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MEASUREMENT OF EFFECTIVENESS OF MANAGEMENT PRACTICES ON THE PERFORMANCE OF SMALL SCALE INDUSTRIES: RELATIONSHIP AMONG DEMOGRAPHIC FEATURES

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ABSTRACT

Small scale industry is labour intensive and capital saving which contributes a lot to the overall economic development of the country. Entrepreneurship development in small scale industry has a special relevance. The general background, education and experience of entrepreneurs as well as their managerial skill, know-how and practices have impact on the performance of these small scale industrial units. Through, the present paper an effort has been made to identify the relationships, if any, among certain demographic features of entrepreneurs and management practices and performances in selected representative small scale units of Uttarakhand.

Keywords: *Sophisticated, Productivity, Innovations, Entrepreneurs, Performance, Parameters.*

Introduction

In a country like India, where unemployment and underemployment are prevailing economic diseases and where most of the entrepreneurs are capable of only small investment and where there is dearth of sophisticated machinery and modern technology, small industry, which is labour-intensive and capital saving, plays a vital role in the overall economic development of the country. These industries help in extending job opportunities, raise income and standard of living and bring about a more balanced and integrated rural economic development. The increase in the number of units as well as in the volume of production with wide variety of new products requiring highly developed skills taken up, the employment opportunities created, the entrepreneurial skills developed, the increase in productivity, the extent of industrial dispersal achieved, the volume of capital mobilized for industrial purposes, the contribution to localization of industries- all these testify to the progress achieved and the vast potentialities that further exist in the small-scale industrial sector.[1] The entrepreneurs of small scale units have contributed significantly to the development of advanced societies but their contribution varies in degree from society to society. It is more pronounced in a society that possesses abundance of raw material and labour and attaches more importance to, and provides greater security for the operation of small industrial ventures. India a country with limited resources for development experience shortage of promising entrepreneurs for the balanced economic growth as envisaged in Five Year Plans. The burning problems of the country like mass unemployment and underemployment may be solved through the development of entrepreneurial abilities and encouraging the existing entrepreneurs as well.[2]

According to ***Richard Cantillon,***[3] "anybody engaged in economic activity was entrepreneur." To ***J.B.Say***[4] the entrepreneur was a person endowed with the qualities of judgment, perseverance and knowledge of the world as well as of business. Thus, entrepreneur is a person who translates a profitable idea into a productive activity. ***Joseph A. Schumpeter***[5] has put, "the person who introduces changes called 'innovations' is an entrepreneur." These changes may relate to new product, new

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method of production, opening of a new market, the conquest of a new source of supply of raw material or half semi-manufactured goods and the carrying out of the new organization of the industry. Introduction of such innovations disrupts the economy and takes it to a higher level. "Schumpeter's concept of entrepreneur was superior and realistic. It imbibed initiative, authority, foresight of the person relegating his image as a risk-bearer. He treated entrepreneur as an integral part of economic growth. Entrepreneur is a person who having perceived opportunity to manufacture a product, endeavors to establish an organization through which he develops his idea into tangible products in response to changing market conditions, demands of buyers and technology.[6] In other words, entrepreneurship is the process of choosing a future, and building up enterprises for making that future a reality-it is the agent for building up people, making the people more productive ***(Mehan, 1973).*** Infact, entrepreneurship is more significant for developing societies like India where for a long time agriculture and small scale industries have been the main pursuits of the people.

Entrepreneurship development in small scale sector has a special relevance and is of paramount importance for a country like India as it helps in providing commodities and services, creating huge volume of employment opportunities with lesser time lag, exploiting locally available natural resources, mobilizing local expertise and savings combining with more appropriate indigenous technology. The development of small scale sector in Udham Singh Nagar district of Uttarakhand has been quite promising. The development of industrial infrastructure and provision of various types of subsidies, rebates, concessions and other fiscal incentives granted by the Government, undoubtedly proved of much help in the development of small scale industries. But, the sustained growth and the survival of small scale industrial units is attributable to the general background, education and experience of entrepreneurs as well as their managerial skill, know-how and practices alongwith other crucial factors.

Till date, a number of studies on small scale industries covering different aspects have been conducted. Majority of the studies relate to socio-economic factors which contribute to the growth and development of entrepreneurship. The studies which have covered management practices are very few. So, we have strived to examine at the micro level the nature of entrepreneurship and the prevalent management practices in the small scale industrial units of Udham Singh Nagar district of Uttarakhand. Effort has been made to identify the relationship, if any, among certain demographic features of entrepreneurs and management practices and performances in selected representative small scale industrial units of the district.

Research Design and Methodology

The present study is based on in-depth case studies of ten small scale industrial units producing different items located in four towns of Udham Singh Nagar district of Uttarakhand. Here it is noteworthy to mention that case study is an improvement over the industry analysis method in the sense that it provides as in-depth description of facts and happenings resulting in performance of an undertaking. A general profile of entrepreneurs and their management practices have been analyzed at micro level. Case studies provide a historical perspective for the decisions and policies adopted by a firm. The period of study was Oct-Dec. 2019.

The study is based on both primary and the secondary data. Secondary data have been collected from annual reports of the small scale industrial units under study while primary data have been collected through conducting personal interviews of the entrepreneurs and other executives and by filling in schedules on their factory premises. To establish the inherent relationships among demographic variables, management practices and performance, the following steps have been undertaken:

Level of Management	Very Good	Good	Average	Poor	Very Poor
Scores	5	4	3	2	1

The entrepreneurs of small scale industrial units under study failed to provide quantitative data relating to management practices adopted. This is why the scoring technique was found to be more relevant for qualitative data. Although, this approach is not free from bias of the analyst and criticism, yet under the given circumstances, this could not be avoided. So, maximum precaution has been taken to avoid subjectivity and bring objectivity. These management scores exhibit at best the close approximations of the actual management practices of the small scale industrial units under study. These score are reliable in relative terms only as these put the performance in varying grades showing relative importance. Based on the degree of these management practices, the appropriate as well as rational scores have been allotted to each selected management variable of the small scale units under study. The total management scores thus, obtained have been divided by 14- the total number of management practice variables- to compute the mean or average score as given in Table 1.

Table 1

Management Practices	Name of Units									
	A	B	C	D	E	F	G	H	I	J
Financial Management										
• Utilization of available funds	4	2	3	4	2	3	2	1	4	1
• Solvency of the firm	3	2	3	3	1	2	2	1	4	1
• Use of financial data in decision making	4	1	3	4	1	2	1	1	3	1
• Existence of finance control system	2	1	2	2	1	1	1	1	3	1
Production Management										
• Production planning and control	2	1	2	2	1	2	1	1	3	1
• Research & Development	4	2	2	4	2	2	1	1	3	1
• Quality Control	3	2	2	2	1	2	2	1	3	1
• Innovation and diversification	4	4	3	4	2	2	2	2	4	1
Marketing Management										
• Knowledge of market and condition of marketing facilities	3	3	2	4	2	2	2	1	3	2
• Distribution network	4	3	4	4	2	2	2	2	3	1
General Management										
• Organizational Structure	3	3	2	3	2	1	1	2	3	1
• Delegation of authority	3	2	2	3	1	1	2	1	3	2
• Liaison with Govt. agencies	3	2	2	3	2	2	1	1	2	1
• Sharing in trade and commerce associations	3	2	5	3	3	2	2	1	2	2
Total Scores	45	30	37	45	23	26	22	17	43	17
Mean Scores	3.21	2.14	2.64	3.21	1.64	1.86	1.57	1.21	3.07	1.21

Evaluation of Performance

Undoubtedly, profit is the end result of all managerial decisions and performance of a firm. In the absence of complete information on profit performance, we had to choose other parameters viz. growth rate of sales, number of workmen and capital employed. The simple average annual growth over the entire working life of each industry was computed for all the three parameters. With the help of these individual growth rates, a composite growth rate of each small scale industry under study was calculated by taking the average of the same. The individual growth rates are given in table 2 as under:

- **Relationship between Management Practices and Performances**

The mean scores of management practices and the composite growth rates of individual sample units have been correlated to find the relationship between management practices and performance. Rank Correlation Coefficient (R) has been used for computing the degree of correlation between the two variables given as under:

Table 2: Performance Evaluation- Composite Growth Rate

Name of Unit	Average Annual Growth Rate (Percentage)			Composite Growth Rate (Percentage)
	Sales	Number of Workmen	Capital Employed	
A	110	22	144	92
B	62	50	35	49
C	80	10	42	74
D	100	25	61	62
E	125	15	43	61
F	132	16	32	60
G	34	15	8	19
H	90	7	5	34
I	80	50	38	56
J	30	12	3	15

Table 3: Correlation between Management Practices and Performance

Name of Unit	Mgmt. Practices	Ranks	Performance Composite	Ranks	Ranks Difference	Squares of D
	Mean Score X	Growth Rate R_x	Y	R_y	$D(R_x - R_y)$	D^2
A	3.21	1.5	92	1	+0.5	0.25
B	2.14	5	49	7	-2.0	4.00
C	2.64	4	74	2	+2.0	4.00
D	3.21	1.5	62	3	-1.5	2.25
E	1.64	7	61	4	+3.0	9.00
F	1.86	6	60	5	+1.0	1.00
G	1.57	8	19	9	-1.0	1.00
H	1.21	9.5	34	8	+1.5	2.25
I	3.07	3	56	6	-3.0	9.00
J	1.21	9.5	15	10	-0.5	0.25
N=10					$\sum D=0$	$\sum D^2=33$

$$r = 1- \frac{6[\sum D2 + \frac{1}{12}(m3-m) + \frac{1}{12}(m3-m)]}{N(N^2-1)}$$

$$= 1- \frac{6[33 + \frac{1}{12}(2^3-2) + \frac{1}{12}(2^3-2)]}{N(10^2-1)}$$

$$= 1- \frac{6[33+0.5+0.5]}{990}$$

$$= 1- \frac{6\times 34}{990}$$

$$= 1- \frac{204}{990}$$

= 1- 0.206= 0.794

It is observed that there is high degree positive correlation 0.794 between management practices and performance of the small scale industrial units under study. It is noteworthy to mention that Rank Correlation Coefficient is more suitable where number of observations is small and the facts between which correlation is to be established may not be put quantitatively. If the data are more reliable in relative rather than in absolute terms as it is in our case, Rank Correlation Coefficient is a better measurement of relationship.

- **Demographic Features and Management Practices**

Three important demographic features viz, family background, experience and education have been selected for the purpose of present analysis as given in the following table:

Table 4: Relationship of Demographic Features with Management Practices and Performance of Small Scale Industrial Units

Demographic Features	Name of Firm	Management Practices		Performance	
		Total Scores	Average Scores	Total Scores	Average Scores
Family Background					
Business	A,B,D,F,G,I	15.06	2.51	338	56.33
Govt. Service	C,J	3.85	1.93	89	44.5
Agriculture and allied activities	E,H	2.85	1.43	95	47.5
Experience					
Family Business	A.B.F,G.I	11.85	2.37	276	55.2
Service in Industrial sector	D,E,H	6.06	2.02	157	52.33
Govt. Service	C,J	3.85	1.93	89	44.5
Education					
Matriculation	F,H	3.07	1.54	94	47.0
Intermediate	A,B,D	8.56	2.85	203	67.67
Above Intermediate	C,E,G,I,J	10.13	2.03	225	45.0

It may be concluded that the entrepreneurs having business as their family background had highest average scores of their management practices. This supports the view that family does shape the ideas, attitudes and orientations of the members as a result of exposure to family traditions right from the childhood. In this way the entrepreneurs hailing from business families could manage their units in more efficient manner. As regards experience to operate the industrial unit, it is surprising to mention that the entrepreneurs have previous experiences in their family businesses scored better in terms of the management practices than those who gained experiences as employees of other enterprises. In this way the experience in family enterprises is more significant for introducing better management practices. Through working in different capacities in different enterprises as employee one may improve one's skill and tacts to run business but it is limited to the routine or technical aspects of operations only. The entrepreneurs who were previously in Government service scored lowest as they could not get opportunities to participate in decision-making which is the foremost function of business management but their long experience helped them much in the operative fields of personnel and marketing.

However, educational qualifications of the entrepreneurs did not play any significant role in managing the businesses. Those who were only intermediates scored maximum for their management practices as compared to matriculates and others having qualification above intermediate. The reasons were business as family background and also the experience gained in family businesses. Family background is a relatively more significant independent variable affecting management practices in small scale industrial units where there are no complexities of production, personnel, finance and marketing.

- **Demographic Features and Management Practices**

Table 4 reveals the relationship between the selected demographic factors and the performance of the sample small scale units. It is obvious that the entrepreneurs with business background as well as those who gained experiences in the family business prior to the establishment of their own units scored the highest composite growth rates. These entrepreneurs thus performed relatively better than their other counterparts. Educational qualifications had no direct impact on performance. The intermediates performed better than other entrepreneurs. Thus, family background and experience in family business have identified to be the most significant factors having impact on management practices and performance of small scale units. Those who hail from business families get experience and training in the actual management process and decision-making. If such persons get opportunities to participate in family businesses, they may prove themselves better entrepreneurs as they have not only experience and training but adequate knowledge of tools and techniques of management also. Besides, technical know-how would be a most crucial factor for the efficient running and sustained growth of small scale industrial units.

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