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Decentralized Sectors: A Managerial Framework

K. Balakrishnan and Nikhilesh Dholakia

Decentralized industrial sectors occupy a prominent place in many developing economies. This paper explains the rationale for setting up decentralized sectors and illustrates the employment and developmental significance of such sectors in the Indian context. The conceptual framework attempts to illustrate an operating scheme by which various functions like marketing, etc., can be split into purely commercial, purely developmental, and development oriented commercial sub-functions.

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Decentralized industrial activity is an important feature of developing economies. Such activity occurs in rural areas, employing production techniques on a very small scale. Terms like cottage industry and craft production are used to describe this kind of industrial activity. Public policy in many developing countries is veering round to the view that such industrial activity needs to be preserved, promoted, or even created anew to achieve a balanced pattern of development (United Nations, 1962; Manusphai-bool, 1978).

Nature of Decentralized Sectors

Policy interventions in this form of industrial activity are made by defining, delineating, and mobilizing specific decentralized sectors within the economy. Weaving, leather craft, pottery making, oilseeds crushing, and cigar making illustrate some kinds of activities which are often subjected to such sectoral interventions. Management of such decentralized sectors at various levels has become an important issue in developing countries. An attempt to explore management concepts relevant for a decentralized sector must begin with an understanding of what such a sector is. The two key words are obviously *decentralized* and *sector*.

Decentralized Aspect: The decentralized nature of these sectors stems from several factors. Firstly, the producers are regionally dispersed over a wide geographic area. This means production occurs in numerous sites which are widely scattered. Secondly, the scale of pro-

duction is very small. The cottage or small scale of production implies that a very large number of producing units would be required to meet the level of demand which is usually encountered in regional, national, or global markets. Thirdly, producers, even when they are impoverished and attached to powerful middlemen, are notionally independent. This means that production facilities as well as workers themselves are not "controlled" by those who "manage" these decentralized activities in the sense that the plant and workers of a typical industrial organization are controlled by owners and managers. Fourthly, managerial responsibility in such sectors is quite diffuse, even when such sectors are brought under close government supervision. For example, the handloom sector in India, which has recently been accorded a high priority by the government, consists of a variety of management superstructures in the private, public, and cooperative sectors at various levels. The combination of these factors impart the "decentralized" character.

Sector Aspect: Decentralized forms of industrial activity have existed for long in developing countries. It would not, however, be appropriate to call all these activities as distinct "sectors" unless they share distinct commonalities and assume some national significance. Decentralized industrial activities are usually characterized by commonalities in people (artisans whose skills are mobilized), technology, and product range. For example, handloom weavers or goldsmiths are characterized by a common craft form which they practise and thereby acquire distinctive identities as individuals and communities. These artisans naturally have a distinctive technology in terms of equipment, tools, and techniques. They also produce a product range which is usually distinct from functionally similar products produced by large scale organized industry. Such decentralized activity takes on the character of a "sector" when the people and their crafts are integrated by a common ameliorative objective at

the national level and thereby the activity assumes some national importance. This occurs through direct and indirect government interventions. As a sector, such a decentralized industrial activity will begin to stake a claim in national resources and act as a lobby in various governmental and administrative councils. Over a time, it may also acquire a distinct social identity.

Several decentralized industrial activities are assuming a sectoral character in developing countries. In India, for example, decentralized sectors can be identified in handlooms, handicrafts, leather goods, matches, etc. These examples satisfy all the criteria to be classified as decentralized sectors. The people involved—the producer-workers—are scattered all over the country. The scale of production is rather small. The national and international demand is met from the output of a very large number of producers. These producers are not employees, but procure inputs, produce outputs, and sell them to organized agencies or middlemen. The overall procurement and distribution functions are managed by the central government, state governments, corporations, cooperatives, private entrepreneurs, and enterprising and often exploitative middlemen. These producers are truly decentralized in nature. They also constitute sectors. In handlooms, a tremendous commonality in weavers, looms, and fabrics is observed throughout India even though regional variations abound. The same is the case with any handicraft item which has a significant national and international market. All these decentralized sectors also have staked their claims for a share in the allocation of national resources and, over a period of time, have acquired distinct social identities.

On the other hand, goldsmithy, though a decentralized activity, will constitute a "sector" only when it gathers national (or at least regional) significance. Such significance could be imparted through recognition of the importance of the output or the input—particularly the human

input. When factors are important at the *input* stage (e. g., plight of weavers) as well as the *output* stage (e. g., need for adequate quantity of cheap cloth for poor consumers), the concerned activity acquires a compelling political rationale to be designated as a decentralized sector, demanding the attention it deserves. In the case of goldsmithy, human factors involved at the output stage (need for cheaper processing of jewellery) are not socially critical and, at the input stage, the number of people (goldsmiths) involved is not as large and therefore not as important as in the case of handlooms.

Rationale for Decentralized Sector

The main rationale for decentralized sectors in developing countries is the fact that industrial activity coexists with large scale industry and is economically viable. Staley and Morse (1965) state:

... in the last several decades the total number of artisans has tended to stabilize or even to increase. This is shown by censuses in Switzerland, Austria, Germany, France, and the Netherlands.... (Although) some artisan branches have had to cede to factory production... new branches have grown up, and others have adapted themselves to new needs and conditions... (p. 48)

Several factors point towards the need for preserving and promoting such decentralized industrial activities and even creating new industrial activity of this type. It may be worthwhile to encourage such industrial activity under the following conditions:

1. The number of artisans is very large and they are widely scattered.
2. The physical size of the country is large and industrial activity is not evenly dispersed.
3. There is cultural diversity in the country making it difficult, if not undesirable, to relocate and consolidate artisans.
4. The market for goods produced by large scale industry is confined to a predominantly urban elite while the mass of people do not have essential items of consumption.
5. Urbanization is occurring in a lopsided manner resulting in the overcrowding of a few

large cities so that there are obvious social benefits of dispersing value-adding activities over larger geographic areas.

In general, any country with a large population of mostly unemployed or underemployed poor and suffering from skewed income generation and distribution would benefit from creating and encouraging decentralized sectors in its economy. Decentralized industries have been resilient enough to survive many social and economic changes which have occurred in developing countries. This has mostly come from the inherent strengths of the skills, often unique, possessed by the people who constitute the sector. The economic condition of the people in these industrial activities, however, has not improved and in some cases it has deteriorated. Also, the artisans in such industries are being exploited by various middlemen and are being gradually out-competed by the large scale organized industrial sector. In the mixed economic system prevailing in a majority of developing countries, the government can neither take a *laissez-faire* approach of allowing economic Darwinism (i.e., large industry destroying small industry) nor can it dictate cottage scale artisans to take up specified vocations determined by a central plan. The middle path of providing a strong and benign support to unorganized artisans without destroying their traditional form appears more attractive. There is, in fact, a complementarity of allowing production to coexist with large scale industrial production. Not only does it provide much needed goods and services to the deprived rural sector, but it also creates a reservoir of industrial skills in the rural economy, making it possible to accelerate the industrialization and modernization process on the whole. Sigurdson writes:

... experience of more than 30 years of planning in (India and China) indicates that rural industrialization serves a more important function as an instrument for regional development and skill formation than for immediate employment generation.

This would also leave the large and more automated industry to concentrate on economies of scale, thus reducing the unit cost, leading to better domestic consumption, or success in meeting global competition.

Too much reliance on decentralized rural industry has its own drawbacks. Such a policy becomes quite suspect, particularly if it is being advocated as a panacea for all developmental problems. A country at the cost of modern large industry will lag technologically, lose competitive edge in world markets, and become vulnerable to manipulation by developed countries (for criticisms of low technology development options, see Gattung, 1976). The policy of promoting decentralized sectors, therefore, need not be pursued in antagonism to the policy of encouraging large industry. Rather, the two policies should complement each other.

Decentralized Sector in India

The concept of decentralized industrial activity is not new in India. A major political impetus was given to such activity during the independence struggle when Mahatma Gandhi popularized decentralized industry as a symbol of resistance against the organized imperial industry (Gandhi, 1962). After independence, the first two five-year plans placed major emphasis on the decentralized sector. However, during the subsequent plans, the shift to heavy industries weakened the efforts to promote small and tiny industries in the decentralized sector. It is not that the government did not allot resources for the sector, but the relative emphasis declined over a period of time. However, with the Gandhian slant of the Janata government this sector seems to be attracting increased attention from policymakers.

Many of the decentralized industrial activities in India have already come under the jurisdiction of various governmental agencies such as the Khadi and Village Industries Commission (KVIC), Development Commissioners for Handlooms and

Handicrafts, and various commodity promotion boards. The KVIC alone is responsible for 24 different decentralized industries (see Appendix 1).

The progress of production and employment under KVIC schemes is summarized in Table 1. The national coverage of handlooms and the possible impact it can create can be seen from the data on the number of looms under operation in various states and union territories. This is presented in Table 2. The industries coming under the decentralized sector not only provide substantial scope for employment but also provide excellent opportunities for export. The progress of export in handicrafts during the period 1974-77 is shown in Table 3.

Employment Potential: The rural industrial sector in India is very large in terms of employment. According to the 1971 census, the household industrial sector comprised about seven million artisans engaged in main activities and an equal number in subsidiary activities (Commerce Research Bureau, 1978). Another estimate suggests that there are nearly 20 million people employed in various rural crafts (Sigurdson, 1978, p. 667). The definition of rural, cottage, or tiny industry has not been consistent. It has been suggested by Khurana (1978) that industrial units located in centres with population less than 50,000 and with investment less than Rs. 1 lakh should be classified as tiny units, provided their main objective is employment generation and production of low cost mass consumption items. This definition recognizes that not only location and size but also employment and marketing aspects need to be integrated to evolve any meaningful concept of a decentralized industrial system.

Data on decentralized industrial activities are not adequate, since such activities are too widely dispersed and often outside the realm of governmental monitoring and overseeing agencies. The limited data indicates, however, that employment generated per unit of directly invested governmental funds is very high compared to large

scale and even small scale business (Khurana, 1978, Table 4). A few years ago a report of the Industrial Credit and Investment Corporation of India revealed that it required about Rs. 40,000 for creating one job in ICICI-aided industries. According to the Commerce Research Bureau, this figure, by 1978, might have reached "a staggering Rs. 100,000 per job." This report continues: "... as against this, the investment in village industries for the creation of one job would be of the order of only Rs. 4,000 to Rs. 5,000" (Commerce Research Bureau, 1978). There is, of course, the problem of not accounting for a sizable amount of indigenous capital which the artisan himself may possess. Nevertheless, employment potentialities of this sector are obvious since in India it engages more people than the organized industrial sector. There may, however, be limits to how much employment can be increased with additional investment of capital without diversifying the technology, product, and market mix of the decentralized industrial system.

The total number of new jobs targeted under the sixth Five-Year Plan is 49.26 million (Government of India, 1978). Of these, 11.3 million jobs have to come from the following sectors:

Small scale industries	3.0 million
Handlooms	3.5 "
KVIC Industries	4.8 "
	<hr/>
	11.3 million

The gestation period in the decentralized sector is relatively short compared to the long years needed by large scale units. Employment generation schemes in the decentralized sector can therefore be implemented at a relatively rapid rate.

The types of industrial activities found in tiny and rural units can broadly be classified as agro-based activities. Very few of the so-called village industries use industrial raw materials (see Appendix 1). This, however, need not be

so. For example, rural industries can show a much greater diversity in terms of technologies and raw material inputs, as is illustrated by rural-based cement and steel units in China or polyester khadi in India (Sigurdson, 1978; Patel, 1978).

In very few cases, the tiny sector industries are able to match large scale and small scale industries in terms of output value. In the case of footwear and pottery, outputs of tiny units and larger units are comparable. In the case of other widespread rural industries such as toilet soap making and paper making, the output of tiny units is minuscule compared to the output of larger units. This, however, is not necessarily true as far as employment is concerned. For example, the tiny scale soap making industry employs a far larger number of people than the larger scale soap making industry. The employment figures need to be viewed with caution since the large majority of the people are employed only part time in rural industries. Most of these people also devote considerable time to agricultural activities. This makes the operation and output of rural industries much more seasonal than larger scale industries. It also implies a severe underutilization of equipment for substantial portions of the year. The capital-output ratio may also be poorer than comparable large scale units in some cases.

Potential for Organization: Many of the rural industries are already operating under the organizational umbrella of governmental agencies. The largest system is the one managed by the KVIC. Other agencies such as the Handloom Board, the Handicrafts Board, the Coir Board, the Rubber Board, and the Silk Board supervise the development of cottage industries in their respective areas.

Of all the decentralized activities, the largest is handloom weaving. This employs nearly 10 million people. A concerted and development oriented thrust has been given to the handloom sector by the creation of a Development Commis-

sion for Handlooms at the central level and the establishment of development corporations in several states. It seems that the development agency model, which integrates monitoring, supplying of material, and managerial resources, is finding increasing favour in the decentralized sector. Very often such a development agency is given a corporate form of organization, enabling it the flexibility of operating on commercial lines.

If the government policy shifts more in the direction of decentralized industries, as seems likely at present, it is possible that new decentralized sectors may be created in the Indian economy. For example, existing tiny sector industrial activities such as jewelry making, cloth printing, garment making, book binding, and baking may be candidates for formation of new decentralized sectors. Even technically more complex and industrial raw material based industries such as plastic moulding, foundry, machining, etc., may be developed in a decentralized manner under an appropriate policy climate.

It is reasonable to expect that management problems of the decentralized sector would become more complex quantitatively and qualitatively. This portent is certainly foreseeable for the Indian economy for the next few decades and may be equally true for several other countries in the Third World. The conceptual framework for the management of the decentralized sector developed in the following sections takes into account the anticipated growth and complexities of such sectors.

Objectives for Decentralized Sectors

The management process begins with a clear articulation of objectives (Anthony, 1965). In the case of a decentralized sector, it is evident that the primary objective is producer or worker oriented. Several specific objectives which reflect this orientation are possible. For example, objectives such as creation of addi-

tional employment, improvement of earnings and conditions of already employed people, skill upgradation, social welfare of the producer, etc., are of importance in the context of most decentralized sectors.

Market oriented objectives also figure in the planning of decentralized sectors. For example, the handloom sector in India is often expected to produce cheap cloth for mass consumption, fashion fabrics for the urban market, and special varieties for export.

In addition to the producer and market oriented objectives, some specialized objectives may be present in the case of certain decentralized sectors. For example, in handlooms and handicrafts, it is often considered crucial that the traditional skills, which have been passed down over generations, should not be allowed to disappear.

Treatment of Objectives: It can be observed that the objectives of a decentralized sector are multiple and sometimes conflicting. Although the primary orientation of such sectors is quite clear, the entire range of objectives is not generally spelled out in detail. It is useful to develop a comprehensive listing of all possible objectives as a starting point for evolving a strategy and long-range plan for any decentralized sector. This list can then be grouped under the following broad categories.

1. Objectives which are very incidental or peripheral. These can be rejected or treated in a tertiary manner.

2. Objectives which are in the nature of minimum conditions to be met. These can be treated as constraints.

The need to make the inputs available to the artisans, without dislocating them from their traditional habitat, is an example.

3. Objectives of a specialized nature. These can be entrusted to specialized agencies.

For example, the preservation of traditional skills can be entrusted to appropriate design institutions which can offer scholarships to

highly skilled craftsmen.

4. Objectives which have to be retained and actively pursued by the development agency looking after the decentralized sector. Such objectives need to be prioritized.

In the case of handlooms these objectives would include employment generation, raising the income level of weavers, producing cheap cloth for poorer consumers, etc.

The retained objectives along with the constraints serve as a reference point for all strategic and operational decisions in the sector (Anthony, Dearden, and Vancil, 1972). Compromises may have to be made either because of inherent conflicts in the objectives or because of resource limitations. The classification of objectives in the manner listed above would help in making meaningful compromises whenever it becomes necessary.

Strategy Formulation

The selection and prioritization of objectives for a decentralized sector sets the stage for formulating strategy to manage this sector. Strategy here refers to the long-term and macro-level directive concepts which would determine the role and character of the sector, which in turn would provide the basic guidelines for action to the units comprising the sector and the people who manage the units (Ansoff, 1965).

Basic Analysis : The process of strategy formulation calls for a careful analysis and creative matching of a) the current and potential competence of the organization, b) internal strengths and weaknesses, c) trends, opportunities, and threats in the environment, d) the key requirements for success, e) personal ideals and ideologies of the leadership, and f) their acknowledged responsibilities to society (Andrews, 1971). In the case of decentralized sectors, ideologies and social responsibilities are provided as a backdrop by the political process, epitomized in the form of ministerial

directives. A committed bureaucracy is expected to translate these into viable strategies.

The touchstone of a good strategy is its congruence with objectives. As stated earlier, the primary objective of a decentralized sector is the amelioration of employment conditions of people in that sector. There could be secondary objectives pertaining to markets to be served and skills to be preserved.

The objectives of the sector can be served by: taking advantage of the opportunities available, minimizing the threats to the sector, deploying the internal strengths, and avoiding the weaknesses. For this purpose, it becomes necessary to understand: the *strengths* of the sector, the *weaknesses* of the sector, the *opportunities* available to the sector, and the *threats* facing the sector. This Strength-Weakness-Opportunity-Threat (SWOT) analysis, popularized by the Harvard Business School, constitutes the background for any strategy formulation effort. Figure 1 illustrates the SWOT analysis for the handloom sector in a typical state in India.

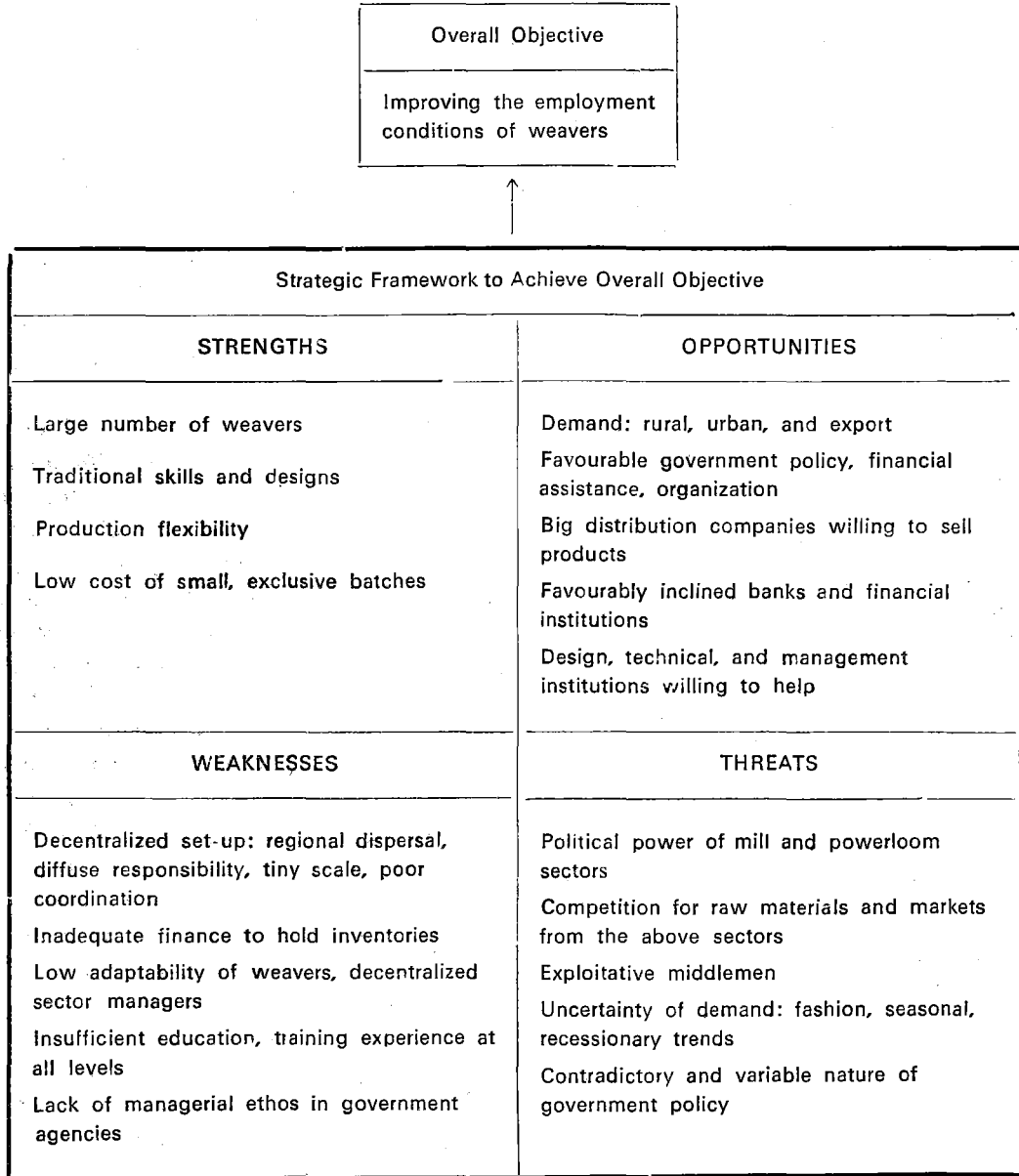
It is seen that the decentralized nature imparts certain strengths but it also implies several weaknesses. These weaknesses combined with the threats from the organized sector, the middlemen, the market, and an erratic public policy are largely responsible for the lack of growth of decentralized industrial activity in the handloom sector in India. The analysis in Figure 1 also indicates a number of opportunities which can be turned to the advantage of the handloom sector.

Strategies and tactical moves for the handloom sector can be evolved by considering methods of exploiting opportunities and minimizing weaknesses and threats. Specifically the following possibilities exist.

1. Using a *strength* such as production flexibility to exploit an *opportunity* such as urban demand for fashionable fabrics.

2. Using a *strength* such as large number of weavers to minimize the *threat* of raw material

Figure 1
Strategy Formulation: A Framework for Handloom Sector in India



cutback by the spinning mills. This can be done by forming a powerful purchasing association or by setting up cooperative spinning mills.

3. Using a *strength* such as production flexibility to minimize financial *weaknesses* and the resultant inability to hold high inventories.

4. Using an *opportunity* such as design and management institutions to overcome a *weakness*, e.g., deficiency in education and training of weavers and managers in the handloom sector.

5. Using an *opportunity* such as sympathetic central government policy to regulate competitive *threats* from mills and powerlooms.

The above strategy options, spelled out specifically for the handloom sector, can be summarized in terms of three distinct roles which top managers of any decentralized sector in general must play.

1. *Commercial*. This entails the identification of appropriate product-market combinations, assignment of priorities to these combinations, selecting best product markets, and evolving business strategies to exploit these product markets.

2. *Developmental*. This refers to the upgradation of expertise and other resources in the sector which would increase its adaptiveness, viability, and growth potential.

3. *Regulatory*. This refers to actions which can be taken to regulate the threats to the decentralized sector.

In thinking about these roles, it is necessary to keep in mind the distinction between short-run strategies and long-run strategies. For example, it may be worthwhile to sacrifice short-run commercial goals if this leads to the achievement of long-run developmental goals, or vice versa. It is also important to note that the SWOT profile keeps on changing with changes in the environment as well as changes in internal characteristics. This necessitates that the strategy be continually reviewed and adapted to the changing circumstances. It also indicates that a long-run SWOT profile needs

to be developed so that a basic long-term strategy can be evolved to guide successive short-run plans and programmes.

Structure and Organization

The management structure of a decentralized sector must be designed so as to perform the three main roles in an effective and compatible manner. It is the need to balance these three roles which distinguishes a decentralized sector organization from an organization in commercially oriented public or private sectors. Private sector firms also perform, for example, developmental roles (e.g., training activities) but these are subservient and contributory to a long-run commercial interest. In such organizations, all other goals can be thought of as *means* to long-run economic goals rather than separate *ends* by themselves. In a decentralized sector, commercial and developmental goals are both desirable and mutually supportive *ends* to follow and the regulatory function is a means to further these ends.

Organizational structures for most of the decentralized sectors in India show a complex pattern. Multiple levels and several discrete organizational entities are loosely interlinked through a common national policy. The main source of operating control is the financial aid given by the central government to various state and local agencies. Such an organizational pattern can be illustrated by observing the handloom sector in India. The multiple levels consist of the Government of India, union ministry of Industries, Development Commissioner for Handlooms, state government ministry concerned with handlooms at the state level, Directorate of Handlooms at the state level, and development corporations or cooperatives at the operating level. All these levels are linked through a common national policy for handlooms. In terms of multiple organizational entities, there are state directorates, state handloom development corporations, and apex cooperatives to implement the

strategies. Their roles will be discussed later. The common financial linkage connecting all units and sub-units can be gleaned from the amount of loans and grants sanctioned to various states under the centrally sponsored schemes (Table 4). It is seen from this table that the quantum and mix (relative proportion of grants and loans) of central assistance can vary considerably from year to year, thereby providing a strong leverage over the units. The organizational linkages are shown in Figure 2.

Organization at State Level: State, province, district, or any such geopolitical sub-unit constitutes the relevant level of analysis for organization in a decentralized sector. This is so because decentralized planning can be done only at a relatively disaggregate level. Not only is the task unmanageable for a centralized organization, but also there are regionally specific problems which can best be handled at the state or provincial level. Of course, the broad policy guidelines can come from a central agency

Figure 2
Organizational Structures for Handlooms

Level	STRUCTURE	Primary Role
I	<p style="text-align: center;">Government of India</p> <p style="text-align: center;"> </p> <p style="text-align: center;">-----</p> <p style="text-align: center;"> </p> <p style="text-align: center;">Reserve Bank of India Ministry of Industries Planning Commission</p> <p style="text-align: center;"> </p> <p style="text-align: center;">Development Commissioner Handlooms</p>	<p>National policy</p> <p>Finance</p>
II	<p style="text-align: center;">State Governments</p> <p style="text-align: center;"> </p> <p style="text-align: center;">State Ministries</p>	<p>Regional policy</p> <p>Developmental goals</p> <p>Regulatory inputs</p>
III	<p style="text-align: center;"> </p> <p style="text-align: center;">-----</p> <p style="text-align: center;"> </p> <p style="text-align: center;">Development Corporations Apex Cooperatives</p>	<p>Organizational strategies</p>
IV	<p style="text-align: center;"> </p> <p style="text-align: center;">Intensive Handloom Development Projects Primary Cooperatives</p>	<p>Operational details</p>

Note: Corresponding to the Reserve Bank of India and the Planning Commission at the top level, there are financial institutions and planning agencies at the state level and at district levels. These are not shown here.

like a development commissioner, reinforced through financial assistance. This is in line with the practice of maintaining financial control by the corporate office in highly divisionalized organizations (Berg, 1965). The discussion to follow will keep the state as the level of analysis and focus mainly on handlooms, handicrafts, and similar sectors.

Organizational Options: The main organizational issue is how to distribute the three roles between various possible state, cooperative, or private agencies. Within state agencies, it is useful to distinguish between governmental departments and corporations sponsored by the state. Figure 3 illustrates the possible distributions of roles

this role is made fully congruent with the overall objectives of the decentralized sector. This ideal pattern is based on the assumption that the very structure of different agencies makes them differentially suitable for one or two roles.

The figure also illustrates the actual distribution of roles in the handloom sector in the state of Tamil Nadu. This is a suitable pattern for any state with a strong cooperative movement. The figure also illustrates a pattern which can be adopted in a state with a weak cooperative movement. Lastly, the figure gives a pattern which is actually obtained in many decentralized sectors in various states in India. It can be seen that

Figure 3
Relative Mix of Roles for Different Agencies

	Role Distribution											
	Ideal Pattern			Tamil Nadu Pattern			State with Weak Cooperatives			A Prevalent Pattern		
	C	D	R	C	D	R	C	D	R	C	D	R
Government department		a	β		a	β		a	β		a	β
Government sponsored corporation	β	a					β	a		β	a	
Weavers' cooperative	a	β		β	a					β	a	
Private agency	α^*											

C = Commercial

D = Developmental

R = Regulatory

α = Minor role

β = Major role

* = Conditional to this being congruent with overall objectives

between various agencies. An ideal pattern is presented in Figure 3. In this pattern the government department performs primarily the regulatory role and secondarily a developmental role. The state corporation performs primarily the commercial role and secondarily a developmental role. The state-level apex cooperative performs primarily the developmental role and secondarily a commercial role. Private agencies such as wholesalers, retailers, and distribution companies can be permitted a commercial role if

this pattern has some duplication of roles and therefore a high potential for conflict between agencies.

Neglected Role: In all the existing organizational patterns in decentralized sectors, the role which is pushed to a secondary status is the developmental role. Although a producers' cooperative is perhaps the best agency to perform this role in practice the stronger cooperatives are tempted to give more attention to the commercial role and the weaker cooperatives

are hardly able to do anything. The tendency of the commercial role to dominate and subsume other roles cannot perhaps be countered by conventional organizational methods. Some of the ways of improving the developmental functions are discussed in a later section devoted to values, leadership, and ideology. At this stage, it is necessary to examine how the mix of roles in a decentralized sector can best be performed given the conventional organizational options. This requires a discussion of operational management problems.

Operational Management Problems

In essence, the operating problems of a decentralized sector have the same *functional* character as that of any large centralized organization. The difference lies in the objectives with which these functions are performed.

Major Functions: Since decentralized sectors perform economic activities, they have to be concerned with functions like production, marketing, financing, and personnel management. In a typical centralized corporation, all these functions have well specified commercial objectives. In a decentralized sector organization also, these functions must have a commercial element. This is because the economic efficiency of these functions depends on their being performed on a commercial basis. Since the economic objectives are not the sole objectives of a decentralized sector, some further dimensions need to be added to these functions. Firstly, the commercial activities themselves could be performed in such a way that they contribute to developmental goals. Secondly, some developmental tasks can directly be entrusted to different functional departments qualified to undertake such tasks.

Suggested Scheme: Figure 4 illustrates an operating scheme by which various functions can be split into purely commercial, development oriented, and purely developmental functions. It is seen that developmental functions which

can be performed within conventional organizational setups are mainly in the nature of training and motivational activities. The middle column in the figure shows the activities which can be given a developmental bias if management systems are designed to do so.

Management Systems: Since the organizational superstructure of a decentralized sector would be fairly differentiated in terms of structure as well as functions, there would be need for coordinating mechanisms (Lawrence and Lorsch, 1967). These mechanisms, may, however, induce strong centralizing tendencies. There is need to focus attention on methods of coordinating without centralizing.

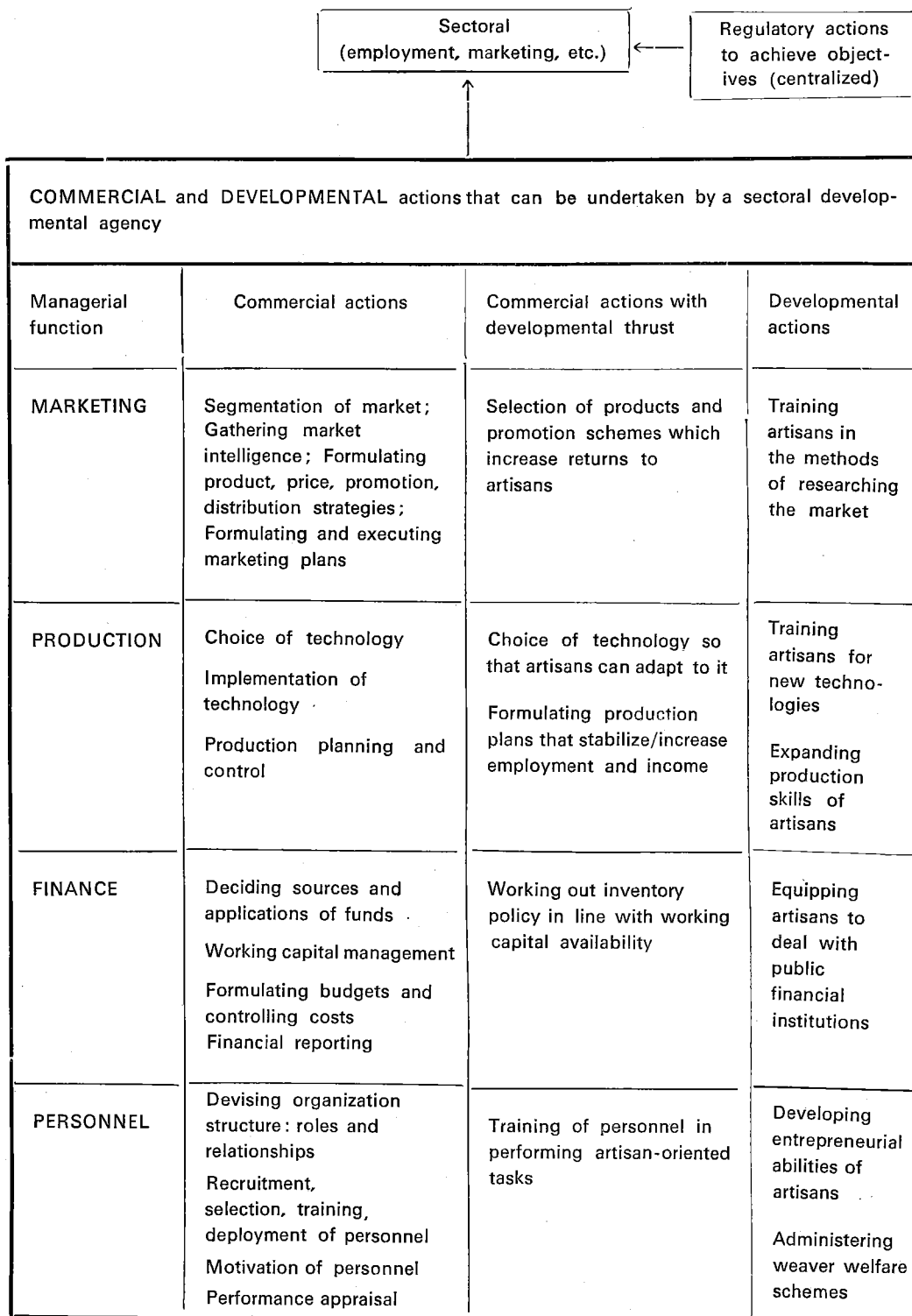
Operating control systems for various functions such as production, marketing, finance, etc., have to be developed keeping in view the multiple and possibly conflicting goals. It is useful to classify goals in quantifiable and non-quantifiable categories as well as short and long-run categories. Measurable targets could be set for goals in each category. It is very likely that the developmental objectives could best be served by long-run and somewhat less quantifiable goals. The target setting exercise, therefore, becomes a way of injecting the desired commercial or developmental bias in the functioning of the decentralized sector agency.

Targets of course do not determine the actual bias in the working of such agencies. As mentioned earlier, there would be a tendency for commercial goals to dominate in the normal course. To some extent, training and organizational development effort undertaken from grassroots (the producers) upwards can help in sensitizing the organization to the developmental role. Flexible management systems which include qualitative performance measures are more likely to be successful in such settings.

Value, Ideology, and Leadership

Decentralized sectors require strong guidance in the form of systematic management to take

Figure 4
Scheme for Classifying Activities



advantage of the opportunities and meet the threats in the environment. Such systematic management, however, is usually associated with corporate entities or public bureaucracies, both of which have strong centralizing features. Also, these organizational forms have been evolved to achieve certain types of objectives. For example, corporate organizations, even in the public sector, tend to be dominated by commercial considerations. They discover that their manoeuvrability in a given environment increases if they make commercial surpluses. Government bureaucracy, on the other hand, is primarily designed to perform a regulatory role. The almost inviolate sense of accountability which pervades government departments renders them incapable of any other role except regulation.

Ineffective Interventions: The result of this is that intervention in decentralized sectors is not able to provide the developmental thrust which it is supposed to. It may be able to regulate some of the threats to decentralized producing units; it may be able to do a reasonable job of providing inputs and marketing the outputs of such units; but it is not able to develop the producers themselves into more effective managers of their own affairs. Even the interventions, therefore, tend to be in those areas where the producers are already somewhat better off, more organized, and more capable of transacting with bureaucrats or business people. For these producers, intervention by a state agency usually means entering into a new and perhaps somewhat more benign dependency than what existed earlier. The vast majority of poorly organized, poorly educated, and less capable producers are either left untouched or driven into more exploitative arrangements with middlemen.

Parallel Organization: A way out of this predicament could be either through training efforts, or through structural changes, or both. Given the size and criticality of decentralized industrial activity in developing countries, it may be advisable to adopt as many methods as possible to hasten the development of producers engaged in such activities. Training and motivation

obviously have a major role to play at all levels. Effectiveness of training can be greatly enhanced by bringing about some structural changes which have a specific developmental bias. It was pointed out that conventional organizational forms may not be able to pursue developmental goals explicitly and forcefully. This job has to be done by special cadres which are organizationally independent and yet in constant dialogue with the management superstructure of decentralized sectors. In socialist countries, cadres of the ruling political party usually perform this role. In most developing countries, however, there are very few ruling parties which have disciplined and dedicated cadres which could undertake developmental work. There are, however, young people fired with idealism and willing to devote time to developmental activity. Special cells could be created in governmental agencies where such young people could be recruited as volunteers. Also, governmental agencies can collaborate with voluntary agencies which could provide the developmental support. The point is that a *parallel* organization which is voluntary in character is needed to *support* as well as *check* the functioning of the intervening agencies. In addition to the usual persuasive and negotiatory tactics, the voluntary organization can also resort to mobilizing and agitational tactics whenever necessary. Because of the wider mix of tactical options, such agencies are best able to perform as well as induce others to perform the developmental role.

The parallel and effective working of a state and a voluntary agency is possible only when the leadership of the state intervening agency is imbued with developmental values. When appointments to key positions in the state intervening agencies are made by top political and bureaucratic echelons of the country, it is necessary that the appointees be screened for their value orientations and leadership strength. The chances of decentralized sectors achieving their developmental objectives are far greater if the management superstructure is manned by strong and committed leaders.

Appendix 1

Industries under the Khadi and Village Industries Commission

<p>Khadi—cotton, woollen and silk. Processing of cereals and pulses. Ghani oil. Manufacture of cane-gur and Khandsari. Palm-gur making and other palm products. Cottage match, manufacture of fireworks, and agarbatties. Cottage soap. Manufacture of shellac. Collection of forest plants and fruits for medicinal purposes. Bamboo and cane work. Manufacture of gum resins. Manufacture of katha. Handmade paper. Bee-keeping.</p>	<p>Village pottery. Flaying, curing, and tanning of hides and skins and ancillary industries connected with the small and cottage leather industry. Fibre other than coir. Manufacture and use of manure and methane gas from cow-dung and other waste products such as flesh of dead animals, nightsoil, etc. Limestone, lime shell, and other lime products. Blacksmithy. Carpentry. Fruit processing and fruit preservation. Manufacture of aluminium utensils. Manufacture of lok vastra cloth.</p>
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Source: KVIC Annual Reports.

Table 1
Khadi and Village Industries: Progress of Production and Employment

	Produc- tion (Rs. million)	Employ- ment (Thou- sands)	Produc- tion (Rs. million)	Employ- ment (Thou- sands)
I. Khadi	233.8	1335	560.3	853
II. Village Industries				
Processing of cereals and pulses	157.3	58	140.7	22
Ghani oil	179.1	33	362.6	31
Village leather	46.5	26	153.4	59
Cottage match	2.2	4	5.3	3
Cane-gur and khandsari	215.0	91	427.9	132
Plam gur making and other palm products	72.4	293	119.2	316
Non-edible oils and soap	19.0	127	52.3	119
Handmade paper	5.4	5	15.6	5
Bee-keeping	10.3	110	29.8	146
Village pottery	20.9	40	100.0	78
Fibre	8.8	19	59.0	77
Carpentry and blacksmithy	9.6	3	95.5	32
Lime manufacturing	1.7	4	19.6	12
Gobar (methane) gas	1.5	—	113.4	—
New industries	1.5	4	23.0	140
Total II	751.2	817	1717.3	1172
Total I+II	985.0	2152	2277.6	2025

Source: Adapted from *Commerce*, August 19, 1978.

Table 2
Handlooms in India (1978)

	Handlooms		Total
	In Coop. Sector	Outside Coop. Sector	
Andhra Pradesh	3,36,000	2,61,000	5,97,000
Assam	40,480	5,50,000	5,90,480
Bihar	1,25,820	75,000	2,00,820
Gujarat	10,768	23,301	34,069
Haryana	441	8,550	8,991
Jammu and Kashmir	143	40,000	40,143
Karnataka	1,04,000	33,000	1,37,000
Kerala	21,353	49,972	71,325
Madhya Pradesh	26,272	26,446	52,718
Maharashtra	76,105	1,08,895	1,85,000
Manipur	12,000	1,88,259	2,00,259
Orissa	53,824	23,457	77,281
Punjab	5,500	13,000	18,500
Rajasthan	813	1,40,937	1,41,750
Tamil Nadu	1,62,000	3,88,000	5,50,000
Uttar Pradesh	2,17,900	2,91,500	5,09,400
West Bengal	66,300	93,700	1,60,000
Other States and Union Territories	7,728	13,732	21,460
Total	12,67,447	23,28,749	35,96,196

Source: Note on Handloom Industry (Ahmedabad: Indian Institute of Management, 1978).

Table 3
Export of Handicrafts (excluding Gem and Jewellery)
during 1974-75, 1975-76, and 1976-77 (Rs. lakh)

	1974-75	1975-76	1976-77 (Provisional)
Woolen carpets, rugs, druggets, including namdas	3611.19 (39.1)	4142.96 (37.8)	6143.63 (37.9)
Art metalwares	1570.35 (17.0)	1701.08 (15.5)	2634.18 (16.2)
Woodwares	684.10 (7.4)	619.06 (5.7)	776.26 (4.8)
Hand printed textiles and scarves	822.96 (8.9)	1024.05 (9.3)	2144.23 (13.2)
Imitation jewelry	464.56 (5.0)	536.71 (4.9)	453.26 (2.8)
Shawls as artwares	22.24 (0.2)	33.11 (0.3)	119.85 (0.7)
Zari	268.79 (2.9)	401.08 (3.7)	408.60 (2.5)
Ivory	50.92 (0.6)	74.13 (0.7)	134.54 (0.8)
Cotton carpets, rugs, durries, etc.	192.87 (2.1)	337.91 (3.1)	414.41 (2.6)
Embroidered goods	184.51 (2.0)	221.39 (2.0)	219.12 (1.4)
Miscellaneous handicrafts	1365.45 (14.8)	1864.55 (17.0)	2769.52 (17.1)
Total	9237.94 (100.00)	10956.03 (100.00)	16217.60 (100.00)

Figures in brackets indicate percentages.
Source: Commerce, August 19, 1978.

Table 4

Part I: Funds Sanctioned for Handloom Intensive Development Projects

(Rs. lakh)

State/Union Territory	Loans			Grants		
	1976-77	1977-78	Total	1976-77	1977-78	Total
Andhra Pradesh	11.25	—	11.25	3.75	—	3.75
Karnataka	11.25	26.25	37.50	3.75	11.25	15.00
Kerala	11.25	11.25	22.50	3.75	3.75	7.50
Tamil Nadu	22.50	15.00	37.50	7.50	7.50	15.00
Rajasthan	11.25	—	11.25	3.75	—	3.75
Manipur	11.25	—	11.25	3.75	—	3.75
Haryana	11.25	—	11.25	3.75	—	3.75
West Bengal	11.25	—	11.25	3.75	—	3.75
Uttar Pradesh	22.50	15.00	37.50	7.50	7.50	15.00
Madhya Pradesh	11.25	—	11.25	3.75	—	3.75
Orissa	11.25	15.00	26.25	3.75	7.50	11.25
Maharashtra	11.25	15.00	26.25	3.75	7.50	11.25
Gujarat	11.25	—	11.25	3.75	—	3.75
Bihar	11.25	15.00	26.25	3.75	7.50	11.25
Assam	11.25	—	11.25	3.75	—	3.75
Jammu and Kashmir	11.25	—	11.25	3.75	—	3.75
Nagaland	11.25	—	11.25	3.75	—	3.75
Pondicherry	—	—	—	2.50	—	2.50
Total	213.75	112.50	326.25	73.75	52.50	126.25

Part II: Funds Sanctioned for Handloom Export Production Projects

Andhra Pradesh	7.50	—	7.50	2.50	—	2.50
Karnataka	15.00	7.50	22.50	5.00	2.50	7.50
Kerala	7.50	—	7.50	2.50	—	2.50
Tamil Nadu	15.00	—	15.00	5.00	—	5.00
Rajasthan	7.50	—	7.50	2.50	—	2.50
Haryana	7.50	—	7.50	2.50	—	2.50
West Bengal	7.50	—	7.50	2.50	—	2.50
Uttar Pradesh	7.50	—	7.50	2.50	—	2.50
Madhya Pradesh	7.50	—	7.50	2.50	—	2.50
Orissa	7.50	—	7.50	2.50	—	2.50
Maharashtra	7.50	—	7.00	2.50	—	2.50
Bihar	7.50	—	7.50	2.50	—	2.50
Assam	7.50	—	7.50	2.50	—	2.50
Jammu and Kashmir	7.50	—	7.50	2.50	—	2.50
Punjab	7.50	—	7.50	2.50	—	2.50
Himachal Pradesh	7.50	—	7.50	2.50	—	2.50
Tripura	7.50	—	7.50	2.50	—	2.50
Pondicherry	7.50	—	7.50	2.50	—	2.50
Total	150.00	7.50	157.50	50.00	2.50	52.50

Source: Commerce, August 19, 1978.

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