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IS Small Beautiful? (B)

'This case material is prepared under the guidance of Prof. Krishna Kumar, Former Professor, IIML, as a basis for class discussion rather than illustrating correct or incorrect handling of administrative situations.'

The case has been developed from generalized experience and published sources.

Is Small Beautiful (B)?

The Director of IMP Institute was on his nerves when he read the minutes of the last Board meeting, a fortnight from the day he joined the Institute. The phase II of the construction work, which began in February 2002 and was to be completed by May 2003, lagged far the behind the schedule. The work progress achieved in two years was only 40 percent i.e., about 1.7% per month instead of over 6.6 per month. Frustrated over the slow rate of progress, the Board of Governors had asked the Institute to serve a notice to the builders XYZ Ltd (a reputed Indian company belonging to one of the large business groups of India), as to why the contract should not be terminated and the balance work got done through another builder at the cost and risk of XYZ Ltd., if the last ditch effort of a request to the chief of the business group failed to expedite the progress.

The worries of the Board and the Director were not unfounded. None of the buildings among a large number of buildings (comprising a class room complex, a faculty block, a commercial center, a guest house, a married students hostel, four student hostels, fifteen faculty houses, twenty two staff houses, Director's residents) was completed and ready for use. A major factor that worried him the most was the non-completion of the classroom complex, which was only half complete. The institute had increased its MBA intake from 60 to 120 students in July 2003 as per the MoU signed with the Ministry of Human Resource Development (MHRD) hoping that the necessary buildings would be completed at least by May 2004. No one expected such an inordinate delay. Non-completion of the classroom complex and hostel could turn out to be a major issue in June, when the academic session begins with 240 students in the campus. As per the revised plan, the classroom complex was slated to be completed in January 2005. A temporary classroom arrangement would mean an expenditure of about Rs. 2.5 Million (more than Director's salary for his entire tenure), a large part of which could be a waste, when the regular classrooms would be ready in January. In any case the makeshift classroom could not be expected to be congenial for effectiveness of learning that needed a properly designed classroom conducive for case method (needing embedded revolving chairs an amphitheater type setting with necessary multimedia arrangement, LAN connectivity etc). None of these would be available in the makeshift arrangement. If all these buildings were to be completed in the next 15 months, the rate of progress had to go up from about 1.7% p.m to 4% p.m; two and half time higher.

Several factors apparently contributed to this delay. One of the main factors perceived to be responsible was the value at which the contract was awarded to the builder XYZ Ltd. In a bid to bag the first major civil construction order the XYZ Ltd., had terribly under quoted, - the difference in its quotation and the next two higher quotations was over 20%. To make the matter worse, the builder had deleted the normal cost escalation clause to bag the order. Soon after getting the contract award, the company realized the terrible fact and lost heart.

There were some other peculiar aspects that impinged on the progress. The site of construction comprised two small hills, where it was difficult to gauge the exact nature of soil. At times it seemed soft on the face and once excavation started large granite blocks appeared laughing on the face of the builder. The risk involved did not permit blasting it into pieces (as the surrounding downhill area was densely populated) and cutting was costly and time consuming. For instance cutting 20 feet long stretch of granite rock to make drainage took 5 months. The hills' soil composition was so unpredictable that even the architects were at loss to clearly understand composition of the whole hill, where it was soft and where it was hard. It led to unexpected consequences. For example there was a massive landslide on residential hill, that caused an additional cost of Rs. 12mn and the money earmarked for a new hostel construction had be diverted to do this work.

The hill site with narrow roads also posed problems for material storage and concurrent work of different agencies, which quarreled and allegedly obstructed each other's work. For example external electrical work was being done by a sick company (that had become a BIFR case) and drainage outside houses was being constructed by the XYZ Ltd. Laying electrical cables needed trenches to be excavated, which obstructed material storage and transfer for construction by XYZ. It took many days for the sick electrical company at located about 200 kms. away to arrange skilled labour and XYZ could not wait that long. Subsequently it also irritated the inhabitants of the few completed residential buildings, as the roadwork could not be taken up due to lack of alternative routes. The rains in the region also had its role to play. Once the monsoon started in

May, no foundation work could be undertaken for over three months. The state of Kerala also had another problem that of acute shortage of skilled and unskilled labour. The labour rates were uneconomically high and the builders had to bring labour from distant places like Tamil Nadu, Orissa and Andhra Pradesh etc. 500-1500 kms away. Indeed the builder could never mobilize more than 60 percent of the labour required at any stage of the project work. This not only made the cost go up for the builder, but also occasional losses of the advance salary paid when the labour finally did not show face.

The delays were also caused occasionally on account of strong disagreements between the project staff of the Institute and the builder, on the issues of approvals of material. Often the project staff rejected material proposed by the builder on the grounds of non-adherence to approved brand, while the builder proposed next alternative on the grounds that the material was not available in the market. The project staff felt it was being done to reduce cost by using cheaper material. The delays were also caused due to action of the architects who occasionally changed the initial design after the builder had started construction or taken material procurement action. As non-completion was creating anxiety among all, the people were more in the game of pointing at others for the delays instead of working together. "It was natural" he felt, "but not an answer to improve pace of progress". "If the legal notice was served, will the builder be even enthusiastic enough to complete the work, leave alone timely completion, especially in the background of the mounting losses" he wondered. "At the same time", he thought, " if the rate of progress remained the same, he would complete his five years tenure before the phase II of the campus work was over, what to say of academic activities that would stagnate at the same level for years together with attendant consequences? Besides, would it be possible to find alternate builder to complete so many partially completed buildings at reasonable rates. How to settle the bills of XYZ Ltd. was another point to be pondered.

The Director's worries were compounded by another nightmarish fact. The Institute banked heavily on the Ministry of Human Resource Development (MHRD), both for plan funds (required for creation of infrastructure – buildings, library, computer centre etc.,) as also for non-plan funds (to meet the deficit in meeting operational expenses). However, there was a serious conflict on the issue of autonomy between the MHRD and other sister management institutions, who were part of the six Institutes of Management created by MHRD. These senior institutions had a large amount of corpus funds, which gave interest income as they were established long ago. They also generated enough income through fee etc., which together with interest income was sufficient to cover up all expenses. They could, thus, sustain at least for a while, without plan and non-plan grants from the Government. This was not the case with IMP. Non-release of non-plan grant could jeopardise the operation and non-release of plan grant could result in default of payment to builders if they completed the work faster assuming that the Institute was able to persuade them to do so. Unfortunately some of the senior faculty members were also quite upset with the government's approach and were mobilising support to protest against the government, joining hands with faculty of other institution, even legal battle, if necessary. A wrong move could jeopardise the timely release of funds from MHRD. Indeed, the government had not released any grant towards both plan and non-plan requirements since the conflict began about 10 months ago. With great persuasion the Director was able to get a part of the grant released while joining the institute but he had serious doubts about further release, if the faculty openly criticized MHRD. Even the Board of Governors was not very keen to take stand against the government.

There was another worry giving the Director sleepless nights. There was a move to introduce block grant scheme by the MHRD, under which the Institute's non-plan grant would stop totally after 4-5 years; which meant that the Institute will have to increase its income generation activity of Management Development Programme 8-10 fold in the next 3-4 years. But the required infrastructure (classroom, executive hostel etc.,) did not exist. All that was planned for Phase III of construction, which was yet to be conceptualised and could be started only after Phase II work was over.

“At the time of receiving the appointment letter, I had though IMP to be a small institute that would provide me great opportunities for institution building. But the reality was very different. Within a fortnight of joining, I started wondering whether I will last even one year, if the environment did not change for better” said the Director.

Questions

1 Identify the problems being faced by the Director. Highlight the associated managerial challenges

2 Do you think it is possible for the Director to increase the progress from 1.7% p.m. to 4% p.m.? How should the Director go about doing it?