communication. Different web portals have become the only saviour to communicate for a meeting, give instructions, teach, learn, etc.

But, there are cases of miscommunication that lead to misunderstandings. That is because we are complex beings with different feelings, values, ideas, attitudes, needs, and motives. Each person understands and accepts the communication he/she makes or receives depending upon his/her capacity to interpret, based on his/her objectives, interests, needs, desires, etc. And that is the reason why skills are required to communicate - to be direct, precise, honest, and understandable. You need to identify the barriers that are causes of miscommunication. For example, there can be a language barrier, physical barrier, psychological barrier, interpersonal barrier, cultural barrier, etc. You need to identify that and eliminate the barrier to communicating effectively.

## 10.2 Communication process



The process of communication begins with the sender with an idea or thought that he/she wants to share. The sender transforms the idea into a code and sends it through a medium or channel to the receiver, who decodes it into the same idea. But, there are chances of miscommunication



because the entire environment brings multi-layered issues as barriers to communication. Another important element of the communication process is feedback which ensures the success of communication to a major extent.

The problem is that we consider ourselves to be good communicators. We think that we can put across to others what we want to or intend to. Do we? We mostly see ourselves as straight-talking, level head, able, honest, and above all, effective communication. Yet, how often do we fail to see ourselves as others see us!

Look at the following comments:

- “Every time she opens her mouth, she puts her foot into it...”
- “He is alright as long as it is the computer he is talking to!”
- “If you come late today, we shall take action against you.”

These are a few examples of the difference between what we say and what we mean, and between how we feel we have handled people and how they think they have been handled, - when such a gap occurs between our intention and action, it is said that there is a `breakdown' in communication.

Six stages of communication

### **Stage 1: Conceiving the message**

At this stage, the decision is made by the sender to communicate a message. Some messages are made involuntarily, e.g., a scream of fright or pain. Some might be impulsive. Other (messages) may be the careful result of reasoning and pre-thinking or response to external factors.

### **Stage 2: Language of the message**

Before the message is sent to the receiver, the sender has to put it (encode) in an appropriate language. The languages of communication include:

- Spoken word
- Written work
- Number
- Picture, drawing, and symbol
- Non-verbal communication, expression, gestures, posture.

### **Stage 3: Selecting the communication medium**

Once the sender has chosen an appropriate language, he/she needs to select the right medium. Some messages need to be written and transmitted. Alternatively, a meeting would be the best medium for a quick exchange of opinions.



Some major factors influencing the choice of medium are:

- Effectiveness
- Need for tact
- Simultaneous reception of information by receivers
- Need for a written record
- Need for instant feedback
- Complexities of message
- Time
- Cost
- Need for speed

#### **Stage 4: Decoding the message**

A message has to be understood before it can be absorbed or acted upon. Messages can become ineffective if the receiver does not properly understand them. Some of the reasons for the failure to understand a message are:

- Lack of knowledge of the sender's language
- The sender's vocabulary (words or phrases) is unknown to the receiver
- The sender is a specialist and the receiver is a layman

Education, culture, outlook, and attitude also create a block between the sender and receiver.

#### **Stage 5: Interpreting the message**

Apart from understanding the language of the sender, the receiver also needs to be able to interpret it correctly. The underlying or actual message may be rather different from the words spoken. For example:

“I liked Mr. Parikh, head of the marketing division, a lot. I am sure now they need to be looking for someone with experience in marketing to head the division.”

What is the real message here? The remark on Mr. Parikh is sarcastic and not real.

#### **Stage 6: Providing feedback**

All of the above stages are important. But, the need for feedback from the receiver is essential. Feedback from the receiver is a means of reassuring the sender that:

- The message has been received
- It has been understood
- It has been correctly interpreted
- The receiver is ready for the next one.

Now, you know what communication is and the process of communication.



### 10.3 When does Miscommunication Occur?

Miscommunication occurs when:

1. you infer something and make an observation
2. you miss each other with your meanings
3. you think that you know everything about something and what you say is important
4. you suffer emotional disturbance.
5. you assume
6. you do not seek feedback
7. you have a closed mind

Look at the following examples of communication mismatch:

Raman Kumar is a supervisor of the claims department of an insurance company. He felt that his department was working inefficiently due to outdated office equipment. He explored and studied sophisticated systems being used by other insurance companies. Raman then concluded that his company's efficiency could be considerably increased if they purchased visual display terminals (VDTs)

He also felt that by installing VDTs, three operators could do the same amount of work done manually by twelve employees. Automation was the key to success in the long run.

Raman also knew his boss. Mr. Joshi was concerned about costs. But he felt that the advantages were obvious here, and he could get Mr. Joshi's approval for the purchase. He went to see Mr. Joshi personally, and the following conversation took place:

Mr. Joshi: Raman, I have looked at your note requesting those VDTs. Unfortunately, I need more information.

Raman: The advantages are clear-cut. What more information could you need?

Mr. Joshi: Well, some cost figures are needed to justify this expense to the Director.

Raman: Mr. Joshi, my department is overworked. We never get the attention we deserve. Besides, why should you doubt my credibility? It is not fair.

Mr. Joshi: Raman, please calm down. All I am asking for is some cost figures. If you are so certain about the benefit of the VDTs, those figures should not be a problem to produce. I would appreciate it.

Raman: I am not an accountant, I work hard around here. Why couldn't you take my word for it?

Two days later, Raman received a letter from Mr. Joshi. The request had been turned down.



## SAQ 10.1

1. What went wrong in the conversation between Mr. Joshi and Raman.


2. Was Raman really listening to what Mr. Joshi said? Give your opinion, giving examples.


3. Could Raman have responded differently to Mr. Joshi's request? How?


### 10.4 Non-verbal communication

Communication is more than words spoken or written. We continuously communicate messages, consciously or unconsciously, even without speaking or writing. These are non-verbal communication, that is communicating without using words of any language. These are also known as meta-verbal, kinesics, oculusics, body language, or paralanguage.

Some research claims that words contribute only 7% to the total impact of the message, the tone of the voice contributes 38%, and the balance 55% by facial expressions and gestures. Whether the numbers are to be accepted or not, almost all research agrees that non-verbal communication always trumps verbal communication.

Non-verbal communication consists of four major components:

**1. Your appearance:** How you appear is the first signal by which others try to understand you. your dress and grooming announce your profession, social and economic status, and attitude to tidiness and neatness.

**2. How you sound while talking:** Tone, pitch, and rhythm of the sound supplement or contradict the verbal communication. Tone and pitch also depend on whom you are talking to - your





subordinate, friend, colleague, or boss. They also depend on the situation, e.g. conversation in a small group, a speech, or a presentation at a conference.

**3. How you use body language:** Body language has three major parts - posture (standing or sitting), movement (walking), and gestures. When we speak, the whole body comes into action. Our face (eyes, eyebrows, nose, lips, ears, and facial muscles) and neck are our body's most important communicative zones. Shoulder, hands, and fingers are the next zones. Legs and feet form the third zone. All these parts signal a host of emotions that convey more than words.

We will give you an example:

After a long time in Suresh's office, Ramesh met Suresh, his friend. Suresh received him with 'hello Ramesh, nice to see you'. But there was no smile on his face nor warmth in his tone. Ramesh started talking enthusiastically about his job, his promotion, etc. Suresh sat slumped in his chair, kept glancing at the papers on his table, he had a bored expression on his face, though he responded mechanically to all the news.

After a while, Ramesh felt that Suresh was not interested in what he was saying and took his leave.

**4. How you handle space:** The space that we maintain between us and others can be divided into four distances - intimate, personal, social, and public.

The intimate space is reserved for close relationships like husband and wife, parents, and children, etc. Personal is with friends, colleagues, social with your boss, public with a gathering. One interesting aspect of space is that it is also used to include or exclude others from the group.

For example, a group of three or four friends standing close to one another and talking, and a newcomer walks up to the group. If the group wants to share their discussion with the newcomer, it expands and allows him/her to join the group. But if it does not, then it will close in and not allow him to enter the group. This signals, "get lost".

**5. How you handle time:** Your ability to manage your time often speaks about your attitude and sense of professionalism. For example, if you fail to attend a meeting on time, people may conclude that you are either not interested or not very professional. Sometimes, if you show this habit, you may lose important business.

The following case will show you how verbal, non-verbal communication as well as psychological inhibition create miscommunication:

A lady was coming back from her holiday at Singapore. She looks fashionable as she was wearing a colourful dress and dazzling accessories that she bought from Singapore. As she was returning home, the customs officer at the airport while checking her passport casually asked, "Lady, what is your occupation?" The woman was a housewife and she hated that fact. More so because all her friends are holding high positions in different jobs and some has started own business. She is ashamed of the fact that she is a housewife and to avoid further probe she replies "None".

After that the officer started thoroughly checking her luggage, rummaged through all her belongings and ultimately let her go as he did not find anything offending. The lady missed her connecting flight.

The lady in her irritation snapped at the officer asking, "do you trouble all passangers, like this?"

The officer replies: " Lady, I found it difficult to believe that you are a Nun!"



## Non-Verbal Ability and Maturity

What is important for you now is how you can improve your ability and maturity in non-verbal communication.

These are a few learning steps:

1. Become aware that we send messages beyond words while interacting with others
2. Become aware that non-verbal messages, like words, have multiple meanings
3. Recognize the non-verbal message that originates from an individual
4. Look for non-verbal clues from others
5. Pay attention to your non-verbal communication
6. Observe successful speakers and study their body language.

The following case of "body language" is interesting and can be useful.

Rajan, an entrepreneur, was angry. Every time it looked as if he had been able to correct the ways of his production supervisor, Jaswant would manage to fight with a worker. This time the same thing had happened, and the worker had quit. And this affected production.

Rajan called Jaswant to talk with him. He really wanted to give him a good solid scolding. Firing Jaswant, though, would cause trouble with the Union.

When Jaswant came in, Rajan kept on working on his papers for fifteen minutes. Then only he looked up and asked Jaswant to sit down. Then the telephone rang and Rajan talked about it for five minutes. Then he turned to Jaswant, folded his arms, leaned back in the chair, and said, "Well tell me about this one".

Jaswant was upset by this kind of attitude of Rajan. He dropped his eyes, lifted his hands in a hopeless gesture, and said, "Well, what can you do with some of these guys who think they know everything?"

### SAQ 10.2

1. What messages did Rajan convey to Jaswant?

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2. How did Jaswant feel?

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## 10.5 Developing communication skills

Guidelines for developing communication skills:

### As a sender

1. When composing a message, carefully decide what sort of action or response you desire from the receiver.
2. Choose a language most suitable for your needs and the situation
3. When encoding (forming) the message, take time to put your ideas logically. Give a thought to the language you intend to use.
4. Select the most appropriate medium, that is, whether to send a letter or circular letter, to make a telephone call, give a lecture, use radio or TV facilities
5. Make sure that you choose a language that is understood by the receiver.
6. Be careful to see to it that your message is clear enough to avoid any misinterpretation by the receiver.
7. Make sure to get feedback from the receiver.

### As a receiver

1. Give full attention to the message being communicated.
2. Check that the medium of communication used by the sender is meeting your needs.
3. Make sure that you understand the message fully.
4. Take care to interpret the message correctly.

### Barriers to communication

1. **Obstinacy:** Unwillingness to discuss any problem or difference in opinion
2. **Prejudice:** Fixed or rigid views or ignorance of the topic
3. **Disinterest:** Lack of interest in the topic
4. **One-way communication:** Without caring for the other side's opinion
5. **Anger, emotion, loud noise/tone, or action** of an abnormal type
6. **The ego** of personal nature or status consciousness

For example, let us take this conversation:

**Lalit:** Pradip, the proposal that you have made to the funding agency, FNST is very good. But going through it, I felt that the budget is inadequate.

**Pradip:** Lalit, I have been preparing such proposals for years and I am a master at designing budgets. I know the budget is O.K.

**Lalit:** But Pradip, costs have gone up. Don't you think the figures should be revised, taking the costs into consideration?

**Pradip:** I know what I am doing.



### SAQ 10.3.

This communication has been ineffective. Why? Give reasons.

1. _____ _____
2. _____ _____
3. _____ _____

### Listening

Bear in mind, you can not be a good communicator unless you are a good listener too.

Listening is such a common activity that we often take it for granted. Frankly, we confuse it with hearing and think that listening is easy and natural.

But listening is a complex skill, you have to master it; this skill is necessary for everyone.

What is listening?

Listening is a complex, skilled behaviour that involves:

- Preparation - It is a deliberate mental and physical preparation of the whole person
- Absorption - It is absorbing the message with complete ear, and brain involvement
- Processing - It is processing and interpreting received information
- Feeding back - It is feeding back verbal and non-verbal responses to the sender (speaker) to communicate that listening is happening.

There can be many barriers to listening effectively. What are they?

1. Inability to relax and concentrate on the moment at hand

You might be preoccupied with your thoughts and your mind wanders away, you can not listen (effectively). And the other person also can realise this and there is no real communication.

2. Preconceived ideas and thoughts

Sometimes, you have your ideas and thoughts about certain matters, so you do not listen to the other person or this his/her ideas and they do not have any effect on you.

3. Talking too much, too often



This happens when you talk on and on and even if another person speaks or answers it does not register with you.

4. Thinking of responses during the communication process

5. Lack of interest in the conversation.

You would ask 'How to become a good listener and how to acquire listening skills?' Good question - Here are some points:

- Find are of interest
- Judge content, not delivery
- Hold your fire ( do not be impatient to speak)
- Listen for ideas
- Be flexible
- Resist distractions
- Exercise your mind.

Remember, listening improves attitudes, it builds positive relationships- it is a growth experience.

### **10. 6 Importance of communication skills for success in business**

We reiterate that effective communication is important to all of us, but more so for you as an entrepreneur. You would need to be a good communicator when you start the process of setting up your industry.

To give you an idea, you have to communicate with:

- Officers of financial institutions and banks
- Officers of support agencies when you need land, building, licenses, no objection certificates, etc.
- Later on your workers, suppliers, and customers
- And even other entrepreneurs in a similar line of work.

Unless you can convince them, influence them, get your work done, and effectively convey your ideas, plans, etc., you will have problems.

When you set up your enterprise, the communication between you and your workers has to be cordial, complete, and effective to ensure your production target's best productivity and achievement. Otherwise, situations might develop into strikes or lockouts due to a lack of good communication.



Besides, make sure that the communication in your enterprise is a two-way exercise, an upwards/downwards traffic. Regular discussions on any topic of importance affecting the mutual goodwill of the management and the personnel should be tackled by sitting across the table. Lack of knowledge of the system is not good for the health of the business. Both labour and management should be able to communicate their problems to one another and make decisions to avoid a break in production.

Let us take a hypothetical situation. You go to a banker with your project report for the purpose of obtaining a loan for your project. Here the importance of communication can not be underscored. Of course, the feasibility and viability of your project are very important, and so are the projections made by you. But what is more important is how you put across your ideas to the banker to convince him about the viability and your determination, managerial ability, and so on. Unless you are a good communicator, how will you manage it?

And do not forget your customers. You will produce goods, but what is the use of producing them if you cannot sell? You have to have a market - And forgetting the market/customers, and you will have to convince your potential customers about the positive points of your product or why it should be advisable for them to buy your product. You should be able to influence them. So here also the same argument holds- Be a good communicator to achieve your goal.

So keeping all the above in mind., develop yourself for the purpose.

So, now that we have brought home to you the importance of communication, verbal as well as non-verbal, how to develop communication skills, and effective listening, we are sure that you will become a good communicator. And good, successful entrepreneur too.



# UNIT 7

## Successful Negotiation

### Contents

#### Chapter XI

1. 10 steps to successful negotiation

#### Aim:

- Acquaint you with the strategies and tactics of negotiation

#### Objectives:

- Recognize various steps involved in the process of negotiation
- Develop negotiation skills.



## 11.1 10 steps to successful negotiation

Negotiation is a form of meeting between two or more parties in order to resolve conflicts to satisfaction of all the parties involved.

Negotiation depends on effective communication. You must remember these 10 steps:

1. Create the right environment
2. Research your objectives
3. Decide who you are and who your opponent is
4. Open the meeting
5. Talk and listen
6. Make proposals
7. Summarise
8. Close and confirm
9. Evaluate strengths and weaknesses
10. Continue on development

What do we mean by 'create the right environment'?

- Creating the right atmosphere
- Choosing the right time to negotiate
- Selecting the best place.

You must keep in mind that there are four possible outcomes to a negotiation:

I win	-	You lose
I lose	-	You win
I lose	-	You lose

We both win

Suppose your aim is the continuous development of your business goodwill or relationships. In that case, you must adopt the collaborative style of negotiation and achieve the best deal for both or all the parties rather than a competitive style where you want to win at everything.

Remember that if you want to achieve a win/win deal, your opponent also needs to arrive at a satisfactory agreement.

The 'right time' to negotiate is when you have the least need for a deal and your opponent's need is greater. However, as a skilled negotiator, you should choose your timing carefully and

- Patiently draw reluctant opponents for negotiation
- Avoid spontaneous negotiation
- Prepare your case carefully





## Researching your objectives

Establishing your objectives will be easy, but assessing your opponent's objectives means carrying out some research and guessing. The process requires the ability to put yourself in your opponent's shoes.

For this, you should do pre-meeting planning as per the checklist given below:

Opening:

- How should I open the meeting?
- How interested are the other party/parties in the meeting?
- What needs might exist?
- Own
- Theirs
- What are the areas of common ground between us?

Authority:

- Who am I meeting?
- What is our relationship?
- How much authority does he/she or they have?

Power and Influence:

- What is his/her or power over me?
- What is my power?
- How can I exploit my strength of mutual benefit?

Commitment:

- How interested is the other party in the meeting?
- How badly does he/she need an agreement?
- Will a negotiated agreement stick?

Competition/exclusivity:

- How might market forces affect the negotiation?
- What leverage might be used?

Innovation & promotion:

- What concessions am I likely to have to make to ensure the success of the deal?
- Who will contribute to what help?

Now, try out your plans for negotiating any deal, whether with a banker, supplier, customer, or any other

Success in negotiation is affected by certain skills and attributes, which are given in the following checklist:



1. Present yourself as a person who likes people
2. Be positive
3. Be persistent
4. Be open-minded
5. Develop a good sense of timing and tact
6. Develop high aspirations for deals
7. Present the case assertively
8. Choose the most persuasive words
9. Think clearly under stress
10. Influence the atmosphere of meetings
11. Maintain self-control
12. Take decisions.

Now, rate yourself against the above factors on a scale of 1 to 5 and try to improve on those skills and attributes where you have scored low.

### **Personal communication and negotiations**

One facet of personal effectiveness (you have learnt about it in Unit 5), when applied in negotiations, is the use of appropriate communication style.

There are two specific styles used by us in everyday communication:

1. Extrovert style
2. Inductive style

The first style is about our attempt to persuade the other person(s) to do something by giving lots of information. The inductive style is concerned with encouraging your opponent to do something by 'pulling' him/her or her towards that position. This approach is more subtle than the extrovert style.

The extrovert style can be most successful in a short term and competitive climate. However, if the relationship is dependent on goodwill for its continuing success, there is a likelihood of bruised feelings resulting from the negotiation. So, here it would be better to use the inductive style.

There is no perfect style that will work in every situation. Both have their advantages and disadvantages.

### **Opening the meeting, talking and listening**

We have already seen that good preparation is essential for an effective negotiation meeting. Now, we come to the actual presentation, which plays a major part in achieving good results.

Some people can achieve their results solely through their personality and interpersonal skills. Most of us, however, need to be good at both.



### **Early stages of a meeting are:**

1. Opening the meeting
2. Talking and listening.

Creating the right atmosphere for the meeting is important if subsequent parts of the meeting are to end in agreement. Though issues can be sorted out, important points to consider here are:

1. Establishing rapport
2. Common ground
3. Common agenda
4. Physical comfort.

How we talk in a negotiation meeting can have an effect on how the other party perceives us. Our chapter on communications skills has already dealt with how we should communicate by words as well as non-verbal communication like body language, gestures, and facial expressions. All that can be brought into play here.

We have talked at length about 'effective listening' in our chapter on 'communication skills', all the principles given there should be applied here

### **Proposing**

Negotiation meetings are about mutual needs. So, what we should consider:

- Timing
- Encouraging proposals
- Best formula
- Defending principles
- Meeting inhibitions.

At this vitally important stage, all your preparation will prove its value.

There is a right time for proposals in a negotiation meeting and you must be able to sense when the moment is right.

If you feel that the time is right for proposals to be made but are not sure whether the feeling is mutual, you can always ask. This open atmosphere will help progress to be made.

The best formula is to present your proposals using a conditional approach. This will suggest tentative ways forward.

At a certain stage, you may find that your bottom line is under attack or in threat of being compromised. This should not be accepted and you and the other party would have to make it clear that compromises on matters of principles would jeopardise agreements on other issues.

Similarly, keep in view the other party's inhibitions while proposing actions.



## Summarising, closing, and confirming

There is hardly any point in investing time in negotiation meetings if you cannot close it with satisfactory agreements.

So, what are the skills you need to develop in closing off a negotiation satisfactorily?

The following checklist may provide useful insight :

- Summarising progress
- Resurrecting earlier issues for agreement
- Using concessions to improve the agreement
- Choosing appropriate persuasion strategies
- Linking issues in the agreement
- Listening for concessions
- Using appropriate closing techniques.

Mistakes at the last moment can be expensive and frustrating. Make sure that you are satisfied with your performance.

It is not possible to do too much summarising in a meeting. It can also happen that even though one party has a clear belief on what has been agreed, the other party has a very different view of the same agreement and this is very dangerous when the agreement is implemented. So, accuracy in summaries is very important. Similarly, it is very important to listen to the summary given by the other party.

Resurrection here provides the last opportunity to raise any items on which no progress was made earlier.

Linking one item with another is a further method of obtaining movement on difficult issues.

Concessions may provide a way of obtaining additional movement towards the end of the meeting. Skilled negotiators know to keep additional concessions up their sleeves to use in closing a meeting.

Sometimes it may happen that both parties have not achieved what they set out to achieve and then it becomes necessary for the meeting to be nudged towards a closure

The common ways of achieving closure are :

- calling a recess
- imposing a deadline
- threats to pull out
- asking for agreement
- the summary close.

Even when your meeting seems to have closed with a full agreement, there is still a risk that the agreement's implementation is faulty.

The solution to this includes:

- Taking and exchanging notes



- Getting the agreement in writing
- Checking that minutes and opposite party's notes agree with your notes
- Taking care of small points

So, these are some of the tips to acquire, develop, or improve your negotiation skills and we hope that you benefit from them.

### SAQ 11.1

List major steps involved in the process of negotiation and write a line on the functionality of each of the steps

1.	_____
2.	_____
3.	_____
4.	_____
5.	_____
6.	_____
7.	_____



# UNIT

## 7

### Contents

#### Chapter XII

1. Build a problem solving attitude
2. Recognise the problem and its seriousness
3. Specify and understand the problem
4. Formulate possible causes
5. Test the possible causes
6. Develop alternative solutions
7. Establish objectives
8. Compare

#### Aim:

- Help you develop skills to solve the problems

#### Objectives:

- Recognize the steps involved in the process of systematically solving problems
- Develop skills to solve problems systematically

All of us experience different nature and magnitude problems at different stages in our lives. We encounter problems so often that we do not even pay heed to them in our daily lives. Our desire to solve these problems and our experiences of dealing with them have equipped us with spontaneous reactions, which usually result in solutions. However, when we face an unusual or difficult problem, we react to find a solution. In such cases, alternative approaches and modes have to be practiced.



As an entrepreneur, you are likely to face a variety of problems in the course of implementation and management of your small-scale enterprise. If appropriate system, approach, and methodology are developed for solving problems, it will help you manage your affairs smoothly and not undergo stress.

Various qualitative and quantitative approaches have been developed that help us solve these problems. The basic objective of this chapter is to suggest a non-quantitative approach based on common sense and experiences in dealing with the problems which small-scale entrepreneurs may face.

The right strategy would be to understand one's environment, resources, capabilities, limitations, strengths, and weaknesses to design an appropriate approach to solving problems. However, the approach suggested here will help you initially work on problems and at the later stage in formulating your strategy for solving them. The following steps are suggested for developing a problem-solving attitude and problem-solving mechanism.

### **12.1 Build a problem-solving attitude**

We all possess certain skills, traits, and motives. Our psychological makeup indicates the traits and motives we possess. These traits and motives can be identified and developed. Some people are inclined to work on the problems and hence attempt to solve them, while some do not have these traits and motives and therefore they unconsciously try to avoid problems. You will understand this better when you have read the following example:

Mr. Sikand was the owner of a small restaurant. Once he was served with a notice from the Department of Food and Drugs Administration for not having complied with the necessary provision in packing as per the Food and Drugs Act. When he received the first notice; he read it and filed it without taking any action. After a few days, he received another notice. This time, he unconsciously decided not to read the contents of the letter. Subsequently, even though he kept receiving notices, he did not even read them. After approximately a year, a team from the Food and Drugs Department came to the restaurant and sealed it. The department suspended the license of Mr. Sikand for not responding to the notices and failing to take any corrective actions. Mr. Sikand's psychological composition directed his actions towards avoiding problems and taking steps to solve them.

You must have experienced this attitude in some of the government departments where people try to avoid taking decisions and solving problems.

We would like you to go back to your past and identify some situations where your behaviour was comparable to what is stated above. If you can identify many such incidents it is time for you to take note that you are in the process of developing a personality that is prone to avoiding problems. But, there is no need to be despondent. There is a way to change your attitude. You need to be 'aware of this facet' of your personality and make conscious efforts to seek solutions rather than succumb to your tendency to avoid problems.

### **12.2 Recognise the problem and its seriousness**



It is not only important for an entrepreneur, but also for each one of us to recognise a problem when it occurs. If you have a clear understanding of what is a normal situation, you will be able to identify the deviations. For example, if you know that the standard production level of your unit should be one tonne per day if it reduces to 3/4 of a tonne, you would immediately realise that there is a deviation.

Since some problems are qualitative, it may not always be possible to find out the deviation in terms of number. For example, you may experience that industrial relations in your plant are not harmonious, but you may not be able to quantify this problem. Therefore, it is very important for an entrepreneur to continuously observe all the situations he/she encounters.

Once you have recognised the problem, your next step is to examine the seriousness, growth trend, and urgency of the problem. The seriousness of the problem will help you decide whether you need to work on the problem for a probable solution right away or can defer it for some time. It will also help you decide whether some temporary solution is feasible until you have completely understood the problem and have worked out a course of corrective action. Let us try to understand the whole process clearly with the help of the following example:

Zenith Dyes, small unit manufacturing pigments, started experiencing an approximately 30% rate of absenteeism in its factory after 2 years of its operation.

The owner immediately realised that the problem was serious and needed immediate action. To meet the customers' demands he first made arrangements for additional workers while he examined the cause and found solutions for the problem of absenteeism. His understanding of the seriousness of the problem helped him to take interim corrective action which resulted in the prevention of another problem viz., loss of potential customers. If Zenith Dyes had not made arrangements for temporary staff to sustain the production level, they would probably have faced a problem in marketing. Sales might have dropped and they would have lost a few customers.

The growth trend of this deviation is also important. If the intensity of the problem is on the increase, one would have to worry about the interim solution and work towards a permanent solution immediately. The same is true in case the problem requires immediate urgent action.

### **12.3 Specify and Understand the Problem**

If one can identify the deviation or specify a problem, he is well on his way to solving the problem. The important thing to note is how to specify a problem. Many of you must have consulted physicians for a physical problem. I would like you to think about one of your meetings with a physician and the discussion you had with him about your illness.

When you go to a physician he will usually ask you questions about your physical discomfort the area of discomfort, the period when you face discomfort, and the extent of such discomfort. The physician is trying to understand your problem.





The same way, an entrepreneur, when faced with a problem must ask questions not only to himself but to others too concerning what is happening and why it is happening.

When Zenith Dyes experienced 30% absenteeism, the entrepreneur called the heads of each department and the persons concerned and asked them why there was so much absenteeism. On probing he got a lot of information and found that there was no strike, no agitation, or go slow all over the company and that the absenteeism had occurred only in the production department, generally on Friday. Thus he found out that the rate of absenteeism was more on Friday and was almost normal on other working days.

#### **12.4 Formulate possible causes**

Let us go back to the physician's examination process. The physician may not have an idea whether the fever is influenza, malaria, typhoid, or hay fever if you complain of high temperature with associated affliction. If he wanted to identify the type of fever, he would have started working on formulating the causes of the fever such as cold, virus, allergy, etc. In the same way, when you face a problem you must try to formulate the possible relevant causes.

In the case of Zenith Dyes the probable causes for a high rate of absenteeism were :

- a) There was a higher proportion of Muslim workers in the factory. Friday is the day for 'namaz' for the Muslims.
- b) It was the company's policy to make payment to the workers on Thursday. If the wages are paid on Thursday, it is likely that the workers would remain absent on Friday as they are flush with money.
- c) There is a change in the film shown in the local movie houses every Friday. If the proportion of young workers is high, it is possible that some of them may like to watch the film in the first show and therefore choose to remain absent.
- d) Perhaps the supervisor in charge of the shift on Friday was tough and not much liked by the workers.
- e) There is a higher workload in the factory usually on a Friday since Saturday being a holiday all shipments for customers were sent on Friday evening.

It is not important to pinpoint several causes but to be able to find out the relevance of the causes. The objective here is to get more insight into the possible reasons for the occurrence of a problem. Once you have identified and examined the possible causes, you have completed the analysis of the problem. After identifying the causes, you must test these causes - not as we test any substance in the laboratory - but through analysis, reasoning, data, and intuition.

#### **12.5 Testing possible causes**

The process of testing formulated causes calls for intuition, creativity, analytical skill and reasoning. An individual with these qualities will be able to test the causes without using a laboratory-type approach.



The causes of absenteeism, as indicated earlier in the case of Zenith Dyes can be tested with these methods:

- There were no issues of different religions of employees being the cause of absenteeism on Fridays.
- Regarding wages, he found that the factory had a fortnight wage payment system, and therefore this also could not be the possible cause of the problem.
- Although there were changes in the movies shown in the local cinema halls every Friday, it was found through personal inquiry that the workforce was not movie-oriented.
- The supervisor's profile was studied in detail, and the owner learned that the supervisor though very competent was tough when it came to handling people. He was particularly tougher on Fridays as he had the responsibility of despatching goods every Friday to the customers, Friday being the last working day of the week.

After getting detailed information on the supervisor's way of handling people, the owner determined that this was the only cause that had led to the occurrence of the problem of absenteeism.

### **12.6 Develop alternative solutions**

Once you have determined the cause, the next step would be to look for a solution. Since every individual possesses different levels of information, knowledge, skills, traits, and motives, everyone would likely come up with different solutions to a problem. Each solution will have some degree of merit. Therefore, there can be no right or wrong solution to any problem. The solution that fits your objectives, resources, strengths, limitations, constraints, etc., is the best solution under the circumstances. Therefore, once you determine the cause or causes of a problem that you face, it will be worthwhile to develop various solutions and then relate them to your objectives

### **12.7 Establish objectives**

Once alternative solutions are developed, it will be necessary to establish your objectives. Clarity regarding objectives will help you to classify them concerning the problem into two categories listed below:

1. Result to be produced
2. Resources to be used.

In the case of Zenith Dyes the entrepreneur indicated the following objectives:

#### **Result to be produced**

1. The rate of absenteeism had to be brought down to 8% which is normal in any chemical industry.
2. The workload cannot be reduced as the needs of the customers had to be catered to and



shipments had to be made on Friday.

3. The supervisor cannot be dismissed because he is one of the best employees.

#### **Resources to be Used**

1. More than Rs. 100 per week can not be spent to solve this problem.
2. More than four extra persons can not be assigned to the tasks to complete them.
3. The incentive payment system can not be made use of.
4. Overtime to the workers can not be provided.

Once you have established the objective, you must classify them into three categories: 'must,' 'desirable,' and 'can be ignored.'

Such a classification of objectives about the results to be produced and resources to be used would help in selecting an appropriate solution from the cluster of solutions thought of.

### **12.8 Compare solutions**

When there is more than one solution, it may become a problem to select the best solution, and therefore we get caught with another problem. In such a situation, the right way will be to compare various solutions in terms of results produced and resources used, etc. However, this does not mean that one will have to experiment with each solution and decide the best course of action thereafter. The best way would be to use your reasoning, judgment, and intuition to decide each solution's advantages and adverse consequences.

The analysis of the effect of each possible solution should be quantitative wherever possible. Certain non-quantitative effects, such as the impact on workers' morale, human relations, etc., should also be thought of. Once all the solutions have been compared, you will be able to choose the best solution to the problem.

But remember, you may not be able to solve a problem completely. You can quite often only reduce the magnitude of the problem and perhaps create another problem but of a smaller magnitude.

In the case of Zenith Dyes, the entrepreneur implemented the solution of employing 3 to 4 additional workers on Friday, but there was another problem with generating resources for paying extra wages to this additional manpower.

#### **SAQ 12.1**

List the major steps in the process of problem-solving and write one sentence on the functionality of each step in the process.

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_



3.	_____
4.	_____
5.	_____
6.	_____
7.	_____
8.	_____
9.	_____
10.	_____



