https://rbigradeb.com/

PRINCIPLES of MANAGEMENT

P C Tripathi | P N Reddy

5e

https://rbigradeb.com/

Principles of Management

Fifth Edition

https://rbigradeb.com/

ABOUT THE AUTHORS

Dr P.C. Tripathi, formerly Professor and Head of the Department of Business Administration, Faculty of Commerce and Management Studies, Sukhadia University, Udaipur, is an outstanding scholar and a prolific writer in the field of management. Dr Tripathi has attended two short-term courses of IIM Ahmedabad. He has over thirty years' experience of teaching MCom and MBA classes. He has also guided a number of PhD researchers. He is the Founder Director of the Institute of Management Studies, Rajasthan Vidyapeeth Deemed University, Udaipur. Among his important publications are *Personnel Management and Industrial Relations, Human Resource Development* and *A Textbook of Research Methodology in Social Sciences.*

Dr P.N. Reddy is the Ex-Professor, Chairman and Dean, Department of Commerce and Management, Bangalore University. A PhD from Mysore University, he has more than 35 years of experience in teaching commerce and management subjects. He has published 50 research articles in reputed Indian and foreign journals and has also authored 25 books in the areas of commerce and management subjects. Currently, he is Director of KKECS Institute of Management, Bangalore.

https://rbigradeb.com/

Principles of Management

Fifth Edition

P.C. Tripathi

Ex-Professor, Associate Dean,
and Head of the Department of Business Administration,
Sukhadia University, Udaipur

P.N. Reddy

Ex-Professor, Chairman and Dean,
Department of Commerce and Management
Bangalore University, Bangalore

Tata McGraw Hill Education Private Limited

NEW DELHI

McGraw-Hill Offices

New Delhi New York St Louis San Francisco Auckland Bogotá Caracas
Kuala Lumpur Lisbon London Madrid Mexico City Milan Montreal
San Juan Santiago Singapore Sydney Tokyo Toronto

https://rbigradeb.com/

Tata McGraw-Hill

Published by the Tata McGraw Hill Education Private Limited,
7 West Patel Nagar, New Delhi 110 008.

Principles of Management, 5/e

Copyright © 2012, by Tata McGraw Hill Education Private Limited.
No part of this publication may be reproduced or distributed in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise or stored in a database or retrieval system without the prior written permission of the publishers. The program listings (if any) may be entered, stored and executed in a computer system, but they may not be reproduced for publication.

This edition can be exported from India only by the publishers,
Tata McGraw Hill Education Private Limited

ISBN-13: 978-0-07-133333-7
ISBN-10: 0-07-133333-9

Vice President and Managing Director: *Ajay Shukla*
Head—Higher Education Publishing and Marketing: *Vibha Mahajan*
Publishing Manager—B&E/HSSL: *Tapas K Maji*
Deputy Manager (Sponsoring): *Surabhi Khare*
Assistant Sponsoring Editor: *Shalini Negi*
Executive (Editorial Services): *Yogesh Kumar*
Senior Production Manager: *Manohar Lal*
Senior Production Executive: *Atul Gupta*
Marketing Manager: *Vijay Sarathi*
Assistant Product Manager: *Daisy Sachdeva*
Graphic Designer (Cover Design): *Meenu Raghav*
General Manager—Production: *Rajender P Ghansela*
Manager—Production: *Reji Kumar*

Information contained in this work has been obtained by Tata McGraw-Hill, from sources believed to be reliable. However, neither Tata McGraw-Hill nor its authors guarantee the accuracy or completeness of any information published herein, and neither Tata McGraw-Hill nor its authors shall be responsible for any errors, omissions, or damages arising out of use of this information. This work is published with the understanding that Tata McGraw-Hill and its authors are supplying information but are not attempting to render engineering or other professional services. If such services are required, the assistance of an appropriate professional should be sought.

Typeset at The Composers, 260, C.A. Apt., Paschim Vihar, New Delhi 110 063 and printed at
Pashupati Printer Pvt. Ltd., 1/429/16, Gali No. 1, Friends Colony, Industrial Area, G.T. Road, Shahdara, Delhi 110095

Cover Printer: SDR Printers

DZXQCRDHRCQYC

The McGraw·Hill Companies

https://rbigradeb.com/

Preface to the Fifth Edition

We are extremely happy that our book *Principles of Management* now enters its fifth edition. The strength of the book over the years has been its comprehensive coverage of key topics, its straightforward writing, up-to-date research base and Indian examples related to the use of various management concepts. This latest edition should enhance this reputation because it has been thoroughly revised and updated on the above lines. Let us simply say, we have never put in so much time and effort, and never made so many changes as we have in this fifth edition.

ABOUT THE BOOK

The book has 21 chapters. The following is a description of what major points are new, expanded or updated in the chapters:

Chapter 1, Nature and Functions of Management: New sections on 'Managerial Effectiveness', and 'Skills and Abilities of an International Manager'

Chapter 3, Social Responsibilities of Business: New section on 'Ethics and Corruption in International Business,' expanded description of corporate governance

Chapter 4, Planning: Major section on 'Strategic Planning Process'

Chapter 5, Decision Making: Expanded description of creativity and innovation

Chapter 6, Business Forecasting and Operations Research: Major sections on 'Focus Forecasting' and 'Linear Programming'

Chapter 7, Organisation: Major sections on 'Emerging Organisation Structures' and 'International Organisation Structures' (with expanded description of advantages and disadvantages of combined base organisation)

https://rbigradeb.com/

Chapter 8, Authority Delegation and Decentralisation: New section on 'Influence'

Chapter 11, Staffing: New major sections on 'Manpower Planning' and 'Staffing from a Global Perspective' (with updated description of Manpower Planning in India)

Chapter 12, Training and Development: New sections on 'Knowledge Management' and 'Choosing the Expatriate Training Method' (with expanded description of evaluation of training and development, mentoring and learning organisation)

Chapter 13, Performance Management: Major sections on 'Appraisal of Organisational Performance' and 'Expatriate Performance Appraisal' with new material on other related topics

Chapter 14, Compensation Plans: New major sections on 'Company Benefits' and 'International Compensation'

Chapter 15, Direction and Supervision: Major sections on 'Systems Perspective of Motivation' and 'Organisational Citizenship Behaviour (OCB)' with expanded description of Douglas McGregor's Hot Stove Rule

Chapter 17, Leadership: New major section on 'Charismatic and Transformational Leaderships' with revised description of the qualities of a leader and leadership style in Indian organisations

Chapter 18, Managerial Control: Minor sections on Gantt Chart, Statistical Process Control, Benchmarking, etc.

Chapter 19, Organisational Change: Expanded description of the need for change and total quality management

Chapter 20, Management of Organisational Conflict and Power Politics: Major sections on the 'Cause, Tactics and Management of Organisational Politics' with a description of politics in international business

Chapter 21, Organisational Climate: Major section on 'Quality of Worklife and Building Human Resource Development (HRD) Culture' and 'Culture and International Business'

LEARNING AIDS

The fifth edition of *Principles of Management* contains a new internal design to make it more 'reader friendly'. Each chapter begins with learning objectives. These objectives should help the students focus better and prepare for what follows in the chapter. Review Questions provided at the end of each chapter will help the students check their understanding of the key concepts presented. All chapters have a section entitled "Projects", which provides projects involving field investigation or other types of research related to first-hand management issues.

Finally, most chapters include cases, which reinforce the chapter concepts, encourage critical thinking to apply the concepts to unstructured or more comprehensive situations and provide opportunities for discussions and more practical understanding.

https://rbigradeb.com/

INTENDED AUDIENCE

Despite the extensive revision throughout, the purpose and the intended audience of this book remain the same as in the earlier editions. The book aims at those who wish to take a totally up-to-date, research-based approach to management. It does not assume the reader's prior knowledge.

Since the textbook material is comprehensive, the book can effectively be used for both graduate and post-graduate courses. Students of some undergraduate courses may, however, on finding the book too inclusive, omit certain chapters to bring it within the scope of their desired objectives without ignoring the unified point of view.

Finally, the book should be useful to the practising managers who want to understand and more effectively manage their most important asset—their human resources.

ACKNOWLEDGEMENTS

First and foremost, we are extremely grateful to those professors whose experience with the previous editions has helped get valuable feedback for making this revision. We also acknowledge the following reviewers for their invaluable feedback: *Nidhi Mathur*, Institute of Management Technology, Ghaziabad; *Susmita Mukhopadhyay*, Vinod Gupta School of Management, Indian Institute of Technology, Kharagpur; *G. S. Venugopal*, Amrita Institute of Engineering and Management Sciences, Bangalore; *Manodip Ray Chaudhuri*, Future Business School, Kolkata; and *Smita Singh*, Institute of Management Sciences, Lucknow. Dr. P.C. Tripathi, who has been carrying out the entire revision work since the first edition, very much appreciates the entire team at Tata McGraw-Hill, especially Atul Gupta (Senior Production Executive) who not only improved this edition but was a pleasure to work with. Dr. Tripathi also greatly appreciates his wife Sarla and now grown-up children and their families who have provided him with a loving, supportive relationship and the atmosphere needed to complete this project and many others over the years.

We think we have not reached the end yet. "The best is yet to be achieved." We will continue to do our best to improve the content and the coverage of this book in its future editions. We encourage you to contact Dr. Tripathi at his postal address with your comments or suggestions for improvement.

P.C. Tripathi
(226, Ashok Nagar, Udaipur 313001)
P.N. Reddy

https://rbigradeb.com/

https://rbigradeb.com/

Preface to the First Edition

To the extent that management is a *science,* the principles of management are universal· and transcend any particular environment. However, the *art* or practice of management is quite different in different environments. Clearly, there are differences of political, legislative, social, cultural, as well as of economic nature. These differences or variables may act as constraints, limiting the options for the manager and the organisation. These may also provide opportunities. A good manager, therefore, must be sensitive to the environment of the place where he is operating. He must learn to make decisions and to plan, organise and control activity in the environmental perspectives of his own country. The purpose of this text is to provide this perspective to our readers. Books written by foreign authors obviously lack this perspective.

This book presents a unified picture of what management is and how it is applied to various forms of human endeavour in this country. It gives a basic knowledge about managerial functions in the most useful and organised way. An attempt has been made to eliminate the excessive use of management jargon which often affects the readability of books on management. Instead, clear and familiar language has been used to make the subject easily intelligible to the readers.

Although the organisation of the book follows a widely used "management function" approach, chapters have been designed to stand on their own so that teachers can deal with the various topics in whatever order they may choose. Chapters 1 and 2 introduce the field of management and the task of the manager. Chapter 3 gives the background and the major schools of management thought. Chapters 4 and 5 are devoted to planning and decision-making. This is followed by a discussion of two important techniques and aids in planning and decision-making, namely, business forecasting and operations research (Chapter 6). The book then turns to the organising function. Chapter 7 gives an overview of the ways in which work is allocated and organisations are structured. Chapter 8 describes the evolution and growth of informal organisations. In Chapter 9 the ways in which managers exercise authority and delegate duties are described. Chapters 10-16 deal with the role of a manager as a leader first, when employees are recruited and selected, trained and developed (Chapters 10 and 11), when their

https://rbigradeb.com/

performance is appraised (Chapter 12) and when they are paid and rewarded (Chapter 13). Chapters 14 and 15 look at the ways in which people are motivated and the modes of communication. A discussion about leadership is given in Chapter 16. Chapter 17 examines the important subject of control. Chapter 18 describes the social responsibilities of a businessman. Chapter 19 discusses the management of public enterprises; this chapter has been included on account of the dominant and growing nature of the public sector in our country and its peculiar managerial, structural and accountability frame.

The material in this book has come from a wide variety of sources. We have drawn freely from the latest findings, formulations and researches in various areas of management and have attempted to present an integrated picture of the classical, behavioural, quantitative and contingency approaches. However, the differences in the underlying values, assumptions and action implications of these approaches have also been specifically pointed out wherever necessary.

Each chapter in this book is accompanied by three study aids, namely, Summary, Review Questions and Bibliography. A summary at the end of each chapter helps students review the material presented in that chapter. It contains key information, concepts and definitions. The review questions help students understand better the contents of the chapter. It also gives them an opportunity to use the management concepts presented in the chapter and to integrate information relating to the topics discussed. A reading list at the end of each chapter will help readers in their quest for higher knowledge in the field.

One of the most pleasant aspects of writing a book is the opportunity to thank those who have contributed to it. We are grateful to many of our colleagues who have contributed directly and indirectly to this text. We are thankful to Dr O.R. Krishnaswami, Professor, Head and Dean of the Commerce and Management Department, Bangalore University, for his encouragement throughout the project. Finally, we express our sincere thanks to all those whose work and ideas have helped us in writing this book.

P.C. Tripathi
P.N. Reddy

https://rbigradeb.com/

CONTENTS

Preface to the Fifth Edition *v*
Preface to the First Edition *ix*

Chapter 1 Nature and Functions of Management **1**
Importance of Management 2
Definition of Management 2
Management Functions or the Process of Management 3
Levels of Management 6
Organisational or Business Functions 7
Roles of a Senior Manager 7
Managerial Skills 8
Managerial Effectiveness 9
Management and Administration 10
Management—A Science or an Art? 11
Management—A Profession? 13
Professional Management vs Family Management 13
Management of International Business 14
Summary 16
Key Terms 16
Review Questions 17
Project 18

Chapter 2 Development of Management Thought **19**
Early Classical Approaches 20
Neo-Classical Approaches 30
Modern Approaches 34

https://rbigradeb.com/

Summary 39
Key Terms 40
Review Questions 40
Projects 41
Case *How Practical are Hawthorne Studies?* 41

Chapter 3 Social Responsibilities of Business 42
Meaning of Social Responsibility 43
Social Responsibilities of Business Towards Different Groups 45
Social Performance of Business in India 47
Social Audit 48
Business Ethics and Corporate Governance 49
Summary 53
Key Terms 54
Review Questions 54
Project 55

Chapter 4 Planning 56
Nature of Planning 57
Importance of Planning 58
Types of Plans 59
Steps in Planning 70
Strategic Planning Process 73
Limitations of Planning 74
Making Planning Effective 75
Planning Skills 76
Strategic Planning in the Indian Industry 76
Summary 76
Key Terms 77
Review Questions 77
Projects 78
Cases *1. Faulty Procedure* 79
2. Goal Setting 79

Chapter 5 Decision-Making 81
Meaning of a Decision 82
Types of Decisions 82
Steps in Rational Decision-Making 86
Rationality in Decision-Making (Models of Decision-Making Behaviour) 91
Environment of Decision-Making 93
Common Difficulties in Decision-Making 97
Summary 98
Key Terms 99
Review Questions 99

https://rbigradeb.com/

Cases *1. Choice of Location for the New Plant 100*
2. The Frustrated Plant Manager 101
Project 101

Chapter 6 Business Forecasting and Operations Research 104
Business Forecasting 105
Classification of Forecasting 105
Methods and Techniques of Forecasting 106
Operations Research [or] OR Management Science 110
Advantages and Limitations of OR 113
Summary 114
Key Terms 114
Review Questions 115
Projects 115
Cases *1. New Product Success 116*
2. To be a Pioneer or a Follower? 116

Chapter 7 Organisation 117
What is an "Organisation"? 118
Process of Organising 119
Principles of Organising 121
Span of Management 122
Departmentalisation 126
Process Departmenatalisation 126
Purpose Departmentalisation 128
Organisation Structure 133
What Type of Structure is Best? (Contingency View) 137
Emerging Organisation Structures 140
Committees 142
Teams 145
International Organisation Structures 148
Summary 148
Key Terms 149
Review Questions 149
Projects 151
Cases *1. Designing an Organisation Structure 151*
2. Scalar Chain 152

Chapter 8 Authority Delegation and Decentralisation 153
Source of Formal Authority 154
Power 155
Influence 157
Responsibility 158
Line, Staff and Functional Authority 159

https://rbigradeb.com/

Delegation of Authority 161
Decentralisation of Authority 164
Empowerment 168
Summary 170
Key Terms 170
Review Questions 171
Projects 171
Cases *1. Unprepared Change 172*
2. I can do it better myself 173
3. Bases of Power 173

Chapter 9 Coordination 175
Distinction Between Coordination and Cooperation 177
Distinction Between Coordination and Control 177
Need for Coordination 177
Requisites for Excellent Coordination 179
Types of Coordination 180
Techniques of Coordination (Approaches to Coordination) 181
Difficulty of Coordination 183
Coordinating Global Operations 184
Summary 185
Key Terms 185
Review Questions 185
Project 186
Case *The New Organisation Chart 186*

Chapter 10 Informal Organisation 188
Why Do Informal Groups Form? 189
Types of Informal Groups 190
Stages of Group Development 190
Distinction Between Formal and Informal Organisation 192
Benefits of Informal Organisation to its Members 193
Benefits of Informal Organisation to Management 194
Dysfunctional Effects of Informal Organisation 195
How to Minimise the Dysfunctional Effects of Informal Organisation? 195
Group Dynamics 196
Summary 198
Key Terms 198
Review Questions 199
Project 199
Case *The Informal Organisation 200*

Chapter 11 Staffing 202
Importance and Need for Proper Staffing 203
Manpower Planning 203

https://rbigradeb.com/

Recruitment 207
Selection 209
Placement 212
Induction (Orientation) 212
Manpower Planning in India 213
Staffing from a Global Perspective 217
Summary 218
Key Terms 218
Review Questions 219
Project 219
Cases *1. Hiring Right Person 220*
2. Job Analysis 220
3. Getting Well-qualified Employees 221

Chapter 12 Training and Development 222
Difference between Training, Education and Development 223
Advantages of Training 224
Steps in Setting up a Training and Development Programme 224
Design and Development of the Training Programme 226
Evaluation of Training and Development 233
Executive Training Practices in India 236
Mentoring 238
Learning Organisation 240
Knowledge Management 241
Summary 241
Key Terms 242
Review Questions 242
Project 243
Case *Specifying Training and Development Needs 243*

Chapter 13 Performance Management 245
Purposes of Appraisal 246
Steps in Designing Performance Management System 247
Criteria and Standards of Performance Appraisal 247
Frequency of Appraisals 248
Performance Appraisal Methods 249
Limitations of Traditional Appraisal Methods 254
Post-Appraisal Interview 254
Appraisal of Management 256
Performance Management in Indian Industries 259
Expatriate Performance Appraisal 261
Career Planning and Development 261
Promotions 262
Appraisal of Organisational Performance 266
Summary 267

https://rbigradeb.com/

Key Terms 268
Review Questions 268
Projects 269
Cases *1. Rating Employees* 269
2. Learning a New Job 270

Chapter 14 Compensation Plans **271**
Classification of Compensation 273
Primary Compensation 273
Monetary Incentive 276
Non-Monetary Incentives 282
Recognition as a Reward 284
Benefits 284
Wage Packet of Indian Worker 285
International Compensation 286
Summary 286
Key Terms 287
Review Questions 287
Project 288
Cases *1. Balancing the Compensation Plan* 289
2. Maintaining Efficiency 289
3. Telecommuting 290

Chapter 15 Direction and Supervision **291**
Requirements of Effective Direction 292
Giving Orders 293
Motivation 294
Job Satisfaction 312
Organisational Commitment 315
Morale 315
First-level or Front-line Supervision 317
Summary 319
Key Terms 320
Review Questions 321
Project 322
Cases *1. Motivation Concepts* 323
2. Supervisor's Functions 323
3. Search for Motivators 324

Chapter 16 Communication **325**
Importance of Communication 326
Purposes of Communication 326
Formal Communication 328
Forms of Communication 329
Informal Communication 330

https://rbigradeb.com/

The Communication Process 331
Barriers to Communication 332
Principles of Effective Communication 333
Communication Networks 335
Checks on in-plant Communication 337
Communication in Indian Industries 338
Summary 339
Key Terms 339
Review Questions 340
Project 341
***Case** Ensuring Effective Communication 341*

Chapter 17 Leadership 342
Difference between a Leader and a Manager 343
Characteristics of Leadership 343
Functions of a Leader 344
Traditional Approaches to Leadership 346
Situational Factors Determining Choice of Leadership Style 356
New Approaches to Leadership 360
Leadership Assessment 362
Leadership Style in Indian Organisations 362
Worker Participation in Management in India 363
Summary 364
Appendix
1. Leader Behaviour Description Questionnaire 365
2. Work Patterns Profile 366
Key Terms 367
Review Questions 368
Projects 369
***Cases** 1. Getting Effective Leadership 369*
2. Successful vs Effective Leadership 370

Chapter 18 Managerial Control 371
Steps in a Control Process 372
Need for Control System 373
Benefits of Control 374
Essentials of Effective Control System 375
Problems of the Control System 377
Control Techniques 379
Summary 396
Key Terms 397
Review Questions 397
Projects 399
***Case** Ensuring Effective Control System 399*

https://rbigradeb.com/

Chapter 19 Organisational Change **400**
Need for Planned Change 401
Managing Organisational Change 404
Requisities for Successful Planned Chase 411
Recent Planned Changes in the Corporate Sector in India 411
Summary 416
Key Terms 417
Review Questions 417
Projects 418
Case *Effecting Organisational Change 419*

Chapter 20 Management of Organisational Conflict and Power Politics **421**
Levels of Organisational Conflict 422
Stages of Conflict 422
Causes of Inter-group Conflict 423
Consequences of Inter-group Conflict 424
Prevention of Inter-group Conflict 424
Management of Conflict 425
Organisational Politics 429
Politics in International Business 432
Summary 432
Key Terms 432
Review Questions 433
Projects 433
Case *Managerial Conflict 433*

Chapter 21 Organisational Climate or Culture (OC) **435**
Components or Dimensions of OC 436
Determinants of OC 437
Types of OC 438
How is OC Created and Maintained? 440
Quality of Work Life (QWL) and Human
Resource Development (HRD) Culture/Climate 441
National Culture 442
Culture and International Business 443
Summary 444
Key Terms 445
Review Questions 445
Project 445
Cases *1. Fitting into Organisational Culture 446*
2. On Being an Expatriate 446
3. Out with the Old, in with the New 447

Index **449**

https://rbigradeb.com/

CHAPTER

1 NATURE AND FUNCTIONS OF MANAGEMENT

Learning Objectives

This chapter will enable the reader to:

- **Examine** the meaning, importance and nature of management
- **Understand** the difference between management and administration
- **Describe** the functions and roles of a manager
- **Outline** professional and family managements
- **Define** international business and identify the skills required of an international manager

https://rbigradeb.com/

IMPORTANCE OF MANAGEMENT

Formerly, the word "management" was used mostly in relation to circuses and restaurants. But, of late, it has acquired much glory and significance. Let us discuss the reasons which have made it so important.

Management is a critical element in the economic growth of a country. By bringing together the four factors of production (viz., men, money, material and machines), management enables a country to experience a substantial level of economic development. A country with enough capital, manpower and other natural resources can still be poor if it does not have competent managers to combine and coordinate these resources. Poor economic growth of many Asian and African countries very well illustrates this point. Peter Drucker[1] rightly observes that without management, a country's resources of production remain resources and never become production.

Management is essential in all organised efforts, be it a business activity or any other activity. Principles of management are now universally used not just for managing business organisations; they are also applied to various other types of organisations, such as educational, social, military and government. Management is thus the same process in all forms of organisation, although it may vary widely in its complexity with the size of the organisation. The management of a big multinational company, though differing in detail from that of a small partnership firm, follows the same general pattern.

Management is the dynamic, life-giving element in every organisation. It is this element that coordinates current organisational activities and plans future ones. It arbitrates disputes and provides leadership. It adapts the organisation to its environment and often shapes the environment to make it more suitable to the organisation. In a competitive economy, the quality and performance of the management determine the success of an organisation; indeed, they determine its very survival. Nowadays, no organisation can long hold its monopoly on capital or technology. But good management can definitely become its monopoly and give it a competitive edge over its rivals.

In the words of Claude S. George, management is **"the central core of our national as well as personal activities, and the way we manage ourselves and our institutions reflects with alarming clarity what we and our society will become."**[2]

DEFINITION OF MANAGEMENT

It is difficult to define management. In fact, no definition of management has been universally accepted. One popular definition is by Mary Parker Follett. Management, she says, is the "**art of getting things done through people.**"[3] This definition calls attention to the fundamental difference between a manager and other personnel of an organisation. A manager is one who contributes to the organisation's goals indirectly by *directing the efforts of others—not by performing the task himself.* On the other hand, a person who is not a manager makes his contribution to the organisation's goals directly by performing the task himself.

Sometimes, however, a person in an organisation may play both these roles simultaneously. For example, a sales manager is performing a managerial role when he is directing his sales force to meet

[1]Peter Drucker, *The Practice of Management* (New Delhi: Allied Publishers, 1970), p. 1.

[2]Claude S. George, Jr., *The History of Management Thought* (New Delhi: Prentice-Hall, 1974), p. 1.

[3]H.C. Metcalf and L. Urwick (Eds), *Dynamic Administration: the Collected Papers of Mary Parker Follett* (N.Y.: Harper & Row, 1941).

https://rbigradeb.com/

the organisation's goals, but when he himself is contacting a large customer and negotiating a deal, he is performing a non-managerial role. In the former role, he is directing the efforts of others and is contributing to the organisation's goals indirectly; in the latter role, he is directly utilising his skills as a salesman to meet the organisation's objectives.

Two weaknesses of Mary Parker Follett's definition are:

1. It uses the word "art" in defining management. To say that management is merely an art is to state a half-truth. Art deals with the application of knowledge. Management is not merely application of knowledge. It also involves acquisition of knowledge i.e., science. Management based on rules of thumb or intuition is not correct management.
2. This definition does not throw light on the various functions of a manager.

A somewhat more elaborate definition of management is given by George R. Terry. He defines management as a process "**consisting of planning, organising, actuating and controlling, performed to determine and accomplish the objectives by the use of people and resources.**"[4] According to this definition, management is a process—a systematic way of doing things. The four management activities included in this process are: planning, organising, actuating and controlling. *Planning* means that managers think of their actions in advance. Their actions are usually based on some method, plan, or logic, rather than on a hunch. *Organising* means that managers coordinate the human and material resources of the organisation. *Actuating* means that managers motivate and direct subordinates. *Controlling* means that managers attempt to ensure that there is no deviation from the norm or plan. If some part of their organisation is on the wrong track, managers take action to remedy the situation. (We will expand our discussion of these activities later in this chapter.)

This definition also indicates that managers use people and other resources, such as, finance equipment, etc. in attaining their goals. For example, a manager who wishes to increase sales might try not only to motivate the sales force but also to increase the advertising budget.

Finally, this definition states that management involves the act of achieving the organisation's objectives. These objectives will, of course, vary with each organisation. The objective of a hospital might be to provide comprehensive medical care to a community. The objective of a university might be to give students a well-founded education in a congenial environment. Whatever the objectives of a particular organisation, management is the process by which the objectives are achieved.

MANAGEMENT FUNCTIONS OR THE PROCESS OF MANAGEMENT

There is enough disagreement among management writers on the classification of managerial functions. Some classify these functions into four types, some into five and some into six or seven. The terminology is also not always alike, different authors offering different names for the same functions of management. Newman and Summer[5] recognise only four functions, namely, organising, planning, leading and controlling. Henri Fayol[6] identifies five functions of management, viz., planning, organising, commanding, coordinating and controlling. Luther Gulick[7] states seven such functions under the

[4]George R. Terry, *Principles of Management,* (Homewood, III: Richard Irwin, 1953).
[5]W.H. Newman and C.E. Summer, *The Process of Management* (New Delhi: Prentice-Hall 1965), p. 11.
[6]Henri Fayol, *General and Industrial Management,* (N.Y.: Pitman, 1949).
[7]Luther Gulick and L. Urwick (Eds), *Papers on the Science of Administration* (N.Y.: Institute of Public Administration, 1937).

https://rbigradeb.com/

catch word "POSDCORB" which stands for planning, organising, staffing, directing, coordinating, reporting and budgeting.

Warren Haynes and Joseph Massie[8] classify management functions into decision-making, organising, staffing, planning, controlling, communicating and directing. Koontz and O'Donnell[9] divide these functions into planning organising, staffing, directing and controlling.

For our purpose, we shall designate the following four as the functions of a manager: planning, organising, directing, and controlling. We will examine these functions in greater detail in the following chapters. We will also briefly refer to "innovation" and "representation" as two additional managerial functions considered important by Ernest Dale.[10]

Planning

Planning is the function that determines in advance *what* should be done. It is looking ahead and preparing for the future. It is a process of deciding the business objectives and charting out the methods of attaining those objectives. In other words, it is the determination of what is to be done, how and where it is to be done, who is to do it and how results are to be evaluated. This is done not only for the organisation as a whole but for every division, department or sub-unit of the organisation. Thus, planning is a function which is performed by managers at all levels—top, middle and supervisory. Plans made by top management for the organisation as a whole may cover periods as long as five or ten years. Plans made by middle or first line managers, cover much shorter periods. Such plans may be for the next day's work, for example, or for a two-hour meeting to take place in a week.

Organising

To organise a business is to provide it with everything useful to its functioning: personnel, raw materials, tools, capital. All this may be divided into two main sections, the human organisation and the material organisation. Once managers have established objectives and developed plans to achieve them, they must design and develop a human organisation that will be able to carry out those plans successfully. According to Allen, this organisation refers to "the structure which results from identifying and grouping work, defining and delegating responsibility and authority, and establishing relationships."[11]

Staffing may also be considered an important function involved in building the human organisation. In staffing, the manager attempts to find the right person for each job. Staffing fixes a manager's responsibility to recruit and to make certain that there is enough manpower available to fill the various positions needed in the organisation. Staffing involves the selection and training of future managers and encouraging a highly disciplined approach to work among them, even if it requires taking punitive measures. It also necessitates a suitable system of compensation. Staffing obviously cannot be done once and for all, since people are continually leaving, getting fired, retiring and dying. Often too, the changes in the organisation create new positions, and these must be filled.

[8]Warren D. Koontz and Cyril J. O'Donnell, *Principles of Management: An Analysis of Managerial Functions* (Tokyo McGraw-Hill Kogakusha, 1972), p.47.

[9]Harold D. Koontz and Cyril J. O'Donnell, *Principles of Management: An Analysis of Managerial Functions* (Tokyo McGraw-Hill Kogakusha, 1972), p.47.

[10]Ernest Dale, *Management: Theory and Practice* (McGraw-Hill Kogakusha, 1973), pp. 6-7.

[11]Louis A. Allen, *Management and Organisation* (N.Y.: McGraw-Hill, 1958), p.45.

https://rbigradeb.com/

It should be noted that different objectives require different kinds of organisation to achieve them. For example, an organisation for scientific research will have to be very different from one for manufacturing bicycles. Producing bicycles requires assembly-line techniques, whereas scientific research requires teams of scientists and experts in various disciplines. Such people cannot be organised on an assembly-line basis.

Directing

After plans have been made and the organisation has been established and staffed, the next step is to move towards its defined objectives. This function can be called by various names: "leading", "directing", "motivating", "actuating", and so on. But whatever the name used to identify it, in carrying out this function the manager explains to his people what they have to do and helps them do it to the best of their ability. Directing thus involves three sub-functions—communication, leadership and motivation. Communication is the process of passing information and understanding from one person to another. Leadership is the process by which a manager guides and influences the work of his subordinates. Motivation means arousing desire in the minds of workers to give their best to the enterprise. It is the act of stimulating or inspiring workers. If the workers of an enterprise are properly motivated they will pull their weight effectively, give their loyalty to the enterprise, and carry out their task effectively. Two broad categories of motivation are: financial and non-financial. Financial motivation takes the form of salary, bonus, profit-sharing, etc. while non-financial motivation takes the form of job security, opportunity of advancement, recognition, praise, etc.

Controlling

The manager must ensure that performance occurs in conformity with the plans adopted, the instructions issued and the principles established. This is the controlling function of management, and it involves three elements:

1. Establishing standards of performance
2. Measuring current performance and comparing it against the established standards
3. Taking action to correct any performance that does not meet those standards

In the absence of sound control, there is no guarantee that the objectives which have been set will be realised. The management may go on committing mistakes without knowing them. Control compels events to conform to plans.

Innovating

These days, it is not necessary for an organisation to grow bigger. But it is necessary that it constantly grows better. This makes innovation an important function of a manager. Innovation means creating new ideas which may improve a product, process or practice. Thus, HUL's inexpensive single-use shampoo sachets, Eureka Forbes' direct-to-house sales force and ITC's e-Choupals, which now benefit hundreds of Indian farmers across the country by providing them real-time information and higher farm gate prices of their commodities, are examples of innovations in packaging, distribution and business models, respectively.

https://rbigradeb.com/

Representing

A manager is also required nowadays to spend a part of his time in representing his organisation before various outside groups which have some stake in the organisation. These stake-holders can be government officials, labour unions, financial institutions, suppliers, customers, etc. They wield influence over the organisation. A manager must win their support by effectively managing the social impact of his organisation.

It should be understood that every function has two dimensions: substantive and procedural. Substantive dimension is **what** is being done, process is **how** it is done. **The above definitions and functions of management only help us identify what a manager does but they tell us little about how he does.** A highly useful way to capture the essence of 'how' (but not its details) is to think of management as an operational process and its functions as sub-processes in a circular continuous movement (Fig. 1.1).

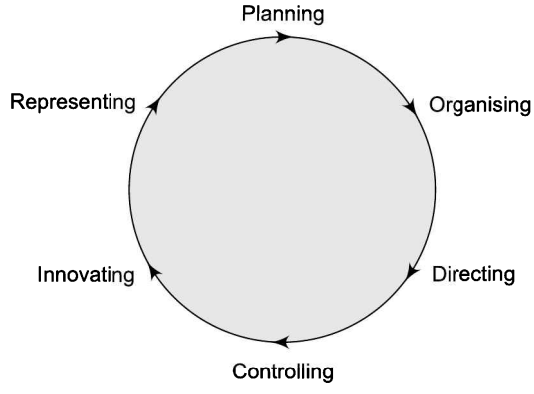


Fig. 1.1 Management process

We must keep in mind that the relationship among the six sub-processes, shown in this figure is by no means as straightforward as the figure implies. These sub-processes have no clear-cut separate entity or a line of demarcation where one ends and the other begins. Hence, except when a new organisation is being formed, they blend into each other like the flowing water of a river.[12] In fact, many combinations of these sub-processes usually go on simultaneously in an organisation. Thus, for example, in the course of planning when a manager asks his subordinates to make derivative plans the sub-process is one of direction and when he establishes standards of performance it is one of control, although the degree of his involvement with each of these sub-processes may vary. (Also read Functions of a Leader in Chapter 17).

LEVELS OF MANAGEMENT

Although all managers perform the same functions of planning, organising, directing, controlling, innovating and representing, there are levels among them. There are, in any organisation, the so-called first-line, middle and top managers. The lower (or first-line) management group is made up of foremen and white collar supervisors, men and women who are only one step above the rank and file. Next comes middle management, a vast and diverse group that includes sales managers, plant managers, personnel managers and many other department heads. Finally, there is the top management consisting of the board chairman, the company presidents, the executive vice-presidents, i.e., the men who coordinate all the specialities and make policies for the company as a whole.

[12]Theo Haimann, *Professional Management—Theory and Practice* (New Delhi: Eurasia Publishing House, 1962), p. 24.

https://rbigradeb.com/

ORGANISATIONAL OR BUSINESS FUNCTIONS

The above management functions should not be confused with organisational functions. Thus, finance, production, sales and perssonnel are examples of organisational functions. A manager whose area of activity is restricted to one organisational function (e.g., production) is nevertheless concerned with all management functions. See Fig. 1.2.

Representative organisational or business functions

Management functions	Production ↓	Sales ↓	Finance ↓	Personnel ↓
Planning →				
Organising →				
Directing →				
Controlling →				
Innovating →				
Representing →				

Fig. 1.2 The relationship between organisational functions and management functions

ROLES OF A SENIOR MANAGER

The idea of a role comes from sociology and is *the pattern of actions expected of a person in his activities involving others*. It arises as a result of the position that he occupies in a group in a given situation. Thus a senior manager who occupies different positions in different situations plays different roles because people in each situation have different expectations of him concerning his functions. According to Mintzberg,[13] a senior manager should be regarded as playing the following ten different roles. (For functions of a senior manager, see Chapter 17.)

Interpersonal Roles

Figurehead In this role, every manager has to perform some duties of a ceremonial nature, such as greeting the touring dignitaries, attending the wedding of an employee, taking an important customer to lunch and so on.

Leader As a leader, every manager must motivate and encourage his employees. He must also try to reconcile their individual needs with the goals of the organisation.

[13]Henry Mintzberg, *The Nature of Managerial Work*, (Englewood Cliffs, N.J.: Prentice-Hall, 1973).

https://rbigradeb.com/

Liaison In this role of liaison, every manager must cultivate contacts outside his vertical chain of command to collect information useful for his organisation.

Informational Roles

Monitor As monitor, the manager has to perpetually scan his environment for information, interrogate his liaison contacts and his subordinates, and receive unsolicited information, much of it as a result of the network of personal contacts he has developed.

Disseminator In the role of a disseminator, the manager passes some of his privileged information directly to his key subordinates who would otherwise have no access to it.

Spokesman A manager is also required nowadays, to spend a part of his time in representing his organisation before various *outside* groups, which have some stake in the organisation. These stakeholders can be government officials, labour unions, financial institutions, suppliers, customers, etc. They wield influence over the organisation. The manager must win their support by effectively managing the social impact of his organisation. Thus, he advises shareholders about financial performance, assures consumer group that the organisation is fulfilling its social responsibilities and satisfies government that the organisation is abiding by the law.

Decisional Roles

Entrepreneur In this role, the manager does not merely adapt to his surrounding situation but proactively looks out for innovation to make things happen. Innovation means creating new ideas. Thus, when demand for his product falls off the manager does not cut back his production but seeks new outlets or new products in order to maintain production.

Disturbance Handler In this role, the manager has to work reactively like a fire fighter. He must seek solutions of various unanticipated problems—a strike may loom large, a major customer may go bankrupt, a supplier may renege on his contract, and so on.

Resource Allocator In this role, the manager must divide work and delegate authority among his subordinates. He must decide who will get what.

Negotiator The manager at all levels has to spend considerable time in negotiations. Thus, the president of a company may negotiate with the union leaders a new strike issue, the foreman may negotiate with the workers a grievance problem, and so on.

MANAGERIAL SKILLS

A skill is an individual's ability to perform physical or mental tasks with a specified outcome. Skill is not necessarily inborn. It can be developed through practice and through translating one's knowledge and experience into action. In order to be able to successfully discharge his roles, a manager should possess three major skills. These are: conceptual skill, human relations skill and technical skill. Conceptual skill deals with ideas, technical skill with things and human skill with people. While both conceptual and technical skills are needed for good decision-making, human skill is necessary for a good leader.

https://rbigradeb.com/

The ***conceptual skill*** refers to the ability of a manager to take a broad and farsighted view of the organisation and its future, his ability to think in abstract, his ability to analyse the forces working in a situation, his creative and innovative ability and his ability to assess the environment and the changes taking place in it. In short, it is his ability to conceptualise the environment, the organisation, and his own job, so that he can set appropriate goals for his organisation, for himself and for his team. This skill seems to increase in importance as a manager moves up to higher positions of responsibility in the organisation.

The ***technical skill*** is the manager's understanding of the nature of job that people under him have to perform. It refers to a person's knowledge and proficiency in any type of process or technique. In a production department, this would mean an understanding of the technicalities of the process of production. Whereas this type of skill and competence seems to be more important at the lower levels of management, its relative importance as a part of the managerial role diminishes as the manager moves to higher positions. In higher functional positions, such as the position of a marketing manager or production manager, the conceptual component, related to these functional areas becomes more important and the technical component becomes less important.

Human relations skill is the ability to interact effectively with people at all levels. This skill develops in the manager sufficient ability (a) to recognise the feelings and sentiments of others; (b) to judge the possible reactions to, and outcomes of various courses of action he may undertake; and (c) to examine his own concepts and values which may enable him to develop more useful attitudes about himself. This type of skill remains consistently important for managers at all levels.

Figure 1.3 gives an idea about the required change in the skill-mix of a manager with the change in his level. At the top level, technical skill becomes least important. That is why, people at the top shift with great ease from one industry to another without an apparent fall in their efficiency. Their human and conceptual skills seem to make up for their unfamiliarity with the new job's technical aspects.

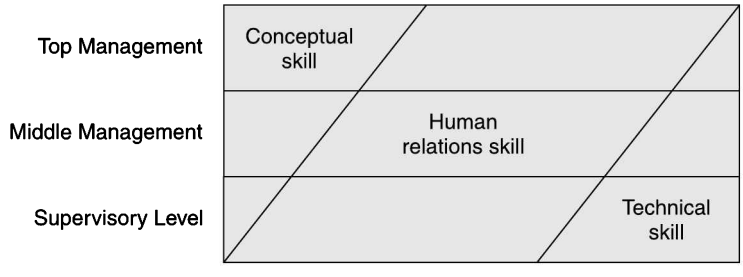


Fig. 1.3 Skill-mix at different management levels

MANAGERIAL EFFECTIVENESS

According to Peter Drucker,[14] a manager's performance can be measured in terms of *two* concepts: efficiency and effectiveness. ***Efficiency*** is the ability of a manager *to do something correctly,* i.e., at the lowest possible cost or cost acceptable to the competitive environment. ***Effectiveness***, on the other hand, is the ability of a manager *to do correct things,* i.e., achieve high levels of value. We can metaphorically define value as quality divided by price. If a car manufacturer can provide the customer a better car without changing the price, the value has gone up. It he can give the customer a better car at a *lower* price, the value goes way up.

[14]Peter Drucker, *Effective Executive*, (CN.Y.: Harper & Row, 1964).

https://rbigradeb.com/

Maximising efficiency and effectiveness at the same time often creates conflict between the two goals. We see this trade-off every day in our lives. At the customer service counter at a local store or bank, being efficient means using the fewest people possible at the counter. Being effective though means minimising the amount of time that customers need to wait in line.

We must remember that no amount of efficiency on the part of a manager can compensate for his lack of effectiveness. He needs both, but *although efficiency is important, effectiveness is critical.*

MANAGEMENT AND ADMINISTRATION

There is lack of unanimity among writers over the meaning and use of the words "management" and "administration".

According to one group of writers, Sheldon,[15] Spriegal,[16] and Milward,[17] administration involves "thinking". It is a top level function which centres around the determination of plans, policies and objectives of a business enterprise. On the other hand, management involves "doing". It is a lower level function which is concerned with the execution and direction of policies and operations. No two separate sets of personnel are required, however, to discharge administrative and managerial functions. Each manager performs both activities and spends part of his time administering and part of his time managing. As shown in Fig. 1.4 at the top level more time is spent in administrative activity and as one moves down in the organisation more time is spent in management activity.

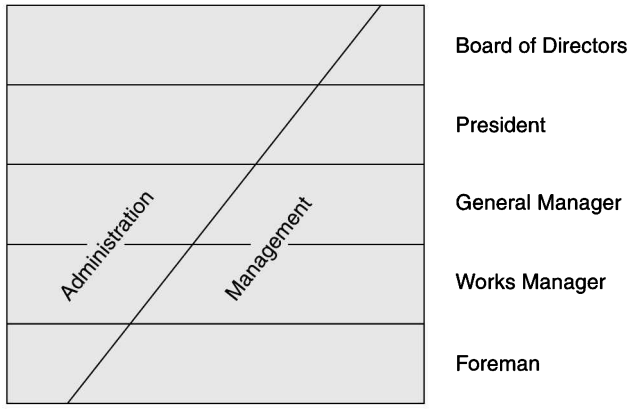


Fig. 1.4 Time spent in administrative and managerial functions at different levels

According to the second view (expressed by E.F.L. Brech[18] and others), management is a comprehensive generic term which includes administration. E.F.L. Brech regards management as a comprehensive generic function embracing the entire process of planning, organising, directing and controlling. Administration, according to him, is only a branch of management which encompasses two of its functions—planning and controlling. According to this view, the functions of management can be divided into two categories:

[15]Oliver Sheldon, *Philosophy of Management* (London: Sir Isaac Pitman & Sons Ltd., 1923).
[16]William R. Spriegal and Ernest C. Davies, *Principles of Business Organisation and Operation* (N.J.: Prentice-Hall. 1952).
[17]G.E. Milward, *An Approach to Management* (N.Y.: John Wiley, 1960), p. 34.
[18]E.F.L. Brech, *Principles and Practice of Management* (London: Pitman, 1972).

https://rbigradeb.com/

(a) administrative management and (b) operative management. The upper level of management is usually called administrative management and the lower level is known as operative management.

According to another view expressed by Peter Drucker, the basic difference between management and administration lies in the use of these words in different fields. The governance of non-business institutions (such as government, army, church, etc.) is generally called administration while the governance of business enterprises is called management. This being so, economic performance becomes the chief dimension of management. A manager of a business enterprise must always, in every decision and action put economic consequences first. On the other hand, in governing non-business institutions, the economic consequences of decisions are only secondary for an administrator. For example, the chief of staff of a military organisation has to put military security first and economic considerations next. This difference of emphasis in the governance of these two types of organisations is the reason why successful administrators sometimes fail as managers and vice versa.

MANAGEMENT—A SCIENCE OR AN ART?

Management as a Science

What makes a discipline a science? Should the discipline involve the use of a laboratory and a lab coat in order to be called a science? Obviously not. The hallmarks of a science are not the test tube or the lab coat. Instead, they are implicit in the method of inquiry used by a discipline for gathering the data. We can call a discipline scientific if its

1. methods of inquiry are systematic and empirical;
2. information can be ordered and analysed; and
3. results are cumulative and communicable.

Being systematic means being orderly and unbiased. The attempt to gain knowledge must be without taint of personal or other prejudgement. Further, the inquiry must be empirical and not merely an armchair speculation or a priori approach.

All scientific information collected first as raw data is finally ordered and analysed with the help of statistical tools. It thus becomes communicable and intelligible. Communication of results also permits repetition of the study, if need be, by the original investigator or others. When the study is replicated and the second try provides results similar to the original, one derives much more confidence in those results.

Science is also cumulative in that what is discovered is added to that which has been found before. Indeed, we ourselves, before we start, look around and find out first what has been done so that we need not start afresh from a low base each time. We learn from past mistakes and obtain guides for the future. We build upon the base that has been left by others.

On the basis of the above definition of science, we may presume that management is also a science. But since the word "science" is used to denote two types of systematic knowledge—natural or exact and behavioural or inexact, some more explanation of the scientific nature of management is needed. We must remember that management is not like the exact or natural sciences (such as physics, chemistry). These sciences are called "exact" because here it is possible for us to study the effects of anyone of the many factors affecting a phenomenon individually by making the other factors inoperative for the time being. Thus, in physics it is possible for anyone to study in a laboratory, the effects of, say, only

https://rbigradeb.com/

heat on the density of air by holding other factors (such as humidity) constant for the duration of the experiment. But the same thing is not possible in management where we have to study man and a multiplicity of factors affecting him. For example, it is not possible to study the effect of, say, only monetary incentives on a worker's productivity because this effect will always be found to be mixed with and inseparable from other effects such as the leadership style of the worker's supervisor, worker's need hierarchy, the pressure of his co-workers, etc. At best, we can get only a rough idea of the relationship between the two. In other words, our findings are not going to be as accurate and dependable as those of the physical sciences. They are going to tell us about tendencies and probabilities only. We may, therefore, place management in the category of a behavioural science.

Are Management Principles Culture-bound?

Some people argue that the principles of management do not have universal application and that their applicability varies according to culture. This is not correct, for these people do not distinguish carefully between management theory and management practice. Several researches[19] have shown that although different cultures may give rise to different management practices or techniques, management theory, concepts and principles remain the same everywhere. A classic study is that of Harbison and Myers who studied management practices in 23 countries and concluded that management did not differ fundamentally from country to country. The same is true even in the field of natural sciences. For example, one may come across automobiles of different designs to suit different topographical conditions but the physical science principles governing all the designs may be the same.

Management as an Art

Whereas under "science" one normally learns the "why" of a phenomenon, under "art" one learns the "how" of it. Art is thus concerned with the understanding of how a particular work can be accomplished. Management in this sense is more an art. It is the art of getting things done through others in dynamic and mostly non-repetitive situations. Whether it is a factory or a farm or a domestic kitchen, the resources of men, machine, and money have to be coordinated against several constraints to achieve given objectives in the most efficient manner. The manager has to constantly analyse the existing situation, determine the objectives, seek alternatives, implement, coordinate, control and evaluate information and make decisions. A theoretical body of lessons and principles which a manager has learnt in a classroom will not secure for him the aimed results unless he has also the skill (or art) of applying such principles and body of knowledge to his special problem. Knowledge of management theory and principles is indeed a valuable aid and kit of the manager but it cannot replace his other managerial skills and qualities. This knowledge has to be applied and practised by the manager just as the medical or legal practitioners practise their respective sciences. In this sense, management in an art. It is like the art of a musician or the art of a painter who seeks to achieve the desired effect with colour or instruments, but mainly with his own skill. He does not copy the skills of others.

We may thus conclude that management involves both elements—those of a science and an art. While certain aspects of management make it a science, certain others which involve application of skill make it an art.

[19]See, for example, R.N. Farmer and B.M. Richman, *Comparative Management and Economic Progress,* Homewood, III. Richard D. Irwin, 1965 or F. Harbison and C.A. Myers, *Management in the Industrial World,* N.Y.: McGraw-Hill, 1959.

https://rbigradeb.com/

MANAGEMENT—A PROFESSION?

We have seen that management is partly an art and partly a science. Is it a profession? McFarland[20] gives the following characteristics of a profession:

1. Existence of an organised and systematic knowledge
2. Formalised methods of acquiring training and experience
3. Existence of an association with professionalisation as its goal
4. Existence of an ethical code to regulate the behaviour of the members of the profession
5. Charging of fees based on service, but with due regard for the priority of service over the desire for monetary reward

Management, as we all know, does not possess all the above characteristics of a profession. Unlike medicine or law, management does not have any fixed norms of managerial behaviour. There is no uniform code of conduct or licensing of managers. Further, the entry to managerial jobs is not restricted to individuals with a special academic degree only. In the light of this analysis we can conclude that management cannot be called a profession. There are, however, certain unmistakable trends toward the professionalisation of management. For example, it is becoming increasingly essential nowadays to acquire some professional knowledge or training. Managing a business is no longer just a matter of intuition or a family ability. It has now come to be studied and taught as a subject by itself. In India, we have at present twelve national institutes of management at Ahmedabad, Bangalore, Kolkata, Lucknow, Indore, Shillong, Ranchi, Rohtak, Raipur, Udaipur, Tiruchirapalli and Kozhikode; besides there are a number of university departments which offer M.B.A. programmes to young graduates to enable them to take up the profession of management. Peter Druckcr[21] is, however, of the view that holding of an academic degree should not be a condition to get an entry into the management profession. He says that "no greater damage could be done to our economy or to our society than to attempt to professionalise management by licensing managers, for instance, or by limiting access to management to people with a special academic degree." Following are his arguments in support of the view:

1. A degree in management does not by itself make an individual a professional manager any more than does a degree in philosophy make an individual a philosopher. The essence of professional management is achievement, not knowledge; results not logic. By insisting on holding a degree, we are overemphasising knowledge and completely overlooking skill. This will eliminate those individuals who, though highly skilled, do not have the required degree.
2. People once certified as professionals on the basis of their academic degrees would always remain professionals, despite their knowledge becoming obsolete in later years.

PROFESSIONAL MANAGEMENT VS FAMILY MANAGEMENT

The phrase "professional management" is also sometimes used as an antithesis to "family management". It is said that all family managements must be replaced by professional management—managers by birth should yield place to managers by profession. This view is not totally correct because there is nothing basically wrong in perpetuating a family dynasty so long it also continues to be dynamic and

[20]Dalton E. McFarland, *Management Principles and Practices* (N.Y.: Macmillan, 1974).
[21]Peter Drucker, *The Practice of Management* (New Delhi: Allied Publishers, 1970), p. 10.

https://rbigradeb.com/

system-driven. A study[22] covering 30 nations around the world points out that 75% of all firms in the world are family firms. In some of these firms family inheritance has been continuing for centuries. For instance, in Kikkoman Corporation of Japan—the world's leading supplier of soya sauce, descendants of the founders still control and run the firm after 17 generations since its birth more than 300 years ago. The phenomenal progress of Ford Motors, Exxon, IBM, Du Pont, etc. bears testimony to the quality of leadership, dynamism, versatility and vision of the respective families of Ford, Rockfeller, Watson and Du Pont. The growth of the corporate sector in India is our inspiring saga of dynamism and toil of some business families, at a time when professionalism was quite unknown. In the words of K.K. Birla, "If people like Sir Jamshedji Tata or Rai Bahadur Gujarmal Modi were to start their business career again, I would any day put my rupee on them than on the best of the professionals."[23]

MANAGEMENT OF INTERNATIONAL BUSINESS

International business refers to the business activities that involve the transfer of resources, goods, services, knowledge, skills or information across national boundaries.

Although international business is often an extension of domestic business, the differences in the political, legal and cultural environments of different countries tend to make international business more difficult and costly to manage than economic activities in a single country.

Following is a brief description of the various *skills* and *abilities* that an international manager must possess.

1. ***Conceptual, Human Relations and Technical Skills*** ***Conceptical skills*** of an international manager refer to his strategic capabilities to think of unique and difficult-to-imitate resources, which can generate economic returns and competitive advantage. These include patents, trade secrets, proprietary designs, product development and process innovation. Coca-Cola's formulas (syrups and concentrates) are a key resource that has significantly contributed to the firm's success.

   Human relations skills of an international manager are manifested no where more than in global human resource management. Kodak's skills in recruiting, evaluating, motivating and training its 53,000 overseas employees and its extensive networking with Chinese government agencies are examples of its human relations skills. Coca-Cola's ability to develop a group of internationally-minded mid-level executives also exemplifies this skill. A U.S. supervisor working on an oil rig in Indonesia learned this skill the hard way. In a moment of anger, he shouted at his time keeper to take the next boat to the shore. Immediately, a mob of outraged Indonesian coworkers grabbed fire axes and went after the supervisor. He escaped by barricading himself in his quarters.[24] The human relations lesson this American learned was—never berate an Indonesian in public.

   Technical skills of an international manager enable him: (a) to demonstrate that his products meet international technical standards, (b) to align the technological and business strategies of his firm, (c) to make the most efficient use of his firm's existing technology, and (d) if his product is not satisfying the local market, then to find a solution.

[22]London Business School and the Ewing Kaulmann Foundation: The Global Entrepreneurship Monitor Report of 2002. *The Economic Times,* July 21, 2004.

[23]"Entrepreneurship and professional management", *Hindustan Times*, June 9, 1978.

[24]Richard L. Daft, Management, 2nd Ed (T.X.: Dryden, Fort Worth, 1991), p. 625.

https://rbigradeb.com/

2. ***Ability to Evaluate Host Country Risk*** Host country risk involves economic and political risks. The *economic risk* incorporates measures such as the openness of the economic system, the inflation rate and exchange rate fluctuation and the possibility of repatriating profits, with a general assumption of—the more the change, the more the risk.
   Political risk encompasses political instability, conflict intensity between nations, likelihood of changes in labour and environmental laws and regulations affecting business and trade, likelihood of disruption to firm's operation due to nationalist sentiments (e.g., there is cause to rethink their international outsourcing plans for companies in the U.S. due to protests over job loss from unions in the U.K. and anti-outsourcing moves by several state governments in the U.S.) and the prospect of an arbitrary decision by the host government. This may be related to ownership (e.g., outright expropriation) or operation (e.g., an effort on the part of Japanese authorities to curb the direct selling practices of Amway, which are at the core of its business model). It is useful to remember here that while strong encouragement of foreign investment is now the norm, government policy remains diverse in many cases.
3. ***Ability to Manage Country Risk*** An international manager should have the ability to proactively manage the two kinds of risks. Economic risks are generally managed in the following manner:
   (a) Minimising outright commitment of resources;
   (b) Signing bilateral or multilateral treaties that protect mutual investment;
   (c) Identifying or creating reciprocal settings where investment from the host country can be seized in case of expropriation;
   (d) Avoiding high visibility acquisitions or assets viewed as national icons;
   (e) Reducing exposure by utilising host country financing;
   (f) Accelerating profit repatriation;
   (g) Developing a staggered technology transfer policy;
   (h) Opting for strategic alliances with a local partner and pacifying nationalist sentiments;
   (i) Utilising agencies such as Overseas Private Investment Corporation (OPIC) which insure against political risk;
   (j) Building political support at home and in the host nation through lobbying public relations and a proactive social responsibility;
   (k) Monitoring political and economic development so as to prepare, avoid or counter intervention.

   Management of political risk may include coalition building, advocacy advertising, channelising investment in local industries and contributing to the development at regional level. Coalition building often involves bringing on board the local constituencies, sometimes in the form of alliance partners.
4. ***Ability to Exert Pressure on Home Government*** It is the ability to assist a Multinational Enterprise (MNE) in a foreign market via dumping, pricing, tied aid, tied scholarships and so on.
5. ***Ability to Obtain Legitimacy*** Legitimacy is the acceptance of an MNE as a natural organ in the local environment. The international manager should be able to convince different political constituencies that his firm operates as a domestic company, contributes to the local economy and takes social responsibility seriously. Airbus often buys full-page advertisements in U.S. newspapers to highlight its use of U.S. suppliers.
6. ***Knowledge of Legal Environment*** If the knowledge of the host country's political environment helps the international manager to identify key constituencies, the knowledge of legal environment helps him to know the "rules of the game" and to set the range within which he can conduct

https://rbigradeb.com/

legitimate business activity. The laws that are of particular concern to him include competition laws, marketing and distribution laws, patent laws and treaties involving the protection of intellectual property rights. Legal systems in different countries vary in their underlying principles, independence, transparency and enforcement.

7. ***Familiarity with the Host Country's Culture*** The importance of culture to international business cannot be overemphasised. Virtually all functions of an international manager such as his choice of organisation design, strategy formulation, management style, human resource management, international alliances and mergers are influenced by cultural differences and language difficulties of the BPO industry, where a firm routes its customer calls to a contact centre in another country. Also see Chapter 21.
8. ***Familiarity with International Monetary System and International Accounting*** Knowledge of international monetary system provides an international manager the answers to various questions such as "Why do some currencies fluctuate more than others?" and "Why do some currencies depreciate while others appreciate?"

   Accounting is fundamental to MNEs because their ultimate success needs to be reflected in accounting reports. An international manager, who faces different accounting systems in different nations owing to different economic, political, legal, cultural and taxation systems, should know how to harmonise these systems so that their diversity does not adversely affect his firm's profits.
9. ***Knowledge of Human Capital Available in the Host Country*** Although the availability of human capital is arguably more important for service sector than for the manufacturing sector due to the role of the "human touch" it is well known that its lack has had negative impact on FDI flows to less developed countries. Researchers have identified five dimensions of the value of human capital. These are: availability, experience, quality, compensation level, and cultural distance.

SUMMARY

- The economic development of a country depends on management. Management coordinates all organisational activities and produces a synergic effect, like a man conducting an orchestra.
- Management is the process of planning, organising, directing, controlling, innovating and representing the effort of organisational members to achieve definite organisational goals.
- Management is both, a science as well as an art. It is an inexact science. However, its principles (as distinguished from practice) are of universal application.
- Management does not yet completely fulfil all the criteria of a profession.
- There are three levels of management—first-line, middle and top. Managers at different levels of the organisation require and use different types of skills. Lower level managers require and use a greater degree of technical skill than higher level managers, while higher level managers require and use a greater degree of conceptual skill. Human skills are important at all managerial levels.

KEY TERMS

Skill This is an individual's ability to translate knowledge into action.

https://rbigradeb.com/

Conceptual Skill This is a manager's ability to see the organisation as a whole, and to coordinate all of its interests and activities.

Human Relations Skill This is a manager's ability to work with, understand, and motivate other people.

Technical Skill This is a manager's ability to use the tools, procedures or techniques of his specialised area.

Roles These are sets of behavioural expectations of related individuals or groups from a manager.

Review Questions

1. Define management. List its functions. What is meant by the "management process"?
2. Distinguish between management and administration. How far is this distinction justified in your opinion?
3. Comment on the true nature of management. Is it a science or an art?
4. "Management is getting things done through others." Elaborate.
5. Discuss the importance of management in the present-day world.
6. What are the attributes of a profession? Is management a profession? Is it necessary for every business to have a professional management?
7. Explain the principal functions of management. Would you attach different levels of importance to these functions at various levels of management?
8. "Managers at all levels require some competence in each of the technical, human and conceptual skills, albeit with difference in emphasis." Analyse this statement with suitable examples from your work experience.
9. What do you understand by the universality concept of management? Critically examine the pros and cons of this concept.
10. Match the following:

(a) Innovation and Representation as two additional managerial functions.	Mary Parker Follett
(b) Characteristics of a profession.	Henry Mintzberg
(c) Management is the art of getting things done through people.	E.F.L. Brech
(d) Roles of a manager.	McFarland
(e) Management is a comprehensive generic term.	Ernest Dale

[(a) Ernest Dale, (b) McFarland, (c) Mary Parker Follett, (d) Henry Mintzberg, (e) E.F.L. Brech.]

11. Are there any differences in planning, organising, leading, controlling, and coordinating between a restaurant and a food-processing firm? Between a general hospital and a steel plant? And between a college and a recreation club?
12. Outline the various functions and skills of a manager and explain the concept of managerial effectiveness.
13. What are the skills required of an international manager?

https://rbigradeb.com/

Project

(a) Identify some of the organisations that you come across in your day-to-day life such as your college, a neighbourhood clinic, a grocer's shop and a cinema hall and (b) describe the important functions of management in these organisations.

This assignment can be carried out in the following manner:

1. List five organisations and explain important managerial functions in each of these organisations.
2. Meet in groups of five or six to discuss your list of organisations and your description of their management.
3. Based on the above discussions in all groups, develop a *common list* entitled "What We Would Like to Know About Organisations and Their Management".

https://rbigradeb.com/

CHAPTER

2 Development of Management Thought

Learning Objectives

This chapter will enable the reader to:

- **Examine** the contributions and limitations of F.W. Taylor's scientific management
- **Describe** the contributions and limitations of Henri Fayol's administrative management
- **Discuss** the contributions and limitations of Max Weber's bureaucracy
- **Relate** the Hawthorne's experiments to the contributions and limitations of Elton Mayo's human relations movement
- **Analyse** the behavioural approach of management scientists such as Douglas McGregor, Abraham Maslow, Kurt Lewin and others
- **Identify** the quantitative approach to management thought
- **Explain** the systems approach to management thought
- **Explain** the contingency approach

https://rbigradeb.com/

From an almost unrecognised position nearly three centuries ago, management has risen today to the central activity of our age and economy—a powerful and innovative force on which our society depends for material support and national well-being. The period between 1700 and 1850 highlights the Industrial Revolution and the writings of the classical economists. The advent of the factory system during this period highlighted for the first time the importance of direction as a managerial function. Several economists during this period explained in their writings the concepts and functions of management. Adam Smith,[1] for example, explained the concept and consequences of division of labour. Turgot[2] explained the importance of direction and control and Say[3] was struck by the importance of planning. But management as a separate field of study can be said to have emerged only during the second half of the 19th century when with the introduction of joint stock companies a new industrial era began. This form of enterprise separated management of business organisations from their ownership and gave rise to problems of labour inefficiency and inadequate systems of wage payment. In search of solutions to these problems, people began to recognise management as a separate field of study.

During the last hundred years, management has become a more scientific discipline with certain standardised principles and practices. The evolution of management thought during this period can be studied in three parts as under:

1. *Early classical approaches,* represented by scientific management, administrative management and bureaucracy
2. *Neo-classical approaches,* represented by human relations movement and behavioural approach
3. *Modern approaches,* represented by quantitative approach, systems approach and contingency approach

The contributions made by all these approaches to management serve as a foundation for modern management.

EARLY CLASSICAL APPROACHES

Scientific Management

Frederick Winslow Taylor (1856–1915) is considered to be the Father of Scientific Management. He exerted a great influence on the development of management thought through his experiments and writings.[4] During his career spanning a period of 26 years, he conducted a series of experiments in three companies: Midvale Steel, Simonds Rolling Machine and Bethlehem Steel.

While serving as the Chief Engineer of Midvale Steel Company, Taylor made several important contributions which are classified under scientific management.

1. Time and Motion Study Since Taylor had been a machinist himself, he knew how piece-work employees used to hold back production to its one-third level because they feared that their employers would cut their piece rate as soon as there was a rise in production. The real trouble, Taylor thought was that no one knew how much work it was reasonable to expect a man to do. He, therefore, started

[1]Adam Smith, *Wealth or Nations* (N.Y.: Modern Library, 1937).
[2]Anne Robert Jacques Turgot, *Reflections* on *the Formation and the Distribution of Riches* (N.Y.: The Macmillan, 1922).
[3]Jeans Baptiste Say, *Catechism of Political Economy,* Trans. John Richter (Philadelphia: M. Carey & Son, 1817).
[4]Taylor wrote two books *Shop Management* and *The Principles of Scientific Management.* Both appear in his Scientific Management (N.Y.: Harper & Bros. 1947).

https://rbigradeb.com/

time and motion study, under which each motion of a job was to be timed with the help of a stop watch and shorter and fewer motions were to be developed. Thus the best way of doing a job was found. This replaced the old rule-of-thumb-knowledge of the workman.

2. Differential Payment Taylor introduced a new payment plan called the differential piece work, in which he linked incentives with production. Under this plan a worker received low piece rate if he produced the standard number of pieces and high rate if he surpassed the standard. Taylor thought that the attraction of high piece rate would motivate workers to increase production.

3. Drastic Reorganisation of Supervision Taylor suggested two new concepts: (i) separation of planning and doing and (ii) functional foremanship. In those days it used to be customary for each worker to plan his own work. The worker himself used to select his tools and decide the order in which the operations were to be performed. The foreman simply told the worker what jobs to perform, not how to do them. Taylor suggested that the work should be planned by a foreman and not by the worker. Further, he said that there should be as many foremen as there are special functions involved in doing a job and each of these foremen should give orders to the worker on his speciality.

4. Scientific Recruitment and Training Taylor emphasised the need for scientific selection and development of the worker. He said that the management should develop and train every worker to bring out his best faculties and to enable him to do a higher, more interesting and more profitable class of work than he has done in the past.

5. Intimate Friendly Cooperation between the Management and Workers Taylor said that for the above suggestions to succeed, "a complete mental revolution" on the part of management and labour was required. Rather than quarrel over whatever profits there were, they should both try to increase production. By doing so, profits would be increased to such an extent that labour and management would no longer have to compete for them. In short, Taylor believed that management and labour had a common interest in increasing productivity.

Taylor's concept of scientific management developed into a movement and dominated the industrial management scene for several decades after him. His principles and concepts were refined and enlarged by several of his followers, notable among them being Henry L. Gantt and the Gilbreths.

Gantt insisted that willingness to use correct methods and skills in performing a task was as important as knowing the methods and having the skills in the first place. Thus he saw the importance of the human element in productivity and propounded the concept of motivation as we understand it today. He introduced two new features in Taylor's incentive scheme which was found to have too little motivational impact. First, every worker who finished a day's assigned workload was to win a 50 per cent bonus for that day. Second, the *foreman* too was to earn a bonus for each worker who reached the daily standard, plus an extra bonus if *all* the workers reached it. This, Gantt reasoned, would spur a foreman to train his workers to do a better job. Gantt also developed the idea of rating an employee's work publicly. Every worker's progress was recorded on individual bar charts, inked in black on days he or she completed the standard, and red on days he or she fell below. Going beyond this, Gantt originated a charting system for production control. This system, called the "Gantt chart" is still in use today. It reflects each man's daily performance in relation to a predetermined quota or standard of performance. Read "Control Techniques" in Chapter 18.

Frank and Lillian Gilbreth made their contribution to the scientific management movement as a husband and wife team. They made *motion and fatigue study* their lifework. Using motion picture

https://rbigradeb.com/

cameras, Frank Gilbreth tried to find the most economical motions for bricklaying. He classified all movements employed in industrial work into 17 basic types, called "Therbligs", and provided a shorthand symbol for each so that the analyst could easily and quickly jot down each motion as he observed the worker in action. According to Gilbreths, motion and fatigue studies raised workers' morale, not only because of their obvious physical benefits but also because they demonstrated management's concern for the workers.

Contributions and Limitations of Scientific Management

First, the *time and motion studies* have made us aware that the tools and physical movements involved in a task can be made more efficient and rational. Second, the stress which scientific management placed on *scientific selection of workers* has made us recognise that without ability and training a person cannot be expected to do his job properly. Finally, the importance that scientific management gave to work design has encouraged managers to seek that "one best way" of doing a job. Both blue-collar production jobs and white-collar office and service jobs have become *specialised* (the employee does one task) and *standardised* (the employee performs the task the same way every time). This makes workers more efficient and the management's control over them easier.

Taylor's scientific management approach has evolved into what is now generally called **job engineering**. This is concerned with product, process and tool design; plant layout; standard operating procedures; work measurement and standards; and work methods and human-machine interactions.

Scientific management is, however, severely *criticised* on the following grounds:

1. Taylor's scientific management emphasises the management of only muscular tasks at the floor level and neglects the areas of problem-solving and decision-making, which are of key importance at the other managerial levels. This has made March and Simon describe scientific management as "*physiological organisation theory*."[5]
2. Taylor's belief that economic incentives are strong enough to motivate workers for increased production is wrong. No man is entirely an "economic man", that is, a man's behaviour is not always dictated by his financial needs. He has many other needs also, such as security needs, social needs or egoistic needs which motivate him far more potently than his desire for money, at least after he has risen above the starvation level.
3. Taylor's time and motion study is not entirely scientific. This is because two time studies done by two separate individuals may time the same job entirely differently. There is no such thing as "one best way" so far as the component motions are concerned, because no two individuals can be expected to work in the same way at the same rhythm, with the same attention and the same learning speed.
4. Separation of planning and doing and the greater specialisation inherent in the system tend to reduce the need for skill and produce greater monotony of work. Having a man take orders from 7 to 8 different bosses results in confusion, besides increasing the overhead cost.
5. Taylor's scientific management could not develop rapidly because of the following factors:
   (a) Advances in methods and better tools and machines eliminated some workers, who found it difficult to get other jobs. This caused resentment among them.
   (b) Taylor had difficulty in persuading his followers to understand his ideas or carry them on. In the 1920's and 1930's, "efficiency experts" trained in the methods of Taylor, Gilbreth

[5]James G. March and Herbert A. Simon, *Organisations* (N.Y.: John Wiley & Sons, 1958), pp. 12–22.

https://rbigradeb.com/

and others, were often held in contempt because of their alleged treatment of human beings as automations without attention to their needs or attitudes.

Administrative Management

While Taylor is considered the Father of Scientific Management, Henri Fayol (1841–1925) is considered the Father of Administrative Management theory with focus on the development of broad administrative principles applicable to general and higher managerial levels. He was a French mining engineer turned a leading industrialist and successful manager. He wrote a monograph in French in 1916, entitled "General and Industrial Administration". Until this book was translated into English in 1929, little was known about him by the western world.[6]

In his treatise, Fayol provided a broad analytical framework of the process of administration. (He used the word "administration" for what we call management.) His perspective, unlike that of Taylor extended beyond the shop level and the physical production processes and was of a macro nature, covering the general administrative and managerial functions and processes at the organisational level.

Fayol wrote that all activities of business enterprises could be divided into six groups: technical, commercial, financial, accounting, security and administrative or managerial. Fayol's primary focus, of course, was on this last managerial activity because he felt managerial skills had been the most neglected aspect of business operations. He defined management in terms of five functions: planning, organising, commanding, coordinating and controlling.

Fayol's five management functions are similar to the functions of planning, organising, directing and controlling that we have described in Chapter 1. Many management theorists and even practitioners have found this classification very useful and realistic. Further, the process of management as a series of functions originated with Fayol. He emphasised repeatedly that this process is the same at every level of an organisation and is common to all types of organisations.

Fayol also presented 14 principles of management as general guides to the management process and management practice. These are discussed below.

Division of Work Division of work in the management process produces more and better work with the same effort. Various functions of management like planning, organising, directing and controlling cannot be performed efficiently by a single proprietor or by a group of directors. They must be entrusted to specialists in related fields.

Authority and Responsibility As the management consists of getting the work done through others, it implies that the manager should have the right to give orders and power to exact obedience. A manager may exercise formal authority and also personal power. Formal authority is derived from his official position, while personal power is the result of intelligence, experience, moral worth, ability to lead, past service, etc. Responsibility is closely related to authority and it arises wherever authority is exercised.

An individual who is willing to exercise authority, must also be prepared to bear responsibility to perform the work in the manner desired. However, responsibility is feared as much as authority is sought after.

[6]The original French title of the book is *General and Industrial Administration.* But in English translation the word "management" replaces the "administration".

https://rbigradeb.com/

Discipline Discipline is absolutely essential for the smooth running of business. By discipline we mean, the obedience to authority, observance of the rules of service and norms of performance, respect for agreements, sincere efforts for completing the given job, respect for superiors, etc. The best means of maintaining discipline are (a) good supervisors at all levels, (b) clear and fair agreements between the employees and the employer, and (c) judicious application of penalties. In fact, discipline is what leaders make it.

Unity of Command This principle requires that each employee should receive instructions about a particular work from one superior only. Fayol believed that if an employee was to report to more than one superior, he would be confused due to conflict in instructions and also it would be difficult to pinpoint responsibility to him. (Note that the importance of such a restriction was not realised by F.W. Taylor when he recommended that there should be as many foremen as there are special functions in doing a job and each of these foremen should give orders to the worker on his speciality.)

Unity of Direction It means that there should be complete identity between individual and organisational goals on the one hand and between departmental goals *inter se* on the other. They should not pull in different directions.

Subordination of Individual Interest to General Interest In a business concern, an individual is always interested in maximising his own satisfaction through more money, recognition, status, etc. This is very often against the general interest which lies in maximising production. Hence the need to subordinate the individual interest to general interest.

Remuneration The remuneration paid to the personnel of the firm should be fair. It should be based on general business conditions, cost of living, productivity of the concerned employees and the capacity of the firm to pay. Fair remuneration increases workers' efficiency and morale and fosters good relations between them and the management.

Centralisation If subordinates are given more role and importance in the management and organisation of the firm, it is decentralisation. The management must decide the degree of centralisation or decentralisation of authority on the basis of the nature of the circumstances, size of the undertaking, the type of activities and the nature of organisational structure. The objective to pursue should be the optimum utilisation of all faculties of the personnel.

Scalar Chain Scalar chain means the hierarchy of authority from the highest executive to the lowest one for the purpose of communication. It states superior-subordinate relationship and the authority of superiors in relation to subordinates at various levels. As per this principle, the orders or communications should pass through the proper channels of authority along the scalar chain. But in case there is a need for swift action, the proper channels of authority may be short-circuited by making direct contact (called gang plank) with the concerned authority.

In Fig. 2.1 we find two ladders of authority—one from *E* to *A* and the other from *P* to *A*. In a strict observance of the scalar chain, any communication from *D* to O would go all the way up to *A* and down the other side of the triangle to O. This is a time consuming procedure. Fayol suggested that if there is need for swift action *D* and O may be authorised by their respective superiors (C and N) to have direct contact with each other. A gang plank can be thrown across between D and O. By this method, the scalar principle is safeguarded and at the same time the subordinate officers are enabled to take swift action.

https://rbigradeb.com/

Order To put things in an order needs effort. Disorder does not need any effort. It evolves by itself. Management should obtain orderlines in work through suitable organisation of men and materials. The principle of "right place for everything and for every man" should be observed by the management. To observe this principle, there is need for scientific selection of competent personnel, correct assignment of duties to personnel and good organisation.

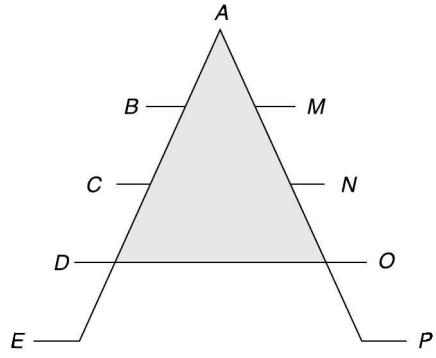


Fig. 2.1 Gang plank

Equity Equity means equality of fair treatment. Equity results from a combination of kindness and justice. Employees expect management to be equally just to everybody. It requires managers to be free from all prejudices, personal likes or dislikes. Equity ensures healthy industrial relations between management and labour which is essential for the successful working of the enterprise.

Stability of Tenure of Personnel In order to motivate workers to do more and better work, it is necessary that they should be assured security of job by the management. If they have fear of insecurity of job, their morale will be low and they cannot give more and better work. Further, they will not have any sense of attachment to the firm and they will always be on the lookout for a job elsewhere.

Initiative Initiative means freedom to think out and execute a plan. The zeal and energy of employees are augmented by initiative. Innovation which is the hallmark of technological progress, is possible only where the employees are encouraged to take initiative. According to Fayol, initiative is one of the keenest satisfactions for an intelligent man to experience, and hence, he advises managers to give their employees sufficient scope to show their initiative. Employees should be encouraged to make all kinds of suggestions to conceive and carry out their plans, even when some mistakes result.

Esprit de Corps This means team spirit. Since "union is strength", the management should create team spirit among the employees. Only when all the personnel pull together as a team, there is scope for realising the objectives of the concern. Harmony and unity among the staff are a great source of strength to the undertaking. To achieve this, Fayol suggested two things. One, the motto of divide and rule should be avoided, and two, verbal communication should be used for removing misunderstandings. Differences grow more bitter when cleared through written communication.

Contributions and Limitations of Administrative Management

Both Taylor and Fayol had essentially the same goal of increasing production but they tried to reach this goal from different directions. Taylor worked from the bottom of the hierarchy upward, whereas Fayol worked from the apex downwards.

Fayol's principles met with widespread acceptance among writers on management and among managers themselves. In the United States the most important acceptance of his principles came from two General Motors executives—James D. Mooney and Alan C. Railey. These executives wrote a book, *Onward Industry,* in 1931, later revised and renamed *Principles of Organisation.*

The real explosion in the number of principles of management came with Colonel L. Urwick, a distinguished executive and management consultant in U.K. He wrote a book, *The Elements of Administration,*

https://rbigradeb.com/

in which he tried to assemble the concepts and principles of Taylor, Fayol, Mooney, Railey and other early management theorists. Some of the several dozen principles he advocated are as follows:

1. There should be clear line of authority, as in the military, from the top management down to the lowest employee.
2. The authority and responsibility of each employee should be communicated to him in writing.
3. Each individual should perform one function only.
4. The span of control of a manager should never exceed six.
5. Authority can be delegated, but not responsibility.

Drawing inspiration from Fayol, a new school of thought known as the Management Process School came into existence. Harold Koontz and Cyril O'Donnell are the champions of this school. They believe that management is a dynamic process of performing the functions of planning, organising, staffing, directing and controlling. They also believe that these functions and the principles on which they are based have general or universal applicability. Managers, whether they are managing directors or supervisors, perform the same functions of planning and control although the degree of complexity may differ. Similarly, management functions are not confined to business enterprises alone but are applicable to all organisations wherever group effort is involved. Management theory, as a body of knowledge, is not culture-bound but is transferable from one environment to another. This approach is also referred to as the *universalist approach*.

Ideas of Fayol and his followers have come to be criticised as follows:

1. Fayol's principle of division of work or specialisation produces the following dysfunctional consequences:
   (a) It leads to the formation of small work groups with norms and goals often at odds with those of management. Each individual carries out his assigned part as something apart from the overall purpose of the organisation as a whole. He does not care to know how his job fits into the entire picture.
   (b) It results in the dissatisfaction of workers because it does not provide them the opportunity to use all their abilities.
   (c) It results in an increase in the overhead cost because the more the specialisation develops at one level, the greater becomes the need for coordination at a high level.
2. For many of Fayol's principles one can find an equally plausible and acceptable contradictory principle and there is nothing in Fayol's writings to indicate which is the proper one to apply. Simon[7] substantiated this criticism by referring to the principle of unity of command and the principle of specialisation or division of labour. Both the principles, he said, cannot be followed simultaneously. For example, if an accountant in a marketing department is subordinate to the marketing manager and if unity of command is observed, then the finance department cannot issue direct orders to him regarding the technical, accounting aspects of his work. Similarly, the principle of limited span of control (advocated by Gulick, Urwick, and others) does not go hand in hand with another of their principles which says that the number of organisational levels should be kept at a minimum because on limiting the span of control, number of levels of management increases. In this way, many of these principles are full of contradictions and dilemmas. This provoked Simon to remark that these principles are no better than proverbs which give opposite messages.

[7]Herbert Simon, *Administrative Behaviour* (N.Y.: The Free Press, second ed.) p. 20.

https://rbigradeb.com/

3. These principles are based on few case studies only and have not been tested empirically. Indeed, whenever these principles have been tested empirically, they have fallen like autumn leaves. For example, Dale[8] found considerable variation in the span of control of the chief executive even among highly successful firms as against the limit of six by Urwick.
4. These principles are often stated as unconditional statements of what ought to be done in *all* circumstances when what is needed are conditional principles of management. For example, it is not correct to say that the authority and responsibility of an employee should be explicitly described in all types of environments because as shown by Burns and Stalker,[9] in a technologically turbulent environment an employee's job should be as little defined as possible, so that it can shape itself according to the changing needs of the situation.
5. These principles (viz., the principle of specialisation, chain of command, unity of direction and span of control) result into the formation of mechanistic organisation structures which are insensitive to employees' social and psychological needs. Chris Argyris[10] contends that such structures inhibit the employees' self-actualisation and accentuate their dependence on superiors. They also develop among employees an orientation towards their own particular departments rather than towards the whole organisation.
6. These principles are based on the assumption that organisations are closed systems. But this is not so. Organisations are open systems. Hence the rigid structures which these principles tend to create, do not work well under unstable conditions. (Read Systems Approach described later in this chapter.)

Bureaucracy

Max Weber[11], a German sociologist, is known as the Father of Bureaucracy. About 1910 he made a study of different types of business and government organisations and distinguished 3 basic types of administration in them: leader-oriented, tradition-oriented and bureaucratic. Leader-oriented administration is one in which there is no delegation of management functions. All employees serve as loyal subjects of a leader. In tradition-oriented administration managerial positions are handed down from generation to generation. Who you are rather than what you can do, becomes the primary criterion for work assignment. In bureaucratic administration delegation of management responsibilities is based on the person's demonstrated ability to hold the position. No person can claim a particular position either because of his loyalty to the leader or because the position has been traditionally held by members of his family. People earn positions because they are presumed to be best capable of filling them. Weber considers this last type as the ideal type of administration.

Important Features of Bureaucratic Administration

1. There is Insistence on following Standard Rules Weber believed that the authority in an organisation should not be governed by the personal preferences of the employer but it should be governed by standard rules. In other words, the institutional cult should replace the personality cult. He

[8]Ernest Dale, *Planning and Developing the Company Organisation Structure* (N.Y.: American Management Association, 1952).
[9]T. Bums and G.M. Stalker, *The Management of Innovation* (London: Tavistock, 1961).
[10]Chris Argyris, *Integrating the Individual and the Organisation* (N.Y.: Wiley, 1964).
[11]Max Weber, *The Theory of Social and Economic Organisation* (N.Y.: Oxford University Press Inc. 1947).

https://rbigradeb.com/

said that this would provide equality in the treatment of subordinates and continuity and predictability of action. This would also obviate the need for searching *ad hoc* solutions to problems.

2. There is a Systematic Division of Work This increases production by improving efficiency and saving time in changing over from one job to another.

3. Principle of Hierarchy is Followed Each lower officer is under the control and supervision of a higher one.

4. It is Necessary for the Individual to have Knowledge of and Training in the Application of Rules because these form the basis on which legitimacy is granted to his authority.

5. Administrative Acts, Decisions and Rules are Recorded in Writing This makes the organisation independent of people besides making people's understanding more accurate.

6. There is Rational Personnel Administration People are selected on the basis of their credentials and merit and are paid according to their position in the hierarchy. Promotions are made systematically. There is emphasis on winning people's loyalty and commitment.

Contributions and Limitations of Bureaucracy

Contributions Bureaucracy can be viewed as the logical extension of management when it becomes impossible for one person to fulfill all management functions. The concept has enabled most modem large scale organisations which require functionally specialised staff to train and control the people with heterogeneous backgrounds and to delegate specific responsibilities and functions to them.

Limitations During the past years, however, bureaucracy has come in for a lot of criticism. Researches by Merton,[12] Selznick[13] and Gouldner[14] have revealed several dysfunctional consequences of bureaucracy. Bennis and Thompson are among the severest critics of bureaucratic organisations. In fact, Weber himself in his own life time became so much disenchanted with these organisations that he later on began to attack the concept which at one time he had helped to immortalise.

Important *dysfunctional consequences* of bureaucracy are discussed below.

1. Overconformity to rules In a bureaucratic organisation employees observe "stick to the rule" policy because they fear being penalised for the violation of these rules. They therefore follow only the letter of the law without going into its spirit. For example a doctor in the emergency ward spends precious time in filling up various forms before helping the accident victim. Violation of rule, begets more rules to take care of the violations.

2. Buck-passing In a bureaucratic organisation the employees' initiative is stifled. In situations where there are no rules, employees are afraid of taking decisions independently lest they may be punished for the wrong decisions. They, therefore, either shift decisions to others or postpone them. As a result office work increases and the Parkinson's law comes into operation.

[12]Merton, R.K. (1940), *Bureaucratic Structure and Personality.* Social Forces, No. 18.
[13]Selznick, P. (1949), *TVA and The* Grass *Roots,* Berkeley.
[14]Gouldner, AW. (1954), *Patterns of Industrial Bureaucracy,* Free Press.

https://rbigradeb.com/

3. Trained incapacity In a bureaucratic organisation the training and experience, repeated many times over, develop in an individual skills and abilities in a specialised area only. The individual finds himself incapable to respond appropriately to new situations in other areas.

4. Displacement of goals This is a very common phenomenon in a bureaucratic organisation. It was first discovered some 80 years ago by the German sociologist, Robert Michels[15] and is extensively described by him in his book. Goal displacement takes place when an organisation substitutes for its legitimate goal some other goal for which it was not created, for which resources were not allocated to it, and which it is not known to serve. Displacement of goals can occur in several ways. Some of them are as under:

(a) After some time the leaders of an organisation may begin to devote more and more of their attention and resources to preserve and maintain the organisation itself rather than its initial purpose. This occurs because several interest groups develop in and outside the organisation which begin to use the organisational goals as means to serve their own individual goals.

(b) After some time the employees of an organisation may so intensively internalise the rules that the goals which these rules were originally framed to achieve are totally forgotten. The means thus become more important than the ends. This type of behaviour is called *'professional automation.'* There can be many examples of this behaviour. A stranger enters an office and seeks some information from an employee sitting there. But the employee, instead of supplying him the required information asks him to follow the rules and to go to the enquiry counter.

Employees develop *"professional automation"* when the management insists on following a certain way of doing things and praises or punishes employees on the basis of their adherence to that prescribed way (and not on the basis of their achievement of goals). If a librarian is praised for the neat and orderly look of the library and not for the increase in the number of book borrowers, if a factory worker is praised for his regular attendance and not for the quality of his performance and if a teacher is praised for the pass percentage of his students and not for the quality of his instruction, it is not surprising if they begin to feel after some time that the orderly look of the library, regular factory attendance and high pass percentage are all what are demanded of them. Story is told of a transport spokesman who countered complaints that buses often whizzed past waiting commuters by arguing that picking up passengers upset timetables. In fact, appraisals in many organisations are based on information that is easy to collect rather than that which is intrinsically important.

(c) After some time, the secondary goals of an organisation may completely subordinate its primary goals, so that the latter are no longer served effectively. A university may initiate certain social or extra-curricular activities to attract students to classes, but if the social activities consume the greater proportion of the university's time and resources or become the major focus of the participants' commitments, then they undermine the achievement of the teaching goal. A company may decide to put in a secret detective force in order to cut down on losses due to theft and carelessness. The net result may be that the cost of the service is greater than the amount of theft prevented and that production drops due to a lowering of the morale among the workers.

(d) After some time, sectional interests may develop among the sub-units of an organisation and the heads of these units may become so much enamoured with their sectional goals that they may forget organisational goals.

[15]Robert Michels, *Political Parties* (N.Y.: Dover, 1959).

https://rbigradeb.com/

5. No real right of appeal The clients of a bureaucratic organisation generally feel dissatisfied because they have no real right of appeal. Superiors very often side with the viewpoint of their subordinates.

6. Neglect of informal groups Man is imbued with sentiments. Being a social creature, he forms informal groups which play a very important role in all organisations. An entirely new discipline called "group dynamics" has now come into existence which provides us with deep insight into the formation and working of these groups. Bureaucratic organisations often ignore the existence of informal groups which usually carry out a big chunk of organisational work.

7. Rigid structure Precise description of roles and overconformity to rules make bureaucratic structures rigid. Such structures, though they work well is stable environments, do not cope well with today' changing environment. Organisations today need flexible structures to be able to frequently interact with their environment for collecting, processing and monitoring information and changing the job descriptions and the roles of their employees.

8. Inability to satisfy the needs of mature individuals The maturity-immaturity theory, propounded by Chris Argyris,[16] explains in great detail how bureaucratic organisations are unable to meet the needs of mature individuals who work in them. According to this theory, a mature individual wants independence, initiative, self-control, opportunity to use all his skills and information to plan his future. But the hierarchy and control features of a bureaucratic organisation work against these needs.

NEO-CLASSICAL APPROACHES

These approaches are called neo-classical because they do not reject the classical concepts but only try to refine and improve them.

The Human Relations Movement

The human relations movement emerged in part because managers found that Taylor's scientific management and Fayol's administrative management did not quite achieve complete production efficiency and work place harmony. Managers still faced difficulties because employees did not always follow predicted or rational patterns of behaviour. Thus, there was an increased interest in helping managers deal more effectively with the "people side" of their organisations. The real inspiration for the movement, however, came from the Hawthorne experiments which were done by Prof. Elton Mayo[17] and his colleagues at the Western Electric Company's plant in Cicero, Illinois from 1927 to 1932. The plant employed 29.000 workers to manufacture telephone parts and equipment. We briefly describe these experiments in the following four parts:

1. Illumination Experiments
2. Relay Assembly Test Room
3. Interviewing Programme
4. Bank Wiring Test Room

[16]Chris Argyris, *Personality and Organisation* (N.Y.: Harper and Brothers, 1957).
[17]Elton Mayo, *The Human Problems of an Industrial Civilisation* (N.Y. Macmillan, 1933)

https://rbigradeb.com/

We will briefly examine these experiments and their results.

Illumination Experiments This was the first phase of this study. In this phase, the popular belief that productivity is positively correlated with illumination was tested. Experiments were done on a group of workers. Their productivity was measured at various levels of illumination. But the results were erratic. Puzzled with this phenomenon, researchers improved their methodology. This time, they set up 2 groups of workers in different buildings. One group called the control group worked under constant level of illumination and the other group called the test group worked under changing levels of illumination. The post-test productivity of the two groups was then compared and it was found that illumination affected production only marginally.

Relay Assembly Test Room In this phase, the object of the study was broadened. It now aimed at knowing not only the impact of illumination on production but also of such other factors as length of the working day, rest pauses, their frequency and duration and other physical conditions. A group of six women workers, who were friendly to each other, was selected for this experiment. These women workers were told about the experiment and were made to work in a very informal atmosphere with a supervisor-researcher in a separate room. The supervisor-researcher acted as their friend, philosopher and guide. During the study, several variations were made in the working conditions to find which combinations of conditions was most ideal for production. Surprisingly, the researchers found that the production of the group had no relation with working conditions. It went on increasing and stabilised at a high level even when all the improvements were taken away and the poor pre-test conditions were reintroduced. How this phenomenon came about, nobody knew. The workers were also not able to explain this phenomenon. They were neither closely supervised, nor motivated by extra reward. Obviously, something else was happening in the test room which was responsible for this. Researchers then attributed this phenomenon to the following factors:

(a) Feeling of importance among the girls as a result of their participation in the research and the attention they got
(b) Warm informality in the small group and tension-free interpersonal and social relations as a result of the relative freedom from strict supervision and rules
(c) High group cohesion among the girls

Interviewing Programme The knowledge about the informal group processes which was accidentally acquired in the second phase made researchers design the third phase. In this phase, they wanted to know as to what were the basic factors responsible for human behaviour at work. For this purpose they interviewed more than 20,000 workers. At first, direct questions were asked relating to the type of supervision, working conditions, living conditions and so on. But since the replies were guarded, the technique was changed to non-directive type of interviewing, in which workers were free to talk about their favourite topics related to their work environment. This study revealed that the workers' social relations inside the organisation had an unmistakable influence on their attitudes and behaviours. The study brought to light the all-pervasive nature of informal groups which had their own culture and production norms which their members were forced to obey.

Bank Wiring Observation Room This phase involved an in-depth observation of 14 men making terminal banks of telephone wiring assemblies, to determine the effect of informal group norms and formal economic incentives on productivity. It was found that the group evolved its own

https://rbigradeb.com/

production norms for each individual worker, which were much lower than those set by the management. Workers would produce that much and no more, thereby defeating the incentive system. This artificial restriction of production saved workers from a possible cut in their piece rates or an upward revision of their standards by the management and protected weaker and slower workers from being reprimanded or thrown out of the job—these being the days of the Great Depression.

Those workers who in their "foolishness" tried to produce more than the group norm were isolated, harassed or punished by the group in several ways and were called *"rate busters"*. Those who were too slow were nicknamed as *"chisellers"*, those who complained to the supervisor against their co-workers were called *"squealers"*. The study also revealed that the members of an informal group gave informal rankings to each other, which decided the internal social structure of the group and its informal leaders.

The experience of the Hawthorne studies produced a profound impact on the luminaries of the human relations movement. They came to realise the important role played by informal groups in the working of an organisation. Research scholars now began to concentrate on the human aspect of management and the principle, that when people work together to accomplish group objectives, "people should understand people."

Contributions and Limitations of the Human Relations Movement

Contributions The contributions of the movement may be summarised as follows:

1. A business organisation is not merely a techno-economic system but is also a social system. Hence it is as important for it to provide social satisfaction to the workers as to produce goods.
2. There is no correlation between improved working conditions and high production.
3. A worker's production norm is set and enforced by his group and not by the time and motion study done by any industrial engineer. Those who deviate from the group norm are penalised by their co-workers.
4. A worker does not work for money only. Non-financial rewards (such as the affection and respect of his co-workers) also significantly affect his behaviour and largely limit the effect of economic incentive plan.
5. Employee-centred, democratic and participative style of supervisory leadership is more effective than task-centred leadership.
6. The informal group and not the individual is the dominant unit of analysis in organisations.

Limitations

1. It is a swing in the opposite direction and is as much incomplete as the scientific management and administrative management approaches. If Taylor and Fayol viewed task and structure as their central tenets and ignored the human variable, the human relations writers saw only the human variable as critical and ignored other variables.
2. The implicit belief of this approach that an organisation can be turned into one big happy family where it is always possible to find a solution which satisfies everybody is not correct. Every organisation is made up of a number of diverse social groups with incompatible values and interests. These groups might cooperate in some spheres and compete and clash in others. Two groups within the organisation whose interests frequently come into conflict are management and the workers. Thus in a recession, the management of a company may clash with the workers

https://rbigradeb.com/

if it decides to layoff some of them. No amount of "human relations" can sugarcoat this reality indefinitely. Management can only put off its decision for some time.

3. This approach over-emphasises the importance of symbolic rewards and underplays the role of material rewards. One must realise that for symbolic rewards to be effective, the recipient must first identify with the granting organisation and, even more important, the symbols must be appreciated by the recipient's "significant others", i.e., his wife, friends, neighbours, etc. Many times a worker in a factory is ridiculed by his coworkers on receiving a symbolic reward from his employer. Hence such rewards generally fail to achieve their objective of higher production.
4. This approach provides an unrealistic picture about informal groups by describing them as a major source of satisfaction for industrial workers. Many organisational researchers[18] have shown that the workers do not come to the factory to seek affection and affiliation and that the formation of informal groups among them is not very common. Moreover, informal groups, wherever they exist, can only make the worker's day more pleasant and not his task, which continues to remain repetitive, monotonous and uncreative.
5. This approach is in fact production-oriented and not employee-oriented as it claims to be. Many of its techniques (such as granting the workers inexpensive symbols of prestige, arranging picnics for the employees, running subsidised canteens, socialising with workers, etc.) trick workers into a false sense of happiness but there is no improvement in their well-being.
6. The leisurely process of decision-making of this approach cannot work during an emergency. How far, for example, can a platoon commander, under orders to capture a hill, practise human relations in the thick of the battle? When decisions have to be made very quickly, when secrecy is important, when work is reduced to a routine, or when subordinates do not particularly care to be consulted, this approach may not work.
7. This approach makes an unrealistic demand on the superior. It wants him to give up his desire for power. A desire for power is one of the main reasons why people want to become managers.
8. This approach is based on a wrong assumption that satisfied workers are more productive workers. Attempts to increase output by improving working conditions and the human relations skills of a manager, generally do not result in the dramatic productivity increases that are expected.

Behavioural Approach

This approach is an improved and a more mature version of the human relations approach to management. Douglas McGregor, Abraham Maslow, Kurt Lewin, Chester Barnard, Mary Parker Follett, George Homans, Rensis Likert, Chris Argyris, and Warren Belnnis[19] are some of the foremost behavioural scientists who made signal contributions to the development of the behavioural approach to management. These scientists were more rigorously trained in various social sciences (such as psychology, sociology, and anthropology) and used more sophisticated research methods. Thus, these people came to be regarded as "behavioural scientists"

[18]Robert Dubin, Industrial Workers' Worlds: A Study of the Central Life Interests of Industrial Workers. *Social Problems* (1956) C.R. Walker & R.H. Guest, *The Man on the Assembly Line* (Harvard University Press, Cambridge, 1952). H.M. Vollmer, *Employer Rights and the Employment Relationship,* (Univ. of California Press, 1960).

[19]See Douglas McGregor, *The Human Side of Enterprise* (N.Y.: McGraw-Hill, 1960); Abraham Maslow, *Motivation and Personality* (NY: Harper & Row, 1954); Chester Bamard, *The Functions of the Executive* (Cambridge, Mass.: Harvard University Press, 1938); Rensis Likert, *New Patterns* of Management (N.Y.: McGraw-Hill, 1961): Chris Argyris, *Integrating the Individual and the Organisation* (N.Y.: Wiley, 1964).

https://rbigradeb.com/

rather than members of the "human relations" school. The findings of these people have enormously helped us in understanding organisational behaviour.

Behavioural scientists are highly critical of the classical organisation structures which are built around the traditional concepts of hierarchical authority, unity of command, line and staff relationships and narrow spans of control. They argue that in these organisations there is lot of domination of the work place by managers which causes subordinates to become passive and dependent on them. Behaviourists prefer more flexible organisation structures and jobs built around the capabilities and aptitudes of average employees.

The behavioural approach recognises the practical and situational constraints on human rationality for making optimal decisions. It says that in actual practice, the decision-making is done in a suboptimal manner. Also, behavioural scientists attach great weightage to participative and group decision-making because it is felt that business problems are so complex that it is neither fair nor feasible to make individuals responsible for solving them.

Behaviourists underline the desirability of humanising the administration of the control process and encouraging the process of self-direction and control instead of imposed control. They also favour participation in the establishment, measurement and evaluation of standards of performance, prompt information feedback to those whose performance is off the mark and the need for positive and reformative measures instead of punitive measures.

Behavioural scientists are concerned with studying organisations in the field and less interested in establishing normative models. They have, therefore, made wide-ranging studies of human groups—big and small. They have studied such issues as why individuals join groups, group size, structure and process, group cohesiveness, and so on.

Behavioural scientists have made extensive studies on leadership. Their view is that while in general, the democratic-participative style is desirable, the autocratic, task-oriented style may also be appropriate in certain situations.

To behavioural scientists, the realistic model of human motivation is *complex man.* This model suggests that different people react differently to the same situation or react the same way to different situations. No two people are exactly alike, and the manager should tailor his attempts to influence people according to their individual needs.

The behavioural approach to organisational conflict and change is quite pragmatic. It recognises that conflict is inevitable and sometimes is even desirable and should be faced with understanding and determination, that every organisational change involves technological and social aspects and that it is generally the social aspect of a change which people resist.

MODERN APPROACHES

Quantitative Approach

This approach, because of its use of scientific methods for problem-solving and its emphasis on establishing normative models of managerial and organisational behaviour for maximising efficiency, is considered as a descendant of the scientific management movement. Towards the beginning of this approach "operations research" (OR) was the only quantitative method of analysis. OR is also called the "management science". It gained momentum during the Second World War when the UK and USA were desperately trying to seek solutions to a number of new, complex problems in warfare. The

https://rbigradeb.com/

interdisciplinary groups of scientists who were engaged for this purpose were known as operations research (OR) teams because their work consisted of analysing operations and carrying out applied scientific research.

In later years, when the war ended, people made use of this technique in solving problems of industry also. Today OR works in approximately the following manner. A mixed team of specialists from relevant disciplines is called in to analyse the problem and to propose a course of action to the management. The team constructs a mathematical model to simulate the problem. The model shows, in symbolic terms, all the relevant factors that bear on the problem and how they are interrelated. By changing the values of the variables in the model (such as increasing the cost of raw materials) and analysing the different equations of the model generally with a computer, the team can determine what the effect of each change would be. Eventually, the OR team presents the management with a rational base for making a decision.

Statistical methods, a second variety of quantitative analysis, are undoubtedly more pervasive in management than operations research, partly because they are older in application and partly because of their versatility. The best known uses of statistical methods involve sampling theory. It is often inferred from the characteristics appearing in a sample what the larger universe, from which the sample is taken, resembles. Moreover, the probability theory is finding new applications to problems that are not strictly of a sampling character, that is, the problems involving use of past experience in determining optimum policies for the future.

It is clear from the above description that the focus of the quantitative approach is on decision-making—to provide quantitative tools and techniques for making objectively rational decisions. Objective rationality implies an ability and willingness to follow a reasoned, unemotional, orderly and scientific approach in relating means with ends and in visualising the totality of the decision environment.

This approach focuses on the manager as decision-maker. The keynote of this approach is precision and perfection which is achieved by expressing relationships and facts in quantitative terms. The approach has been widely used in planning and control activities where problems can be precisely identified and defined in quantitative terms. But its use is still uncommon in such areas as organising, staffing and leading the organisation where the problems are more human than technical in nature.

Systems Approach

A common pitfall of the classical, behavioural, and quantitative schools is that they stress one aspect of the organisation at the expense of others. Whereas the classical approach emphasises the "task" and "structure", the behavioural approach emphasises "people" and the quantitative approach emphasises "mathematical decision-making".

However, it is difficult to know which aspect is most useful and appropriate in a given situation. What is needed is one broad, detailed, conceptual framework that can help a manager diagnose a problem and decide which tool or combination of tools will best do the job. The systems approach provides him this integrated approach to management problems.

Some important advocates of the systems approach are Chester Barnard, George Homans, Philip Selznick and Herbert Simon. The following are the *key concepts* of this approach.

1. A system is a set of interdependent parts that together form a unitary whole that performs some function. For example, the universe is a system of heavenly bodies that includes many subsystems of stars called galaxies and the human body is made up of different parts such as skeleton, circulatory

https://rbigradeb.com/

system and nervous system. An organisation is also a system composed of four interdependent parts, namely, task, structure, people and technology. The task subsystem refers to the main purpose, the *raison de'etre* of the organisation. The structure refers to the formal division of authority and responsibility, communication channels and work flow. The people subsystem refers to the employees with their motives, attitudes and values and the informal organisation. The technology subsystem refers to the tools and equipment as well as techniques which are used by the organisation to perform its task.

2. Central to the systems approach is the concept of "holism" that means that no part of the system can be accurately analysed and understood apart from the whole system. Conversely, the whole system cannot be accurately perceived without understanding all its parts. Each part bears *a relation of interdependence* to every other part. This means that rather than dealing separately with the various parts of one organisation, the systems approach tries to give the manager a way of looking at the organisation as a whole. It tells him that to understand, for example, the operations of the research and development or manufacturing or the marketing division of a company, he must understand the company as a whole, for the activity of anyone part of the company affects the activity of every other part. This concept is called "Gestalt" in the field of psychology.

The above concept facilitates more effective diagnosis of complex situations and increases the likelihood of appropriate managerial actions. Perhaps the best example of the application of this concept can be found in the study of 12 restaurants in Chicago by William Foote Whyte and his 3 associates.[20] The employees of these restaurants were facing the common problem of sudden overwhelming load of orders during rush hours. That was when the waitresses broke out in tears because, they mixed up the orders and could not execute them in proper sequence, cooks grew sentimental and walked off the job because they could not match their output rate with the sudden increase in the input rate and the managers lost their temper and dismissed employees summarily because of the customers' complaints.

The researchers diagnosed all the components and concluded that *the real problem was the flow of information*, which needed to be redesigned to make everybody's job easier. They suggested that a mechanical device "spindle" be installed and waitresses instead of interacting with the cooks face to face should put their order slips on clips on this spindle. The spindle acted:

(a) *As a queuing device* The waitresses could place their order slips on clips as they received them, and the cook could take each of them in its turn. Thus the orders, and not the waitresses, waited in line.
(b) *As a visual sorting device* The cook could see if there were several orders of the same type, which could be prepared together.
(c) *As a record of what went wrong* When a mistake occurred, correction could be made and the blame, if necessary, be correctly apportioned.

Had researchers limited their analysis only to the "people" component, this would have led them to exploring such inappropriate answers as incentive schemes, human relations training, selection procedures and time and motion studies.

3. A system can be either open or closed. An open system is one which interacts with its environment. A closed system is one which is independent of the environment. The classicists regarded organisations as closed systems. They ignored the effect of the environment. But all the living systems,

[20]*Human Relations in the Restaurant Industry* (N.Y.: Mcgraw-Hill Book Co., 1948.)

https://rbigradeb.com/

whether biological organisations or social or business organisations are actually dependent upon their external environment for information, material and energy. These enter the system from the environment as inputs and leave the system as outputs. Hence they are rightly conceived as open systems by modem writers. The inputs of a business organisation are raw materials, power, finance, equipment, human effort, technology and information about market, new products, government policies, etc. The organisation changes these inputs into outputs of goods, services and satisfaction. This transformation process is known as "throughput".

In general, transformation processes can be categorised as follows:

- Physical (as in manufacturing)
- Location (as in transportation)
- Exchange (as in retailing)
- Storage (as in warehousing)
- Physiological (as in health care)
- Informational (as in telecommunications)

These transformations are not mutually exclusive. For example, a retailer can (a) allow customers to compare prices and quality (informational), (b) hold items in inventory until needed (storage), and (c) sell goods (exchange).

It should be remembered that the output of a system is always more than the combined output of its parts. This is called *"synergy"*. In organisational terms, synergy means that as separate departments within organisation cooperate and interact, they become more productive than if they had acted in isolation. For example, it is obviously more efficient for each department in a small firm to deal with one financing department than for each department to have a separate financing department of its own.

One important mechanism which enables a system to adapt and adjust to the changing conditions of its, environment and to exercise control over its operations is "feedback". As operations of the system proceed, information is fed back to the appropriate parts so that the work can be assessed and if necessary, corrected. This is shown in Fig. 2.2. A system will be *effective,* i.e., able to achieve its objectives, when there is a match between the information processing requirements facing its parts and their information processing capacity. When this state is achieved with maximum *efficiency* we say the system is *optimised.*

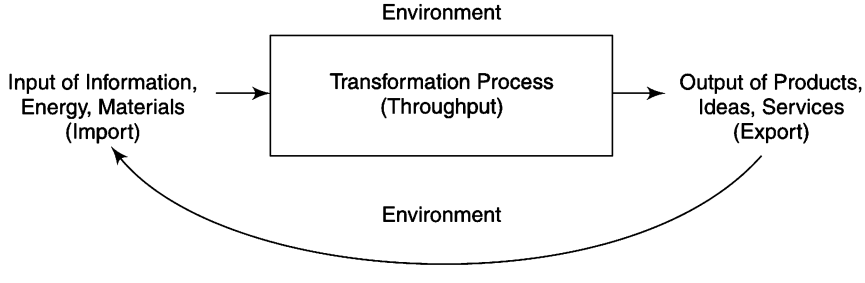


Fig. 2.2 Organisation as an open system

4. Every system has a permeable boundary. Boundaries can be more clearly observed and therefore more precisely defined where they are physical. For example, we can define the physical

https://rbigradeb.com/

boundaries of India very precisely. They can also be maintained psychologically through symbols such as titles, uniforms and indoctrination rituals. But it is difficult to define the boundary of an organisation. Organisations being social systems do not have clearly observable boundaries. Generally, the activities necessary for their transformation process define their boundaries. The concept of boundary is useful in several ways such as discussed below.

- It helps a system in determining where it ends and the other system begins.
- It divides those elements that are a part of a system from those that are a part of its environment.
- It enables a system to protect its transformation process from the vagaries of its environment. Manufacturing organisations protect their core operations from fluctuations in market conditions by creating several units on the input and output sides of their boundaries. These units are known as *boundary-spanning units*. Examples of such units on the input side are the purchase and personnel departments. Purchase departments ensure a steady flow of standardised inputs into the production process. They protect the process against several unforeseen events such as a strike in a supplier's plant. Similarly, a personnel department's constant hiring and training programme for certain types of workers absorbs fluctuations in manpower. Examples of boundary spanning units on the output side are marketing, warehousing and quality control departments. Marketing department uncovers trends in the demand for its organisation's products and communicates this information to purchasing personnel. Warehousing permits the technical core to produce at a constant rate but distribution to fluctuate with market conditions. Quality control department filters the output of the organisation to prevent customer complaints from arising and penetrating organisation's boundaries.

Contribution of Systems Approach

In the traditional approaches only that part of the organisation is studied which is plagued with a problem. But in the systems approach a problem is studied both at the level of the sub system (i.e., the micro-level) and the total system (i.e., the macro-level).

The systems approach follows a logical process of deductive-inductive reasoning. The questions considered include the following:

1. How many distinguishable elements are there to this seeming problem?
2. What cause-and-effect relationships exist among these elements?
3. What function needs to be performed in each case?
4. What trade-offs may be required among resources, once they are defined?

The reasoning process always goes through several stages of development starting with general objectives and proceeding to plans, then back to redefining objectives and making more detailed plans, then back again and so forth.

However, application of this approach to business organisation results in the requirements that executives, in addition to having skills in their own functional areas, should have enough knowledge of other areas also. They should be generalists.

There are some writers who contend that there is nothing new in this approach. They say that this approach simply combines the views of the classicists and the neo-classicists, which tantamounts to pouring old wine into new bottles.

https://rbigradeb.com/

Contingency Approach

The contingency approach is the second approach (the first being the systems approach) that attempts to integrate the various schools of management thought. According to this approach, management principles and concepts of various schools have no general and universal applicability under all conditions. In other words, there is no one best way of doing things under all conditions. Methods and techniques which are highly effective in one situation may not work in other situations. What is good for the goose may not be good for the gander. Results differ because situations differ. Accordingly, the contingency approach suggests that the task of managers is to try to identify which technique will, in a particular situation best contribute to the attainment of management goals. Managers have, therefore, to develop a sort of situational sensitivity and practical selectivity.

Contingency views are applicable in designing organisational structure, in deciding the degree of decentralisation, in planning information decision systems, in motivational and leadership approaches, in establishing communication and control systems, in resolving conflicts and managing change, in employee development and training programmes and in several other areas of organisation and management. A detailed description of these views is given at relevant places in the chapters ahead.

We have described all major approaches to management thought in terms of their chronological emergence. It often seems that the boundaries between these approaches are becoming progressively less distinct, as the classical approach, which is incorporating many insights and concepts of other approaches, continues to remain the most important approach. We now find several smart bureaucratic organisations making efforts to reduce the amount of work people have to do by getting rid of red tape or helping people understand that they are going to have a satisfying career even without ascending hierarchically.

SUMMARY

- The history of management can be divided into three periods—early, neo-classical and modern. The early period consists of three approaches, viz., the scientific management, the administrative management and bureaucracy. Neo-classical period consists of the human relations and behavioural approaches. Modem period consists of the quantitative, systems and contingency approaches.
- Each one of the above approaches has made a distinct contribution to management theory. The stress in the scientific management approach is on the "task" aspect of group effort, in the administrative management approach, it is on laying down universal principles of management and in bureaucracy it is on following standard rules.
- In the human relations approach the stress is on the human aspect of group effort. The behavioural approach recognises the practical and situational constraints of human behaviour.
- Quantitative approach emphasizes the use of Operations Research or mathematical decision-making. Systems approach emphasises the concept of "holism". Contingency approach attempts to integrate all previous approaches.

https://rbigradeb.com/

KEY TERMS

Physiological Organisation Theory This is the name given to Taylor's scientific management by March and Simon because it emphasises the management of only muscular tasks.

Time and Motion Study With the help of stop watch and motion camera, it is the study of time spent on different motions that compose a particular job, the purpose being to determine the best set of motions that lead to greatest efficiency.

Scalar Chain This refers to the chain of superiors from the highest to the lowest rank.

Unity of Command This is one of Fayol's 14 principles, which suggests that an employee should receive orders from only one superior.

Systems Approach Accepting the assertion that "everything depends on everything else", this management approach emphasises the study of whole situations and relationships, rather than organisational segments.

Contingency Approach Also called "if-then" approach, this view of management holds that particular management techniques are appropriate for particular types of situations. If certain situational factors exist, then certain organisational and managerial variables are most appropriate.

Review Questions

1. "The work of Taylor and Fayol was, of course, essentially complementary" (Urwick). Do you agree? Give reasons for your answer.
2. Mention the different schools of management. Discuss the contributions of the human behaviour schools.
3. Briefly describe the general principles of management as laid down by Henri Fayol. Is his list exhaustive?
4. Give a brief account of the contribution to management thought made by Elton Mayo.
5. Point out the distinctive contribution of Taylor to the theory of management. Why is he regarded as the Father of Scientific Management?
6. Describe the systems approach to management. How does it differ from the contingency approach?
7. What is the major task of manager according to the contingency approach? How is this approach an effort to integrate all previous approaches?
8. What are the important features of a bureaucratic administration? Describe its dysfunctional consequences.
9. Match the following:

(a) Fourteen Principles of Management.	Max Weber
(b) Time and Motion study.	Elton Mayo
(c) Hawthorne experiments.	F.W. Taylor
(d) Bureaucracy.	Henri Fayol
(e) Systems approach.	Koontz and Donnell
(f) Universalist approach.	Herbert Simon

[(a) Henri Fayol, (b) F.W. Taylor, (c) Elton Mayo, (d) Max Weber, (e) Herbert Simon, (f) Koontz and Donnell.]

https://rbigradeb.com/

Projects

1. Illustrate India's educational system with a diagram depicting the various organised subsystems of private and public institutions that occur at different levels and show how the output from one subsystem becomes input to the next.
2. Use the systems analysis technique to outline the problem of pollution caused by discarded polythene bags.

Case How Practical are Hawthorne Studies?

Rajiv has just graduated from a management institute in Rajasthan and has joined his family's small business which employs 25 semi-skilled workers. During the first week on the job, his dad called him in and said, "Rajiv, I have had a chance to observe you working with the men and women for the past two days and although I hate to, I feel I must say something. You are just too nice to people. I know that this human behaviour stuff has been taught to you at the institute, but it just does not work here. I remember when we discussed the Hawthorne studies when I was in the institute, everybody there got excited, but believe me, there is more to managing people than just being nice to them".

Discussion Questions

1. How would you react to your father's comments if you were Rajiv?
2. Do you think Rajiv's father understood and interpreted the Hawthorne studies correctly?
3. Do you think Rajiv's father understands the significance of recent trends in management thought and how these affect his business?
4. How would you explain to your father the new perspective that is needed for a business to be successful?

https://rbigradeb.com/

CHAPTER

3 SOCIAL RESPONSIBILITIES OF BUSINESS

Learning Objectives

This chapter will enable the reader to:

- **Define** social responsibility and **describe** its origin and growth
- **Examine** the different views on social responsibility
- **Discuss** the social responsibilities of business towards different groups
- **Review** the social performance of business in India
- **Explain** social audit
- **Define** business ethics and analyse ethics and corruption in international business
- **Explain** corporate governance and its benefits
- **Describe** corporate governance in India

https://rbigradeb.com/

In the preceding chapter we have learnt that every business organisation is an open system. It has a bewildering variety of dynamic forces in its environment which continuously impinge upon it and affect its working. Examples of these forces are state laws, political climate, social values, customers, suppliers, competitors, trade unions, and so on. These forces lay down criteria of judging an organisation and require it to adjust its performance to meet these criteria. These criteria change with the times. A business organisation today is judged by criteria which are very different from those of half a century ago. It has not only to be efficient to satisfy the industrialist by earning him more profits or satisfy the investor and the financier by paying them more dividend and interest, it has also to be conscious of its wider social responsibilities.

MEANING OF SOCIAL RESPONSIBILITY

Social responsibility is a nebulous idea and hence is defined in various ways. Adolph Berle[1] has defined social responsibility as the manager's responsiveness to public consensus. This means that there cannot be the same set of social responsibilities applicable to all countries in all times. These would be determined in each case by the customs, religions, traditions, level of industrialisation and a host of other norms and standards about which there is a public consensus at any given time in a given society.

According to Keith Davis,[2] the term "social responsibility" refers to two types of business obligations, viz., (a) the socio-economic obligation, and (b) the socio-human obligation.

The *socio-economic* obligation of every business is to see that the economic consequences of its actions do not adversely affect public welfare. This includes obligations to promote employment opportunities, to maintain competition, to curb inflation, etc. The *socio-human* obligation of every business is to nurture and develop human values (such as morale, cooperation, motivation and self-realisation in work).

Every business firm is part of a total economic and political system and not an island without foreign relations. It is at the centre of a network of relationships to persons, groups and things. The businessman should, therefore, consider the impact of his actions on *all* to which he is related. He should operate his business as a trustee for the benefit of his employees, investors, consumers, the government and the general public. His task is to mediate among these interests, to ensure that each gets a square deal and that nobody's interests are unduly sacrificed to those of others.

Origin and Growth of the Concept

Although the subject "social responsibilities of business" in its present form and content has gained popular attention in recent years only, its origin can be traced back to the evolution of the concept of a welfare state.

As the pace of industrialisation quickened, employers became more and more concerned with the loss of productive efficiency due to avoidable sickness or accident or to stoppages of work due to bad personal relationships. This gave rise to *the idea of a welfare state* which was further strengthened by the growth of democracy and of respect for human dignity during the last 150 years. Any extension of democracy has always produced an extension of popular education. As soon as the newly enfranchised

[1]Adolph A. Berle, *The American Economic Republic* (N.Y.: Harcourt Brace and World, 1963).

[2]Keith Davis, "The meaning and scope of social responsibility" in Joseph W. McGuire, ed., *Contemporary Management Issues and Viewpoints* (Englewood Cliffs, N.J.: Prentice-Hall, 1974).

https://rbigradeb.com/

are in a position to make their demands effectively felt, what they ask of their governments is social security, protection against the cruel hazards of life and help for the destitute. Accordingly, as the electorate widens, so the rules have to provide as a political necessity, provision for the aged, compensation for disablement at work, relief during sickness and unemployment and wage legislation.

The framework of a welfare state and with it the concept of social responsibility have thus come to stay in many countries of the world.

The *changing image of business* in recent years has lent further support to the idea of social responsibility. Some public opinion polls of the 1960s and 1970s in the United States have left the businessman disenchanted. These polls have revealed that the businessman is viewed as an individual who does not care for others, who ignores social problems, who preys upon the population, who exploits labour and who is a selfish money grabber. On the other hand, until these opinions were unveiled, the businessman in America believed that others viewed him as he viewed himself—as a practical, down-to earth, hard-working, broad-minded, progressive, interesting, and a competitive free-enterpriser. He believed that all others in society looked up to him as a self-sacrificing community leader, pillar of society, generous to a fault, great supporter of education, patron of the arts, and in short, the salt of the earth. Indeed the businessman—in the pre-poll days—thought of himself as a happy mix between Plato, Gandhi, and Churchill.

In India also the businessman has been under incessant attack both by the government and the public. Many reports of the Indian Government in the past few decades, such as the P.C. Mahalanobis Committee Report on the Distribution of Income and Levels of Living (1964), K.C. Dasgupta Report on Monopolies (1965), Prof. Hazari's Report on the Industrial Licensing System (1966) and the Dutta Committee Report on Industrial Licensing Policy (1969) have been very sore and critical of the unethical role of the Indian businessman.

Different Views on Social Responsibility

There are four different views on the social responsibility of business. These are as under:

Communist View This view advocates the imposition of social responsibilities on business through the instrumentality of the State. Communists hold that free industrial civilisation is not good because its values are of the wrong order. Business has been concerned only with material gain. Economic expediency is taken to be the sole criterion of decision. Therefore, business is evil. Compromise is impossible between the church and the idolatry of wealth which is the practical religion of capitalist societies. Because of this immorality of business standards, this view advocates an imposition of social responsibilities through legislation or force.

Capitalist View This view holds that economic expediency alone is a just standard for business decisions and that business has an unbridled and an uncontrolled right to make money *free from all sorts of social responsibilities.* It is argued that by maximising its profit objectives, business gratifies its personal desires and at the same time satisfies the needs of society. Therefore, *business should not have any responsibility beyond obeying certain legal codes in achieving its goals.* Welfare of society is not the corporation's business. Its business is to make money. If business once begins to serve the public, it will never be able to serve enough. Levitt[3] in a powerful attack on social responsibility of

[3]Theodore Levitt, *The Dangers of Social Responsibility* (Harvard Business Review, Sept.–Oct. 1958).

https://rbigradeb.com/

businessmen points out that if business assumes a large measure of social responsibility for employee welfare, it will lead to a sort of neofeudalism with all its paternalistic and autocratic ills. The result would be socially less desirable than in the days before businessmen were concerned with social responsibility. Milton Friedman,[4] who won a Nobel Prize in 1976, holds the view that business should go on with the business of producing goods and services efficiently and leave the solution of social problems to government agencies and concerned individuals. In short, managers should focus on what they know best: how to make a profit.

Pragmatic View This view acknowledges the importance of profits but simultaneously stresses the need for social responsibility. It holds that a company cannot make a social contribution if it is not profitable. Profits are the test of the efficient functioning of a business enterprise. A sick and bankrupt organisation is a social liability and can hardly contribute in the area of social responsibility. Hence a businessman's first responsibility is to keep his business solvent. But he must also voluntarily assume social responsibilities beyond the legal minimum. This can be done at three levels. At the first level, the manager goes beyond the legal minimum and caters also to *public expectations*—moving as the winds of public opinion blow. At the second level, he *anticipates* public expectations and acts accordingly. At the third and highest level, he *creates* new public expectations by voluntarily setting and following the loftiest standards of moral and social responsibility.

Trusteeship View This view advocates the retention for personal use of so much as is necessary for an honourable livelihood, no better than that enjoyed by million others; and the utilisation of the rest for the welfare of the community. The trusteeship slogan is *enjoy thy wealth by renouncing it.* Earn your crores by all means but understand that your wealth is not yours; it belongs to the people.

> The idea of trusteeship has its origin in the *Gita* teachings of *aparigraha* (non-possession) and *sambhawa* (equalism) which had taken a stronghold of M.K. Gandhi's mind. In a sense then all men are trustees, for every man is required to use his possessions for the welfare of all. Trusteeship involves a code as well as a principle of accountability. This demands radical changes in attitudes, systems and methods.

SOCIAL RESPONSIBILITIES OF BUSINESS TOWARDS DIFFERENT GROUPS

Every businessman is at the centre of a network of relationships which consist of those between him at one end and his workers, employees, consumers, shareholders, other businesses, community and the government on the other. A businessman's social responsibilities to each of these parties are briefly enumerated below.

Towards the Consumer and the Community

1. Production of cheap and better quality goods and services by developing new skills, innovations and techniques, by locating factories and markets at proper places and by rationalising the use of capital and labour.
2. Levelling out seasonal variations in employment and production through accurate forecasts, production scheduling and product diversification.

[4]Milton Friedman, "The social responsibility of business is to increase its profits", *New York Time* Magazine, Sept. 13, 1970.

https://rbigradeb.com/

3. Deciding priorities of production in the country's interest and conserving natural resources.
4. Providing for social audit (see section below).
5. Honouring contracts and following honest trade practices.

   Some important but dishonest trade practices are: making misleading advertisements calculated to deceive the purchaser; misbranding of articles with respect to their material, ingredients, quality, origin, etc.; selling rebuilt or secondhand goods as new; procuring business or trade secrets of competitors by espionage, bribery or other means; restraining free and fair competition by entering into combination agreements; using containers that do not give a correct idea of the weight and quantity of a product; making false claims of being an "authorised dealer", "manufacturer" or "importer" of certain goods; giving products misleading names so as to give them a value which they do not possess; declaring oneself insolvent through questionable financial manipulations.
6. Making **real** consumer needs as the criterion for selecting messages to be given by product advertisements. Nearly all current advertising seeks to create wants. Thus, people no longer buy soap to make them clean. They buy the promise that it would make them beautiful. Toothpaste is bought not to kill bacteria but to create white teeth. Cars are bought for prestige rather than travel. Even foodstuffs such as oranges are bought for vitality, not nutrition. This kind of advertising promotes over-consumption, forces consumers to constantly compare themselves negatively with others, creates in them dissatisfaction with the old and outmoded, and makes them feel that without a particular brand of a product they are losers.
7. Preventing the creation of monopolies. Monopolies are bad in that they make the community face high prices, short supply and inferior quality of goods. Inequalities of wealth distribution are accentuated and the standards of public morality deteriorate as bribing the judges, legislators and the government to gain favours becomes very common.
8. Providing for after-sale servicing.
9. Ensuring hygienic disposal of smoke and waste and voluntarily assisting in making the town environment aesthetically satisfying.
10. Achieving better public relations (that is, creating a more favourable attitude towards the enterprise) by giving to the community, true, adequate and easily intelligible information about its working.
11. Supporting education, slum clearance and similar other programmes.

Towards Employees and Workers

1. A fair wage to the workers (and not merely one determined by market forces of supply and demand), which is possible only when the businessman is willing to accept a voluntary ceiling on his own profits.
2. Just selection, training and promotion (without any discrimination on grounds of sex, race, religion and physical appearance).
3. Social security measures and good quality of work life.
4. Good human relations (i.e., maintaining industrial peace, creating conditions for collective bargaining, educating workers to produce their own leadership and participative management).
5. Freedom, self-respect and self-realisation. A businessman should devote his knowledge and ability not only to making his worker's life more affluent, but also to making it more satisfying and rewarding. There should be an awareness that the quality of man's life is as important as the quantity of his material wealth.

https://rbigradeb.com/

6. Increase in productivity and efficiency by recognition of merit, by providing opportunities for creative talent and incentives.

Towards Shareholders and Other Businesses

1. Promoting good governance through internal accountability and transparency.
2. Fairness in relations with competitors. Competition with rival businessmen should always be fair and healthy, based on rules of ethics and fair play rather than on rules of warfare. Businessmen sometimes treat their rivals as enemies and try to harm each other by malicious propaganda, price-cutting, interference in production and distribution.

Towards the State

1. Shunning active participation in and direct identification with any political party.
2. Observing all the laws of land which may have the following objectives:
   (a) To provide direction to the economic and business life of the community.
   (b) To bring about harmony between the limited enterprise interest and the wider social interest of the country.
   (c) To provide safeguard against errant business practices.
   (d) To compel business to play fair to all participants in the economy—employees, shareholders, minority shareholders, etc.
   (e) To prevent oppression or exploitation of the weaker partners in business, such as employees, minority shareholders, etc.
   (f) To enforce maximum production according to the priority of sectors and production lines laid down by the government.
   (g) To allocate limited resources according to social priorities and preferences.
   (h) To enforce distributive justice, especially to weaker sections of the community.
   (i) To implement rural uplift and secure balanced development of the country.

SOCIAL PERFORMANCE OF BUSINESS IN INDIA

Recent years have seen many progressive organisations in our country keenly playing a social role. In some of these organisations the approach has been to take up only *business-centric activities,* i.e., which are directly relevant to their business. The guiding philosophy in these organisations is that social responsibility is good only if it pays. This approach benefits both the organisation and the stake-holder. Thus, ITC has been afforesting private degraded land to augment the supply of raw material for its paper factory. Similarly, Nestle which requires good quality milk for its dairy plant in Moga, Punjab, has been providing farmers financial and technical assistance for constructing deep-bore wells, which, apart from affording enhanced irrigation and access to surplus crops, also improve the qualities of livestock's feed crop and milk yield. Companies like Cadbury India, Glaxo and Richardson Hindustan are helping farmers to grow crops which serve as raw materials for them. Lipton in Etah district of Uttar Pradesh has started veterinary hospitals in the region from where it buys milk. British Gas (which sells compressed natural gas to India) has recently started teaching unemployed youngsters how to become mechanics for gas-based auto-rickshaws in Delhi. Some companies (e.g., Coca-Cola) link donations to sales of their products. In this way they not only serve social causes but also strengthen their brands. In some other

https://rbigradeb.com/

organisations the approach has been to take up such *philanthropic activities* in which they can make a difference. Thus, Lupin, Canara Bank, Indal, Gujarat Ambuja and Wipro are involved in community development work of building roads, running schools and hospitals and similar projects. Associated Cement Companies (ACC) has been rendering social service for over 5 decades. It has been setting up schools, health centres, bunds, local country-side and agro-based industries and improving the quality of rural life. The active involvement of Bharat Heavy Electricals Ltd. (BHEL) in the welfare of the surrounding communities is helping the organisation to earn goodwill of the local population. Jobs done by BHEL units are spread over eight thrust areas, viz., education, health management, drinking water facilities, non-conventional energy management, support to physically/mentally challenged children, disaster management, contribution to Prime Minister's Relief Fund and area development, including environment conservation.[5] Many companies are encouraging sports by placing good players on their pay rolls. Since April 1999 the renowned cricket player Sehwag is on the staff of ONGC.

Since 1999 an award is being given jointly by the Federation of Indian Chambers of Commerce and Industry (FICCI) and Business World (BW) to champion the cause of corporate social responsibility. In 2003 this award was won by Lupin. Previous winners include TISCO, TELCO and HINDALCO. In a survey of social responsibility work done in 7 Asian countries (viz., India, South Korea, Thailand, Singapore, Malaysia, the Philippines and Indonesia) by the U.K.-based International Centre for Corporate Social Responsibility in 2003, India has topped the list.

SOCIAL AUDIT

A social audit is a systematic study and evaluation of the organisation's social performance as distinguished from its economic performance. The term "social performance" refers to any organisational activity that effects the general welfare of society.

Benefits

1. It supplies data for comparison with the organisation's social policies and standards. The management can determine how well it is living up to its social objectives.
2. It develops a sense of social awareness among all employees. In the process of preparing reports and responding to evaluations, employees become more aware of the social implications of their actions.
3. It provides data for comparing the effectiveness of different types of programmes.
4. It provides data about the cost of social programmes, so that the management can relate this data to budgets, available resources, company objectives, etc.
5. It provides information for effective response to external groups which make demands on the organisation.

Limitations

A social audit is a *process audit* rather than an *audit of results*. This means that a social audit determines only what an organisation *is doing* in social areas and not the amount of social good that *results* from these activities. An audit of social results is not made because:

[5]From the Chairman's speech at the 44th A.G.M, *The Economic Times*, 18 Sept., 2008.

https://rbigradeb.com/

1. They are difficult to measure. If, for example, following a company's S.C./S.T. employment programme in a certain region, there is a fall in the violent crime rate by 4 per cent, it is difficult to measure how much of the benefit is caused by this programme.
2. Their classification under "good" or "bad" is not universally accepted. In other words, the same social result may be classed as "good" according to one opinion, and as "bad" according to another.
3. Most of them occur outside the organisation, making it difficult for the organisation to secure data from these outside sources.

Even though social results cannot be proved, an audit of what is being done is still considered desirable, because it shows the amount of effort that a business is making in area deemed beneficial to society. Further, if effort can be measured, then informed judgements can be made about potential results.

Social audits can be made either by internal experts, outside consultants, or a combination of the two. The internal auditor has the advantage of familiarity with the business, but his judgements may be influenced by company loyalties. An outside consultant has the advantage of an outsider's view, but he lacks familiarity with organisational activities, so he may overlook significant data. In any case, if audit information is to be released to the public, the outside auditor has more credibility.

There is a difference of opinion on the issue whether social audit should be made public by means of a social performance report or not. Some say that these reports are too imprecise and inconcrete to satisfy the public and anyone can find reasons for criticising a firm's performance, which can increase social conflict. But some others assert that these reports contribute to public understanding for they replace rhetoric with facts.

The Tata Iron and Steel Company is the first industrial organisation in India to have carried out a social audit of its performance in 1979. The social audit was conducted by a committee under the chairmanship of Justice S.P. Kotval, former Chief Justice of Mumbai High Court. The committee's terms of reference were to examine and report whether, and the extent to which the company had fulfilled the objectives contained in clause 3A of its Articles regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community. The Committee in its report praised TISCO's social welfare work and made a number of suggestions to improve its programmes.

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Business Ethics

Business ethics is the *application of moral principles to business problems*. However, ethics extend beyond the question of legality and involve the goodness or badness of an act. Therefore, an action may be legally right but ethically wrong. For example, a small village community located twenty miles from the closest urban shopping area has a single grocer's shop. The owner of the shop can charge any exorbitant price for his product though legally but not ethically.

Sexual harassment, discrimination in pay and promotion and the right to privacy are some other issues specially relevant to the study of ethics.

Sexual harassment in the workplace can be defined as unwelcome sexual advances, sexual favour or other verbal or physical conduct of a sexual nature. Although the landmark judgment of the

https://rbigradeb.com/

Supreme Court in the case of Vishaka & others vs State of Rajasthan makes it a mandatory duty of the employer to prevent this misconduct at the workplace, it does not appear that the sensitivity of today's organisations has kept pace. The negative aspects of sexual harassment are: costly lawsuits, decreased productivity, increased absenteeism, lower morale and higher staff turnover.

Discrimination against women in pay and promotion opportunities is also unethical, which continues to exist despite there being the Equal Remuneration Act, 1976. One of the most commonly cited reasons for the lack of promotions of women is the *glass ceiling effect*—a term used for artificial barriers based on attitudinal or organisational bias that prevent qualified women from progressing in the organisation into senior management level positions.

Employees' right to privacy raises several questions, some of which are: "Can a company refuse to hire smokers and/or make current smokers quit smoking"? and "Can a company conduct drug tests on its prospective employees"?

It should be remembered that the corporate "shield" which protects a company's management from unlimited legal liability does not protect it against unlimited public condemnation for its unethical and immoral actions. The credibility of a business depends on its high business ethics and integrity.

How does a manager decide what is ethical or unethical? There are *four* important factors which affect his decision.

- Government legislation.
- Business codes. (But being voluntary in nature these codes, though pointed to with pride, are usually ignored in practice.)
- Pressure groups. (For example, in recent years Indian carpet industry has been facing consumer boycott from the west for employing child labour.)
- Personal values of the manager himself. (But a manager with strong personal values mostly finds himself in a dilemma when an unethical course of action becomes his only choice to achieve the company's goal. This has prompted many major business houses, to teach executives the importance of remaining true to their convictions, whether rooted in organised religion or personal morality, amid the conflicting demands and temptations they confront when taking decisions. New approaches (e.g., asking participants to write their autobiographies, as if they are at the end of their lives) are being tried to make them inspiring decision-makers, with a sense of morality. "Under-promise over-deliver" is a much revered motto at Infosys. The company can excuse incompetence but not lack of ethics.)

Ethics and Corruption in International Business

With the arrival of the global economy, ethics and corruption have become a major concern in international management.

On an international scale, it is difficult to clearly define what constitutes corrupt business practices. The primary difficulty involved is differing cultural understandings related to these issues and the coinciding laws and norms under which various societies operate. However, four forms of corruption which are considered typical to international business are smuggling, money laundering, piracy and counterfeiting, and bribery.

Although there exist more then 40 codes of conduct worldwide but the observance of these codes being voluntary and not legally enforceable, MNEs differ in their approach. Thus we have, on the one

https://rbigradeb.com/

hand, Shell Energy with a clear anti-corruption policy, which does not sanction giving or receiving any type of bribe or illegal payment and on the other, we have Shell's competitor BP, which admits that it has been paying "facilitating payments" (recorded as "petty disbursements") as they were necessary to safeguard competitiveness.

Studies have shown that developing and transitional economies are more prone to corruption partly because of the inadequate legal framework, weak enforcement and lack of open and independent media.

Corporate Governance

The term "corporate governance" is used to denote the extent to which companies run in an open and honest manner in the best interest of all stake-holders. The key elements of good corporate governance are *transparency* and *accountability* projected through a code which incorporates a system of checks and balances between all key players, viz., board of directors, auditors and stake-holders.

In Britain, following corporate scandals in the early 1990s, a committee was appointed in 1991 under the chairmanship of Sir Adrian Cadbury to prepare a code for best corporate governance. Major recommendations of this committee are as under:

- Non-executive directors whose most important role is to bring an independent judgement to bear on issues of strategy, performance, resources, etc. should be picked through a *formal selection process* on merits.
- Companies should have *remuneration committees* consisting wholly or mainly of non-executive directors which should recommend to the board executive directors' emoluments.
- Companies should have *audit committees* consisting of minimum 3 non-executive directors to report on any matter relating to financial management.
- Audit partners should be *rotated* and there should be fuller disclosure of non-audit work.

This is a voluntary code and has only some moral pressure of the London Stock Exchange requiring companies to mention in their annual report whether they are following the code, and if not, why.

Benefits of Good Corporate Governance

1. It creates overall market confidence and long-term trust in the company.
2. It leads to an increase in company's share prices.
3. It ensures the integrity of company's financial reports.
4. It maximises corporate security by acting as a whistle blower.
5. It limits the liability of top management by carefully articulating the decision-making process.
6. It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience and a host of new ideas.

Corporate Governance in India

1. The Securities and Exchange Board of India (SEBI) monitors corporate governance of listed companies in India through clause 49 which is incorporated in the listing agreement of stock exchanges with companies. All listed companies have to comply with the provisions of this clause which *inter alia* stipulates as under:

https://rbigradeb.com/

- 50% of the board should consist of independent directors if the company has an executive chairman. In case of non-executive chairman, one-third of the board should consist of independent directors. (As the name suggests an independent director is a director who is not aligned with either the management or the promoters and is capable of exercising independent judgement).
- Following persons are *not* qualified to act as independent directors: (a) a shareholder with more than 2% shareholding in the company, (b) a former executive who left the company less than 3 years ago, (c) a partner of current legal, audit, and consulting firm, (d) a relative of a promoter, or an executive director, or a senior executive one level below an executive director.
- The CEO and CFO should certify the financial statements affirming that elaborate risk management and internal control mechanisms have been established in corporate accounting.

2. The Companies (Amendment) Act, 2000, has introduced several provisions relating to corporate governance such as setting up of audit committees, additional grounds of disqualification of directors and directors' responsibility statement in the directors' report.
3. The World Council for Corporate Governance has instituted in 2001 the *Golden Peacock Award* to foster competition among companies to improve their quality of corporate governance. The criteria include an overview of the governance structure, leadership, role, term and liability of directors, remuneration of non-executive directors and so on. The Institute of Company Secretaries of India (ICSI) has instituted National Award for Excellence in Corporate Governance in the year 2001. This award is given annually to the company which is adjudged best on the basis of certain stipulated parameters such as board independence, transparency and disclosure, corporate social responsibility, consistent shareholder value enhancement, etc.
4. India has several bodies that rate companies for their credit-worthiness. Important among them are: Credit Rating and Information Services of India Ltd. (CRISIL), Investment Information and Credit Rating Agency of India Ltd. (ICRA), Credit Analysis and Research (CARE) and Duff and Phelps Credit Rating (DCR), India.

In spite of the above efforts, the fact remains that good corporate governance is still a far cry in India. One of the questions asked is: *Does the mere fact of having a certain percentage of the board as independent directors really help*? In the U.S.A., it was found that many CEOs were getting their pals and cronies appointed as independent directors and using them to get their pay packets and bonuses inflated. Here in India, we had the Satyam muddle of December 2008 in which independent directors of Hyderabad-based Satyam Computer Services unanimously approved its promoter Ramling Raju's proposal to buy two debt-ridden companies owned by his sons for $1.6 billion without even clarifying the basis of their valuations. The proposal was later on withdrawn by the company following an unprecedented shareholders' revolt. The directors also pleaded their ignorance about the company's books being fudged by Raju for several years—a revelation which Raju made few days after his aborted acquisition proposal.

Sound corporate governance begins at the board level of a company and hence the institution of independent directors needs a relook. The fraud also brings under scanner the roles of a company's statutory auditors, bankers, award-giving and rating agencies, especially after Satyam won the Golden Peacock Global Award for Excellence in Corporate Governance twice, first in 2002 and then in 2007 and was rated by the Investor Relations Global Rankings (IRGR) as the company with best corporate governance practices for 2006 and 2007.

https://rbigradeb.com/

Need for a Corporate Whistle Blower Protection Act

The term "whistle-blowing" is a relatively recent entry into the public lexicon. A corporate whistle blower is an honest and conscientious individual who discloses in public interest, and as an ethical duty, information relating to gross corruption, mismanagement, abuse of authority or grave injustice prevailing in a company. The origin of whistle-blowing can be traced back to the coal-miners' old practice of carrying canaries into the mines with them. When the canaries stopped singing, coal-miners knew they were in trouble, and they had better get out fast. Whistle blowers in large companies are, in a way, our canaries. When they are free to "sing", the institutions are healthy. When they are silenced, people are in trouble.

In the United States, although the burden of proof to show reasonable cause devolves overwhelmingly on the whistle blower, anyone retaliating against him can be imprisoned for upto 10 years under The Whistleblower Protection Act. We in India, also, in conjunction with the Freedom of Information Act, can have a Whistleblower Protection Act, to promote good and transparent corporate governance in our country.[6]

SUMMARY

- The term "social responsibility of business" refers to two types of business obligations. First, business should see that the economic consequences of its actions do not adversely affect public welfare. Second. it should develop human values such as morals, cooperation, motivation and self-actualisation in work.
- There are four views about a businessman's responsibility to the community. According to the first view (communist), a businessman can never voluntarily act in a socially responsible manner. Hence social responsibilities should be imposed on him through force or legislation. According to the second view (capitalist), a businessman should not be asked to discharge any social responsibility. Social responsibility is not his business. His business is to make profits only. According to the third view (pragmatic), a businessman should no doubt earn his profits, but should also voluntarily assume some social responsibility. According to the fourth view (trusteeship), a businessman should hold everything in trust and carry on his business as a trustee for the benefit of the community.
- A businessman's social responsibilities are towards his consumers, workers, shareholders and the State. There are a number of ways in which he can discharge these responsibilities. His social performance can be evaluated by means of social audits.
- Many business organisations in India have contributed greatly in the area of social responsibility. The Tata Iron and Steel Company is the first industrial organisation in India to have carried out a social audit of its performance in 1979.
- Over the past few years great emphasis is being laid on business ethics and corporate governance. Business ethics is the application of moral principles to business problems. The term "corporate governance" is used to denote the extent to which companies run in an open and honest manner in the best interest of all stake-holders.

[6]The Securities and Exchange Board of India (SEBI) Committee on Corporate Governance (Feb. 8, 2003) has recommended that personnel who observe an unethical or improper practice (not necessarily a violation of law) should be able to approach the audit committee of the company *without* necessarily informing their superiors and that the company should provide protection to such personnel from unfair termination and other unfair prejudicial employment practices.

https://rbigradeb.com/

- We need a Whistle Blower Protection Act to protect early informers of corporate mismanagement from company's retaliatory action.

KEY TERMS

Business Ethics It is the application of moral principles to business problems.

Social Audit It is a study to evaluate an organisation's performance with respect to its social programmes and objectives.

Corporate Governance It denotes the extent of transparency and accountability in running a corporate enterprise.

Whistle-Blowing This is public criticism of an organisation's questionable behaviour.

Review Questions

1. Explain what you understand by the concept of social responsibility of businessmen. Why should they develop a sense of social responsibility? Discuss.
2. What is social audit? What are its advantages?
3. Describe in detail the social performance of business in India.
4. Write short notes on:
   (a) Capitalist view of social responsibility of business
   (b) Business ethics
   (c) Corporate governance
   (d) Whistle-blowing
5. Match the following:

(a) Managers should focus on what they know best	The Institute of Co. Secretaries of India
(b) Social responsibility refers to the socio-economic and the socio-human obligations of business	Adolph Berle
(c) Social responsibility is manager's responsiveness to the public consensus	Keith Davis
(d) Enjoy thy wealth by renouncing it	Milton Friedman
(e) National Award for Excellence in Corporate Governance	M.K. Gandhi

   [(a) Milton Friedman, (b) Keith Davis, (c) Adolph Berle (d) M.K. Gandhi, (e) The Institute of Co. Secretaries of India.]
6. "I hear more and more each day about business's responsibilities to consumers, suppliers, workers and the communities in which they operate. Such talk frightens me. If a company has the power to balance and meet out 'justice' to various interest groups how did it get that power, and by what right does it exercise it? To my mind, the essence of a free enterprise system is that each company in seeking to meet its own, selfish, profit interests, thanks to competitors and limited

https://rbigradeb.com/

government regulation, will bring about the realisation of other group interests." Do you agree with this statement?

Project

Interview the heads of some local organisations that have both male and female workers to know what steps have they taken to

- Eliminate sexual harassment at workplace
- Help break the glass ceiling
- Screen out potentially unethical individuals

Discuss your findings in the class.

https://rbigradeb.com/

CHAPTER

4

PLANNING

Learning Objectives

This chapter will enable the reader to:

- **Describe** the nature and importance of planning
- **Present** the various types of plans
- **Explain** the steps in planning and the strategic planning process
- **Identify** the limitations of planning and suggest ways to make it effective
- **List** the skills required for effective planning
- **Understand** strategic planning in Indian industry

https://rbigradeb.com/

NATURE OF PLANNING

Planning is the *beginning* of the process of management. A manager must plan before he can possibly organise, staff, direct or control. Because planning sets all other functions into action, it can be seen as the most basic function of management. Without planning other functions become mere activity, producing nothing but chaos. This has been called the *principle of primacy of planning*.

Planning is an *intellectual process* which requires a manager to think before acting. It is thinking in advance. It is by planning that managers of organisations decide what is to be done, when it is to be done, how it is to be done, and who is to do it. *Decision-making* is thus an integral part of planning. It is defined as the process of choosing among alternatives. Obviously, decision-making will occur at many points in the planning process. For example, in planning for their organisation, managers must first decide which goal to pursue: "Shall we manufacture all parts internally or buy some from outside?" In fact, deciding which goal to pursue is probably the most important part of the planning process. Managers must also decide which assumptions about the future and about the environment they will use in making their plans: "Will taxes on our earnings increase, and thus strain our company's cash flow, or can we expect taxes to remain at the present level?" In addition, managers must decide how they will allocate their resources to attain their goals: "Should we fill up a senior position by promoting an existing employee or should we hire someone from outside the organisation?" Because decision-making is such an integral part of planning, we will discuss it extensively in the following chapter.

Planning is a *continuous process* Koontz and O'Donnell[1] rightly observe that like a navigator constantly checking where his ship is going in the vast ocean, a manager should constantly watch the progress of his plans. He must constantly monitor the conditions, both within and outside the organisation to determine if changes are required in his plans. It is wiser for him to be right than merely being consistent. They call it the *principle of navigational change.*

As a corollary to the above principle, it can be said that *a plan must be flexible.* By flexibility of a plan is meant its ability to change direction to adapt to changing situations without undue cost. Because circumstances change, it is simple common sense that a plan must provide for as many contingencies as possible. It needs to possess a built-in flexibility in at least five major areas viz., technology, market, finance, personnel and organisation. Flexibility in technology means the mechanical ability of a company to change and vary its product-mix according to the changing needs of its customers. Flexibility in market means the company's ability to shift its marketing geographically. The company should be able to penetrate into unserved areas as and when there is a sudden spurt of demand in those areas. Flexibility in finance means the company's ability to obtain additional funds on favourable terms whenever there is need for them. Flexibility in personnel means the company's ability to shift individuals from one job to another. Flexibility in organisation means the company's ability to change its organisation structure.

However, flexibility is possible only within limits. It is almost invariably true that it involves extra cost. Sometimes it may be so expensive that its benefits may not be worth the cost. Sometimes people may develop patterns of thought that are resistant to change. Sometimes already established policies and procedures may become so deeply ingrained in the organisation that changing them may become difficult. In most cases irretrievable costs already incurred in fixed assets, training, advertising, etc. may block flexibility.

[1]Harold D. Koontz and Cyril J. O'Donnell, *Principles of Management—An Analysis of Managerial Functions* (Tokyo: McGraw-Hill Kogakusha, 1972), p. 135.

https://rbigradeb.com/

Planning is an *all-pervasive* function. In other words, planning is important to all managers regardless of their level in the organisation. There are, however, some differences in involvement by managers at different levels. One major difference concerns the time period covered. Top level managers are generally concerned with longer time periods. Much of their planning involves activities that will take place six months to five years later, or even after that. Lower level managers are more concerned with planning activities for the day, week, or the month. First-line supervisors, for example, plan the work activities for their people for the day. They are not responsible for predicting sales levels and ordering materials to produce products six months in the future. A second major difference concerns the time spent on planning. Top managers generally spend more time on planning. They are more concerned with establishing objectives and developing plans to meet those objectives. Lower-level managers are more involved in executing these plans.

IMPORTANCE OF PLANNING

Without planning, business decisions would become random, *ad hoc* choices. Four concrete reasons for the paramount importance of the planning function are as follows.

Minimises Risk and Uncertainty

In today's increasingly complex organisations, intuition alone can no longer be relied upon as a means for making decisions. This is one reason why planning has become so important. By providing a more rational, fact-based procedure for making decisions, planning allows managers and organisations to minimise risk and uncertainty. In a dynamic society such as ours, in which social and economic conditions alter rapidly, planning helps the manager to cope with and prepare for the changing environment. Planning does not deal with future decisions, but with the futurity of present decisions. For instance, if a manager does not make any provision for the replacement of plant and machinery, the problems he will have to face after ten years can well be imagined. The manager has a feeling of being in control if he has anticipated some of the possible consequences and has planned for them. It is like going out with an umbrella in cloudy weather. It is through planning that the manager relates the uncertainties and possibilities of tomorrow to the facts of today and yesterday.

Leads to Success

Planning does not guarantee success, but studies have shown that, often things being equal, "chance favours the prepared mind". Companies that plan not only outperform the nonplanners but also outperform their own past results. This may be because when a businessman's actions are not random or *ad hoc,* arising as mere reaction to the market place, i.e., when his actions are planned, he definitely does better. Military historians attribute much of the success of the world's greatest Generals to effective battle plans.

Planning leads to success by doing beyond mere adaptation to market fluctuations. With the help of a sound plan, management can act proactively, and not simply react. It involves an attempt to *shape* the environment on the belief that business is not just the creation of environment but its creator as well.

https://rbigradeb.com/

Focuses Attention on the Organisation's Goals

Planning helps the manager to focus attention on the organisation's goals and activities. This makes it easier to apply and coordinate the resources of the organisation more economically. The whole organisation is forced to embrace identical goals and collaborate in achieving them. It also enables the manager to chalk-out in advance an orderly sequence of steps for the realisation of an organisation's goals and to avoid a needless overlapping of activities.

Facilitates Control

In planning, the manager sets goals and develops plans to accomplish these goals. These goals and plans then become standards or benchmarks against which performance can be measured. The function of control is to ensure that the activities conform to the plans. Thus, controls can be exercised only if there are plans.

Trains Executives

Planning is also an excellent means for training executives. They become involved in the activities of the organisation, and the plans arouse their interest in the multifarious aspects of planning.

TYPES OF PLANS

In a large organisation, there are various types of plans that are arranged in a hierarchy within the organisation. This means that plans at each level have to be consistent with and contributive to the achievement of plans above them (Fig. 4.1). We now describe each type of plan in detail.

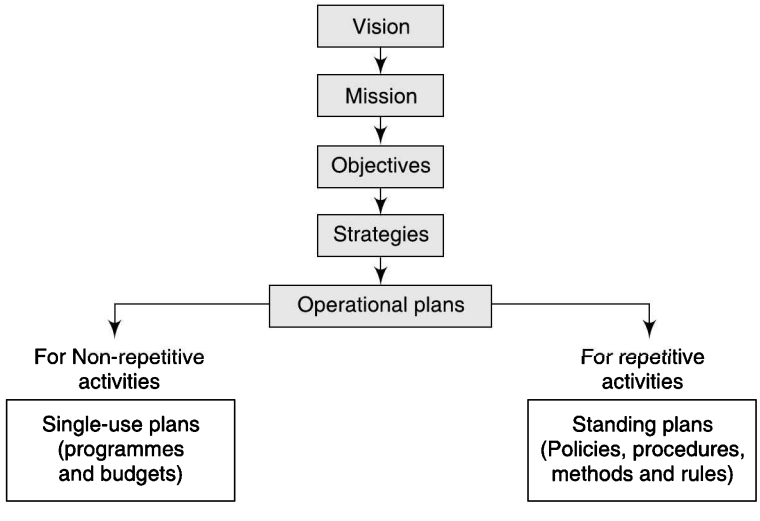


Fig. 4.1 Hierarchy of organisational plans

https://rbigradeb.com/

Vision

At the top of this hierarchy is the vision. This is the dream that an entrepreneur creates about the *direction* that his business should pursue in future. It describes his aspirations, beliefs and values and shapes organisation's strategy. In fact, visioning is an ongoing process. As the organisation proceeds, the vision reshapes. Walchand Hirachand's belief, for example, that a cheap and efficient transport system was necessary for India's rapid industrialisation resulted in the establishment of the Scindia Shipping Company, Premier Automobiles and Hindustan Aircraft Company. The Tata Group of companies bears the stamp of the lofty ideas of Jamshetji N. Tata. Tata's sense of trusteeship, his realisation that to survive and prosper, an enterprise must serve the needs of Indian society, his emphasis on the application of science and technology—all have been brought to bear on the enterprises that bear his name.

A vision should be *brief, focused, clear and inspirational* to an organisation's employees. It should be *linked to customers' needs* and *convey a general strategy* for achieving the mission.

Mission

Next comes mission, which is the *unique aim* of an organisation that sets it apart from others of its type. It is an organisation's specialisation in some area—service, product or client, which decides the organisation's *scope of business*. Indeed, this may lead to ruling out a customer segment that would simply be unprofitable or too hard to serve, given the organisation's capabilities. Thus, a university may have as its mission imparting education to women only or a hospital may treat heart disorders only. For example, the mission of Asea Brown Boveri Ltd. (ABB) is as follows: "… to be a global leader … most competitive, competent, technologically advanced and quality-minded electrical engineering company."

In addition to describing the scope of business (i.e., products and services the organisation provides, technologies used to provide these products and services, types of markets, important customer needs and distinctive competencies or the expertise that sets the firm apart from others), the firm's mission statement may also mention its *cultural values*. For example, ABB sets out the following values to ensure that its employees "pull in the same direction": corporate unity and a single sense of purpose, business ethics, customer focus, employee focus, quality, environmental protection and action orientation, i.e., responding quickly to changes in today's fast-changing world.

Like vision, a firm's mission also guides the development of strategies. It establishes the context within which daily operating decisions are made and sets limits on available strategic options. It is, therefore, necessary that it is not revised every now and then in response to every new turn in the economy. But it may change overtime to take advantage of new opportunities or respond to new market conditions.

Objectives

Objectives are goals or aims that the management wishes the organisation to achieve in pursuit of its mission. These are the end points or pole-star towards which all business activities like organising, staffing, directing and controlling are directed. Only after having defined these end points can the manager determine the kind of organisation, the kind of personnel and their qualifications, the kind of motivation, supervision and direction and the kind of control techniques which he must employ to reach these points.

Objectives should be distinguished from the word "purpose". The *purpose* of an organisation is its *primary role* defined by the society in which it operates. For example, the purpose of every university

https://rbigradeb.com/

is to impart education or the purpose of every hospital is to provide health care. Purpose is therefore *a broad aim* that applies not only to a given organisation but to *all* organisations of its type in that society. Objectives are the *specific targets* to be reached by an organisation. They are the translation of an organisation's mission into concrete terms against which results can be measured. For example, a university may decide to admit a certain number of students or a hospital may decide to admit a certain number of indoor patients.

Whose objectives are organisational objectives? An answer to this question has been offered by Cyert and March.[2] They regard organisations as coalitions of a large number of stake-holders with widely varying stakes. An organisation's objectives take into account all stakes and specify a common viewpoint acceptable to all the stakeholders. This implies that no organisation can adopt objectives unilaterally without considering what others want.

Characteristics of Objectives Some important characteristics of objectives are as under:

Objectives are multiple in number This implies that every business enterprise has a package of objectives set out in various key areas. As pointed out by Peter Drucker,[3] there are *eight* key areas in which objectives of performance and results have to be set. These are: market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility. Thus, for example, a fertiliser manufacturing and marketing company may have the following objectives: (a) a specified capacity utilisation, (b) specified costs and return on capital, (c) specified quality of the product, (d) specified marketing services, (e) extension and market development, (f) serving remote and virgin areas, (g) maintaining the desired network of retail outlets, (h) extension of warehouse facilities and ex-warehouse sales to small retailers and farmers close to consumption points.

Objectives are either tangible or intangible For some of the objectives (such as in the areas of market standing, productivity, and physical and financial resources) there are quantifiable values available. Other areas of objectives are not readily quantifiable and are intangible, such as manager's performance, workers' morale, public responsibility, etc. But in these areas also objectives become more and more specific and capable of implementation at lower levels in the organisational hierarchy.

Objectives have a priority This implies that at a given point in time, the accomplishment of one objective is relatively more important than of others. For example, the goal of maintaining a minimum cash balance may be critically important to a firm having difficulty in meeting pay rolls and due dates on accounts. Priority of goals also says something about the relative importance of certain goals regardless of time. For example, the survival of the organisation is a necessary condition for the realisation of all other goals.

The establishment of priorities is extremely important in that the resources of any organisation must be allocated by rational means. At all points in time, managers are confronted with alternative goals which must be evaluated and ranked. Managers of non-business organisations are particularly concerned with the ranking of seemingly independent goals. For example, a university vice-chancellor must determine, implicitly, or explicitly, the relative importance of teaching, research and extension goals. Of course, the determination of goals and priorities is often a judgemental decision and, therefore, is difficult.

Objectives are generally arranged in a hierarchy This means that we have overarching corporate objectives of the total enterprise at the top, followed by divisional or departmental objectives.

[2]Cyert, R.M. and J.G. March, "A Behavioural Theory of Organisational Objectives", in M. Haire (ed.), Modern Organisation Theory, John Wiley & Sons, Inc., N.Y., 1959.

[3]Peter Drucker, *The Practice of Management* (New Delhi: Allied Publishers, 1970), p. 63.

https://rbigradeb.com/

Next come objectives of each section and finally individual objectives. Objectives at all levels (except at the top) are "process-level" objectives. They provide indications of whether core business processes are performing well in support of near-term achievement of corporate objectives and serve both as an end and as a means. They are the ends of a unit and they are also the means of the next higher unit.

Objectives sometimes clash with each other The process of breaking down the enterprise into units, for example, production, sales and finance, requires that objectives be assigned to each unit. Each unit is given the responsibility for attaining an assigned objective. The process of allocating objectives among various units creates the problem of potential goal conflict and suboptimisation, wherein achieving the goals of one unit may jeopardise achieving the goals of another. For example, the production goal of low unit cost achieved through mass production of low quality products may conflict with the sales goal of selling high quality products. The resolution of this problem is a careful balance of the goal for each unit with the recognition that the goal of neither unit can be maximised. The result is a situation known as *suboptimisation of goals.* The exact form and relative weight to be given to any particular unit or interest group is precisely the nature of management's dilemma; yet it is precisely management's responsibility to make these kinds of judgements.

Requirements of Sound Objectives While laying down objectives there are certain requirements that the manager should always keep in mind.

Objectives must be both clear and acceptable The ultimate test of clarity is the people's understanding of the objectives. Unambiguous communication is helpful in ensuring clarity of understanding. The objectives must also be acceptable to the people, that is, they should be compatible with their individual goals. As Barnard[4] pointed out, each participant in an organisation determines for himself the range of acceptable behaviour, and if the activities required of him are outside this range, he will not pursue the objective. A production line foreman can find all kinds of legitimate means to foil a production schedule if the meeting of that schedule requires behaviour which he considers unacceptable. For example, if the schedule requires a heavy-handed approach to push his subordinates to levels of production beyond those which they themselves believe appropriate, the foreman can simply claim that it is impossible to meet.

Objectives must support one another Objectives could interlock or interfere with one another. For example, the goals of the production department in a company may be operating at cross purposes with those of the marketing department. In view of this, there is need for coordination and balancing the activities of the entire organisation, otherwise its members may pursue different paths making it difficult for the manager to achieve the company's overall objectives.

Further, there should be a close-knit relationship between short-range and long-range objectives. What is to be done in the first year should provide a foundation for what is to be done each successive year, and this can be guaranteed only if short-range plans are part of the long-range plan.

Objectives must be precise and measurable An objective must always be spelled out in precise, measurable terms. There are several reasons for this:

1. The more precise and measurable the goal, the easier it is to decide how to achieve it. For example, the goal of "becoming more active in the community" leaves managers in doubt as to how to proceed. If instead, managers select as their goal "increasing profits by 10 per cent", they have described their goals in much more meaningful terms.

[4]Chester I. Barnard, *The Functions of the Executive* (Cambridge, Mass.: Harvard University Press, 1938).

https://rbigradeb.com/

2. Precise and measurable goals are better motivators of people than general goals.
3. Precise and measurable goals make it easier for lower level managers to develop their own plans for actually achieving those goals. For example, if a general manager is aiming for a 15 per cent growth rate over the next four years, the sales manager can determine how sales must increase in order to meet this goal.
4. It is easier for managers to ascertain whether they are succeeding or failing if their goals are precise and measurable. For example, if they are aiming for a profit of Rs 15 lakh over the next two years, they can check progress as profit and loss figures come in. They would then be in a better position to take whatever corrective action may be necessary to help them meet their goal.

Even objectives which are not immediately measurable can be made so by using a quantifiable element that correlates with them. For example, absenteeism may correlate closely with employee morale, even though morale itself cannot be measured. Hence the specific objective of reducing absenteeism by 50 per cent in, say, a year provides a substitute measurable objective for improvement of morale.

Objectives should always remain valid This means that the manager should constantly review, reassess and adjust them according to changed conditions. With the passage of time stakeholders' preferences change and it becomes necessary for the manager to work out a new common minimum programme.

Advantages of objectives Basically the following benefits result from objectives:

1. They provide a *basis for planning* and for developing other type of plans such as policies, budgets and procedures.
2. They *act as motivators* for individuals and departments of an enterprise imbuing their activities with a sense of purpose.
3. They *eliminate haphazard action* which may result in undesirable consequences.
4. They facilitate *coordinated behaviour* of various groups which otherwise may pull in different directions.
5. They function as a *basis for managerial control* by serving as standards against which actual performance can be measured.
6. They facilitate *better management* of the enterprise by providing a basis for leading, guiding, directing and controlling the activities of people of various departments.
7. They *lessen misunderstanding and conflict* and facilitate communication among people by minimising jurisdictional disputes.
8. They *provide legitimacy* to organisation's activities.

Strategies

Strategy is a term originated in military, which connotes a response to a competitive environment. In a competitive situation, it is not enough to build plans logically from goals unless the plans take into account the environmental opportunities and threats and the organisational strengths and weaknesses. This is commonly referred to as SWOT (strength, weaknesses, opportunities and threats) analysis. A corporate strategy is a plan that takes these factors into account and provides an optimal match between the firm and the environment. Two important activities involved in strategy formulation are environmental appraisal and corporate appraisal.

https://rbigradeb.com/

Environmental Appraisal An analysis of the relevant environment results in the identification of threats and opportunities. Andrews[5] defines the environment of a company as the pattern of all external influences that affect its life and development. While every company must define its own relevant environment, some key environment factors which need to be studied are given below:

1. ***Political and legal factors:***
   (a) Stability of the government and its political philosophy
   (b) Taxation and industrial licensing laws
   (c) Monetary and fiscal policies
   (d) Restrictions on capital movement, repatriation of capital, state trading, etc.
2. ***Economic factors:***
   (a) Level of economic development and distribution of personal income
   (b) Trend in prices, exchange rates, balance of payments, etc.
   (c) Supply of labour, raw material, capital, etc.
3. ***Competitive factors:***
   (a) Identification of principal competitors
   (b) Analysis of their performance and programmes in major areas, such as market penetration, product life-cycle, product mix, distribution channels and sales organisation, servicing, credit and delivery, advertising and promotion, pricing and branding, labour unions, training of personnel, technological development, productivity and efficiency in manufacturing, financial strength, profitability and rate of return on sales and investment
   (c) Anti-monopoly laws and rules of competition
   (d) Protection of patents, trade marks, brand names and other industrial property rights
4. ***Social and cultural factors:***
   (a) Literacy levels of population
   (b) Religious and social characteristics
   (c) Extent and rate of urbanisation
   (d) Rate of social change

Corporate Appraisal This involves an analysis of the company's strengths and weaknesses. A company's strengths may lie in its outstanding leadership, excellent product design, low-cost manufacturing skill, efficient distribution, efficient customer service, personal relationship with customers, efficient transportation and logistics, effective sales promotion, high turnover of inventories and/or capital, ability to influence legislation, ownership of low-cost or scarce raw materials, and so on. Any of these strengths that represent unique skills or resources that can determine the company's competitive edge are called its *core competency*. The company must plan to exploit these strengths to the maximum. Similarly, it may suffer from a number of weaknesses which it must try to circumvent. Thus, formulation of a strategy is like preparing for a beauty contest in which a lady tries to highlight her strong points and hide her weak points. An instance is the strategy that Coca-Cola™ in the U.S. formulated a few years ago to win back its major client Burger King™ which the company had lost to its major rival Pepsico.™ Coco-Cola™ identified its major strength, which lay in its better technology and infrastructure to serve a consistent measure of drink to remote locations every time to ensure that they did not run out of stock. That was what was exploited. It also put red flags on its weaknesses.

[5]Kenneth R. Andrews, *The Concept of Corporate Strategy* (Bombay: D.B. Taraporevala, 1972).

https://rbigradeb.com/

Modes of Strategy Formulation Mintzberg[6] has described three modes of strategy making: planning, entrepreneurial and adaptive.

The *planning mode* is systematic and rational. The essence of this mode is in being different, i.e., in combining activities in such a way that they deliver a unique mix of values that are different from rivals. It is not that the rivals cannot imitate this combination. But imitation of a combination of activities is certainly more difficult than the imitation of one or two activities because it requires different equipment, different employee behaviour, different skills, different company image and different management systems. Thus a medical soap manufacturer, with a large sale force calling on dermatologists and drug stores, advertising in medical journals, sending direct mail to doctors, attending medical conferences and doing research at its own skin care institute, *cannot* easily trade off its present mix of activities for some other soap manufacturer's mix where the soap manufactured is of different variety (with deodorants and softners), selling is through super markets and promotion is through price reduction. Also read "Forms of Planning".

Entrepreneurial mode is one in which a proactive, bold plan is drawn to seek new opportunities on the basis of intuition. Also known as the "inside-out" mode, it believes that the greatest constraint on a company's performance is its own mindset. With enough ambition or "stretch" and with the right core competencies, just about anything is possible.

Adaptive mode (also known as the "outside-in" mode) is reactive and timid. This mode is generally used to formulate strategies for solving problems as they come. This mode believes that an organisation is a "prisoner of its environment" and can do only what the world around it allows. The task of the managers is to create the best possible fit between their organisation's internal strengths and weaknesses, and whatever external opportunities and threats there may be.

In real life, however, we find organisations following a combination of all the three modes. Thus, a manufacturing company may use the planning mode to formulate the strategy of its finance department, the entrepreneurial mode to formulate the strategy of its marketing department and the adaptive mode to formulate the strategy of its personnel department.

Whatever the mode, a strategy is optimum only for a particular point in time. Hence its time horizon should be carefully chosen. It should be remembered that to formulate a strategy consistent with rapidly changing environment is like aiming at a moving target. In a world where strategy life cycles are shrinking, creativity and innovation are the only way an organisation can renew its lease on success. Read the section on Creativity and Innovation in Chapter 5.

Operational Plans

These plans act as means of implementing the organisation's strategy. They provide the details of how the strategy will be accomplished. There are two main types of operational plans: standing plans and single-use plans.

Standing Plans These plans are designed for situations that recur often enough to justify a standardised approach. For example, it would be inefficient for a bank to develop a new plan for processing a loan application of each new client. Instead, it uses one standing plan that anticipates in advance whether to approve or turn down any request based on the information furnished, credit rating and the like. The major types of standing plans are policies, procedures, methods and rules.

[6]Henry Mintzberg "Strategy Making in Three Modes", *California Management Review*, 16, no. 2 (Winter 1973)

https://rbigradeb.com/

Policies A policy is a general guideline for decision-making. It sets up boundaries around decisions, including those that can be made and shutting out those that cannot. In so doing, it channelises the thinking of the organisation members so that it is consistent with and contributive to the organisational objectives. In the words of George R. Terry, "policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and direction in which managerial action will take place."[7]

Although, policies deal with "how to do" the work, they do not dictate terms to subordinates. They only provide a framework within which decisions must be made by the management in different spheres. Thus we may hear that the recruitment policy of a company is to recruit meritorious people through the employment exchange; or the advertisement policy of a company is to avoid cut-throat competition with its rivals in the field; or the distribution policy of a fertiliser company is farmer-oriented. In all these examples, respective policies leave it to the discretion of the subordinates, the decisions regarding which candidates are meritorious, what is cut-throat competition and what is to be farmer-oriented.

It should be noted that both policies and objectives guide thinking and action, but with difference. Objectives are end points of planning while policies channelise decisions to these ends; or, to put it another way, policies lead to objectives in the way a series of alternate highway routes lead to a city.

Advantages of policies The advantages of policies are as follows:

1. Policies ensure uniformity of action in respect of various matters at various organisational points. This makes actions more predictable.
2. Policies speed up decisions at lower levels because subordinates need not consult their superiors frequently.
3. Policies make it easier for the superior to delegate more and more authority to his subordinates without being unduly concerned because he knows that whatever decision the subordinates make will be within the boundaries of the policies.
4. Policies give a practical shape to the objectives by elaborating and directing the way in which the predetermined objectives are to be attained.

Types of Policies Policies may be variously classified on the basis of sources, functions or organisational level.

1. Classification on the basis of sources On this basis, policies may be divided into originated, appealed, implied and externally imposed policies.

(a) *Originated policies:* These are policies which are usually established formally and deliberately by top managers for the purpose of guiding the actions of their subordinates and also their own. These policies are generally set down in print and embodied in a manual.

(b) *Appealed policies:* Appealed policies are those which arise from the appeal made by a subordinate to his superior regarding the manner of handling a given situation. When decisions are made by the superior on appeals made by the subordinates, they become precedents for future action. For example, let us assume that a company allows a discount of 2 per cent to its buyers. If any customer states that he is willing to purchase in large quantities and is prepared to pay part of the price in advance, provided he is allowed 2½ per cent discount, then the sales manager not knowing what to do may approach the general manager for his advice. If the general manager

[7]George R. Terry, *Principles of Management* (Homewood, III.: Richard D. Irwin, 1977).

https://rbigradeb.com/

accepts the proposal for 2½ per cent discount, the decision of the general manager could become a guideline for the sales manager in the future. This policy is appealed policy because it comes into existence from the appeal made by the subordinate to the superior.

(c) *Implied policies:* There are also policies which are stated neither in writing nor verbally. Such policies are called implied policies. Only by watching the actual behaviour of the various superiors in specific situations can the presence of the implied policy be ascertained. For example, if office space is repeatedly assigned to individuals on the basis of seniority, this may become an implied policy of the organisation.

(d) *Externally imposed policies:* Policies are sometimes imposed on the business by external agencies such as government, trade associations and trade unions. For example, a policy might have been dictated by a government law regulating prices or by a decision of a mill owners' association limiting production or by a decision of the trade union to fill up higher posts only by promoting existing employees.

2. Classification on the basis of functions On the basis of business functions, policies may be classified into production, sales, finance, personnel policies, etc. Every one of these functions will have a number of policies. For example, the sales function may have policies relating to market, price, packaging, distribution channel, commission to middlemen, etc.; the production function may have policies relating to the method of production, output, inventory, research, etc.; the financial function may have policies relating to capital structure, working capital, internal financing, dividend payment, etc.; the personnel function may have policies relating to recruitment, training, working conditions, welfare activities, etc.

3. Classification on the basis of organisational level On this basis, policies range from major company policies through major departmental policies to minor or derivative policies applicable to the smallest segment of the organisation.

Guidelines for effective policy-making The guidelines for making effective policies are as follows:

1. Policies should, as far as possible, be stated *in writing* and should be clearly understood by those who are supposed to implement them.
2. Policies should make their purpose clear, define the appropriate *methods, action* and *responsibilities* and delineate the *limits of freedom of action* permitted to those whose actions are to be guided by them. Thus for the manager in charge of catering services of an airline company, its safety policy must state clearly what is meant by safety. If it means maintaining the quality of food to avoid customer dissatisfaction or illness, then some of the crucial questions before the manager are: How does he ensure that the food is of top quality? What sorts of control points and checkpoints does he establish? How does he ensure that there is no deterioration of food quality in flight? Who checks the temperature of the refrigerators or the condition of the oven while the plane is in the air?

   Only when the policy is translated into specific actions with specific control and checkpoints are established for each employee's job, might safety be said to have been truly *deployed* as a policy.
3. To ensure successful implementation of policies, the top managers and the subordinates who are supposed to implement them must *participate* in their formulation. Participation is the best assurance of loyalty to a policy.

https://rbigradeb.com/

4. A policy must strike a *reasonable balance between stability and flexibility.* Conditions change and policies must change accordingly. On the other hand, some degree of stability must also prevail if order and a sense of direction are to be achieved. There are no rigid guidelines to specify the exact degree of the requisite flexibility; only the judgement of management can determine the balance.
5. Different policies in the organisation *should not pull in different directions* and should support one another. They must be internally consistent. A family-owned organisation which is thinking to expand rapidly and also to retain exclusive family control over the enterprise is following an internally inconsistent policy because to achieve expansion, outside finance will have to be raised which may involve loss of family control.
6. Policies should *not be detrimental* to the interest of society. They must conform to the canons of ethical behaviour which prevail in society.
7. Policies must be *comprehensive* to cover as many contingencies as possible. For example, the policy to hire people through employment exchanges should also provide for a situation when adequate number of persons are not so available.
8. Policies should be *periodically reviewed* in order to see whether they are to be modified, changed, or completely abandoned and new ones put in their place.

Procedures Policies are carried out by means of more detailed guidelines called "procedures". A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work. The same steps are followed each time that activity is performed. For example, the procedure for purchasing raw material may be: (i) requisition from the storekeeper to the purchasing department; (ii) calling tenders for purchase of materials; (iii) placing orders with the suppliers who are selected; (iv) inspecting the materials purchased by the inspecting department; and (v) making payment to the supplier of materials by the accounts department. Similarly, the procedure for recruitment of personnel may be: (i) inviting applications through advertisement; (ii) screening the applications; (iii) conducting written test; (iv) conducting interview for those who have passed the written test; and (v) medical examination of those who are selected for the posts. Procedures may also exist for conducting the meetings of directors and shareholders, granting loans to employees, issuing raw materials from the stores department, granting sick leave to the employees, passing bills by the accounts department, and so on.

Difference between policy and procedure Various points of distinction between the two are as under:

1. Policies are general guides to both thinking and action of people at higher levels. Procedures are general guides to action only usually for people at lower levels.
2. Policies help in fulfilling the objectives of the enterprise. Procedures show us the way to implement policies.
3. Policies are generally broad and allow some latitude in decision making. Procedures are specific and do not allow latitude.
4. Policies are often established without any study or analysis. Procedures are always established after thorough study and analysis of work.

Advantages and limitations of procedures There are several advantages of procedures. First, they indicate a standard way of performing a task. This ensures a high level of uniformity of performance in the enterprise. Second, they facilitate executive control over performance. By laying down the

https://rbigradeb.com/

sequence and timing of each task, executive's dependence on the personal attributes of his subordinates is reduced, supervision becomes more routine and discipline is externalised. Finally, they enable employees to improve their efficiency by providing them with knowledge about the entire range of work. There are two important limitations of procedures. First, by prescribing one standard way of performing a task, they limit the scope for innovation or improvement of work performance. Second, by cutting across department lines and extending into various other departments they sometimes result into so much duplication, overlapping and conflict that the actual work does not get done properly and resources are wasted. Thus, in the aforesaid example, the procedure for purchasing raw material almost certainly encompasses the store department, the purchase department, the inspection department and the accounts department.

The above limitations can, however, be overcome if the management reviews and appraises the procedures periodically with an intention to eliminate unnecessary steps and overlapping and simplify work.

Methods A method is a prescribed way in which one step of a procedure is to be performed. The specified technique to be used in screening the applications or conducting a written test is a method, whereas the sequence of steps involved in the recruitment of personnel constitutes a procedure. The method that is selected for discharging a particular step under the existing conditions may become outdated in due course of time because of the discovery of better and more economical methods. The need for better and more economical methods of operation is great because of the pressure of competition in the markets for the products of the concern.

Methods help in increasing the effectiveness and usefulness of the procedure. By improving the methods, reduced fatigue, better productivity and lower costs can be achieved. Methods can be improved in a number of ways. Manual methods of performing a task can be replaced by mechanical means, or the existing mechanised process may be improved, or work simplified and unproductive efforts removed by conducting "motion study".

Rules Rules are detailed and recorded instructions that a specific action must or must not be performed in a given situation. In sanctioning overtime to workmen, in regulating travelling allowances, in sanctioning entertainment bills and in other similar matters, a uniform way of handling them or dealing with the case has to be followed. These are all covered by the rules of the enterprise, the objective of which is to avoid repeated reference to higher levels for authorisation of routine matters which occur frequently. Like procedures, rules also bring in predictability. They make sure that a job is done in the same manner every time, bringing uniformity in efforts and results.

A rule is different from a policy, procedure or method. It is not a policy because it does not give a guide to thinking and does not leave any discretion to the party involved. It is not a procedure because there is no time sequence to a particular action. It is not a method because it is not concerned with any one particular step of a procedure.

What to cover in how much detail? Unfortunately, no standing plan can be made perfect in its coverage and details. Too many details limit the operating people's creativity and satisfaction through self-expression. Similarly, too few details do not meet their security and guidance needs and fail to coordinate those whose work interlocks.

Single-use Plans These plans, as their name suggests, are developed to achieve a specific end; when that end is achieved, the plan is dissolved. The major types of these plans are programmes and budgets.

https://rbigradeb.com/

Programmes Programmes are precise plans or definite steps in proper sequence which need to be taken to discharge a *given* task. In other words, programmes are drawn in conformity with the objectives and are made up of policies, procedures, budgets, etc. Thus, an enterprise may have a programme of opening five branches in different parts of the country or of deputing its employees for training or of acquiring a new line of business or installing new machines in the factory or of introducing a new product in the market. The essential ingredients of every programme are *time phasing* and *budgeting*. This means that specific dates should be laid down for the completion of each successive stage of a programme. In addition, a provision should be made in the budget for financing the programme. In the absence of these ingredients it may be a prospect or a hope but it is not a programme. Thus, a programme for the opening of five branches must earmark money and specific time periods for

1. Securing the necessary accommodation
2. Recruiting personnel to manage the branches
3. Arranging the supply of goods that are to be sold through the branches

Often a single step in a programme is set up as a **project.** Thus, if in the above example, a company is short of qualified personnel, then it may set up a project for hiring and training new employees. The chief virtue of a project lies in identifying a relatively separate and clear-cut work package within a bewildering array of activities involved in a programme. A **schedule** specifies the time when each of a series of actions should take place. Sometimes, scheduling may be restricted to nearby actions only and the timing of other actions may be held in abeyance until prospects become more certain.

Budgets According to the Institute of Costs and Works Accountants, London, a budget is "a financial and/or quantitative statement prepared prior to a definite period of time, of the policy to be pursued during that period. for the purpose of obtaining a given objective." It is clear from this definition that budgets are plans for a future period of time containing statements of expected results in numerical terms, i.e., rupees, man-hours, product-units and so forth. The important budgets are sales budget, production budget, cash budget, and revenue and expense budget. The sales budget shows the expected sales of finished goods for a period, the production budget reflects the anticipated production over a period. A cash budget projects the expected flow of cash for a period in advance, and the revenue and expense budget shows the anticipated revenue and expenses for a period.

Budgets are very useful for an enterprise. Being expressed in numerical terms, they facilitate comparison of actual results with the planned ones and thus, serve as a control device and yardstick for measuring performance. They also help in identifying and removing dead heads of expenditure. For example, in zero-based budget the sums appropriated to various heads of expenditure in previous years are set to zero and the manager is required to justify each expenditure afresh from scratch.

STEPS IN PLANNING

The steps generally involved in planning are as follows.

1. Establishing Verifiable Goals or Set of Goals to be Achieved The first step in planning is to determine the enterprise objectives. These are most often set by upper level or top managers, usually after a number of possible objectives have been carefully considered. There are many types of objectives managers may select: a desired sales volume or growth rate, the development of a new product or service, or even a more abstract goal such as becoming more active in the community. The

https://rbigradeb.com/

type of goal selected will depend on a number of factors: the basic mission of the organisation, the values its managers hold, and the actual and potential abilities of the organisation.

2. Establishing Planning Premises The second step in planning is to establish planning premises, i.e., certain *assumptions about the future* on the basis of which the plan will be ultimately formulated. Planning premises are vital to the success of planning as they supply pertinent facts and information relating to the future such as population trends, the general economic conditions, production costs and prices, probable competitive behaviour, capital and material availability, governmental control and so on. Since managers at different levels generally differ in their views about these premises it is imperative for the chief executive to arrive at a common set of premises that all can accept. If any one part of the organisation utilises a different set of premises, the result will be lack of coordination.

Planning premises can be variously classified as under:

(a) Internal and external premises
(b) Tangible and intangible premises
(c) Controllable and non-controllable premises

Internal and external premises Premises may exist within and outside the company. Important internal premises include sales forecasts, policies and programmes of the organisation, capital investment in plant and equipment, competence of management, skill of the labour force, other resources and abilities of the organisation in the form of machines, money and methods, and beliefs, behaviour and values of the owners and employees of the organisation. External premises may be classified in three groups: business environment, factors which influence the demand for the products of the enterprise and the factors which affect the resources available to the enterprise. These external premises may include the following:

(i) General business and economic environment
(ii) Technological changes
(iii) Government policies and regulations
(iv) Population growth
(v) Political stability
(vi) Sociological factors
(vii) Demand for industry's product

Tangible and intangible premises Some of the planning premises may be tangible while some others may be intangible. Tangible premises are those which can be quantitatively measured while intangible premises are those which being qualitative in character cannot be so measured. Population growth, industry demand, capital and resources invested in the organisation are all tangible premises whose quantitative measurement is possible. On the other hand, political stability, sociological factors, business and economic environment, attitudes, philosophies and behaviour of the owners of the organisation are all intangible premises whose quantitative measurement is not possible.

Controllable and non-controllable premises While some of the planning premises may be controllable, some others are non-controllable. Because of the presence of uncontrollable factors, there is need for the organisation to revise the plans periodically in accordance with current developments. Some of the examples of uncontrollable factors are strikes, wars, natural calamities, emergency, legislation, etc. Controllable factors are those which can be controlled and normally cannot upset well-thought

https://rbigradeb.com/

out calculations of the organisation regarding the plan. Some of the examples of controllable factors are: the company's advertising policy, competence of management members, skill of the labour force, availability of resources in terms of capital and labour, attitude and behaviour of the owners of the organisation, etc.

3. Deciding the Planning Period Once upper-level managers have selected the basic long-term goals and the planning premises, the next task is to decide the period of the plan. Businesses vary considerably in their planning periods. In some instances plans are made for a year only while in others they span decades. In each case, however, there is always some logic in selecting a particular time range for planning. Companies generally base their period on a future that can reasonably be anticipated. Other factors which influence the choice of a period are as follows: (a) lead time in development and commercialisation of a new product; (b) time required to recover capital investments or the pay-back period; and (c) length of commitments already made.

Lead time in development and commercialisation of a new product For example, a heavy engineering company planning to start a new project should have a planning period of, say, five years with one or two years for conception, engineering and development and as many more years for production and sales. On the contrary, a small manufacturer of spare parts who can commercialise his idea in a year or so need make annual plans only.

Time required to recover capital investments or the pay-back period These are the number of years over which the investment outlay will be recovered or paid back from the cash inflow if the estimates turn out to be correct. If a machine costs Rs 10 lakh and generates cash inflow of Rs 2 lakh a year, it has a pay-back period of five years. Therefore, the plan should also be for at least five years.

Length of commitments already made The plan period should, as far as possible, be long enough to enable the fulfilment of commitments already made. For example, if a company has agreed to supply goods to the buyers for five years or has agreed to work out mines for ten years it need also plan for the same period to fulfil its commitments. However, if the length of commitment can somehow be reduced, the plan period can also be reduced. Thus, if the company can grant sub-lease of its mines to other parties, then it can reduce its plan period also.

4. Finding Alternative Courses of Action The fourth step in planning is to search for and examine *alternative courses of action.* For instance, technical know-how may be secured by engaging a foreign technician or by training staff abroad. Similarly, products may be sold directly to the consumer by the company's salesmen or through exclusive agencies. There is seldom a plan for which reasonable alternatives do not exist, and quite often an alternative that is not obvious proves to be the best.

5. Evaluating and Selecting a Course of Action Having sought alternative courses, the fifth step is to evaluate them in the light of the premises and goals and to select the best course or courses of action. This is done with the help of quantitative techniques and operations research.

6. Developing Derivative Plans Once the plan for the organisation has been formulated, middle and lower-level managers must draw up the appropriate plans for their sub-units. These are the plans required to support the basic plan. Thus, where an airline decides to acquire a fleet of new planes, a number of derivative plans dealing with the hiring and training of various types of personnel, the purchase of spare parts, the development of maintenance facilities, scheduling, advertising, financing and

https://rbigradeb.com/

insurance need to be drawn up. In developing these derivative plans, lower-level managers take steps similar to those taken by upper-level managers—selecting realistic goals, assessing their sub-units' particular strengths and weaknesses and analysing those parts of the environment that can affect them.

7. Establishing and Deploying Action Plans Managers possessing little understanding of how the organisation operates may not know how to turn the derivative plans into action. The action plan identifies particular activities necessary for this purpose and specifies the who, what, when, where and how of each action item. A draft version of the action plan should be communicated to inform those directly affected and gain their cooperation.

8. Measuring and Controlling the Progress Obviously, it is foolish to let a plan run its course without monitoring its progress. Hence the process of controlling is a critical part of any plan. Managers need to check the progress of their plans so that they can (a) take whatever remedial action is necessary to make the plan work, or (b) change the original plan if it is unrealistic.

STRATEGIC PLANNING PROCESS

Of the three modes of strategy formulation described earlier, the planning mode in which a corporate strategy is *actively formulated* is called *strategic planning*. It is a top management activity though it is not unusual for many others, such as customers and suppliers, also to provide critical inputs. In some large organisations, strategic planning occurs formally each year with updates and tracking conducted monthly during management reviews. Ongoing updates throughout the year allow the organisation to correct direction or to proactively respond to risks and opportunities. Information needed for updating is gathered from several sources such as customer surveys, industry and professional associations, competitor actions and so on.

It is useful to remember here the following important points of difference between strategic planning and tactical planning to know why the former needs a different formulation process.

Strategic Planning	*Tactical Planning*
1. It deals with the long-term concept of the organisation, which is based on its vision, mission and objectives.	1. It deals with the short-term allocation of resources for implementing the strategy.
2. Its emphasis is on doing the right things, i.e., effectiveness.	2. Its emphasis is on doing things rightly, i.e., efficiency.
3. It is done by top-level corporate managers (including the planning staff).	3. It is done by lower level managers.
4. Its success depends on the judgement, experience, intuition and well-guided discussions of the top management team.	4. Its success depends on staff work and mathematical models.
5. It is more prone to unanticipated factors that may erupt to change the situation.	5. It has greater element of certainty.

Following are the *eight steps* of the strategic planning process of a large organisation that engages in this process every year and begins the process with the lessons learned from previous years. It is

https://rbigradeb.com/

useful to remember here that small organisations with limited resources tend to be less detailed. They may informally think through some of these steps and reduce their number.

Step 1 *Evaluate and improve last year's strategic plan process* by building into it the deployment lessons learned during last year.

Step 2 *Reaffirm the organisation's vision, mission, values and objectives*, which form the foundation for the strategic plan.

Step 3 *Review organisation's operational performance for the prior year* to know its key strengths and weaknesses.

Step 4 *Evaluate the external environment to prepare for* each environmental element (such as products, service, competitive advantage and marketing and technological approach) a list of potential opportunities and threats.

Step 5 *Conduct SWOT analysis based upon the issues identified in steps 1, 3 and 4 and forecast the results of continuing the existing strategy.*

Step 6 *Identify, evaluate and select alternative approaches if a change in the existing strategy appears necessary*. Thus, new markets may be entered, key products may be redesigned to enhance quality or reduce cost, new investments may be undertaken or old ones terminated and so on.

In choosing among the available possibilities, the organisation should select the alternatives that utilise the existing strength and not those that are non-existing and need both time and money to be built-up.

Step 7 *Deploy the modified plan*. Communicate it to all departmental heads and stakeholders for aligning their actions, measures and goals via derivative plans, programmes and budgets. Effective alignment requires common understanding of purposes and goals and use of complementary measures and information for planning, tracking, analysis and improvement at each level.

Step 8 *Provide for updates and tracking to be conducted throughout the year.*

LIMITATIONS OF PLANNING

A manager's plans are directed at achieving goals. But a planning effort encounters some limitations, which are discussed below.

1. Planning is an expensive and time-consuming process. It involves significant amounts of money, energy and also risk, without any assurance of the fulfilment of the organisation's objectives. In view of this, many organisations, particularly the smaller ones, are usually unable to afford a formal planning programme.
2. Planning sometimes restricts the organisation to the most rational and risk-free opportunities. It curbs the initiative of the manager and forces him to operate within the limits set by it. Sometimes planning may cause delay in decision-making. In an emergency when there is need for the manager to take a quick decision, he may be bogged down by rules and procedures.
3. The scope of planning is said to be limited in the case of organisations with rapidly changing situations. It is claimed that for industries producing fashionable articles or for industries engaged in the publication of textbooks, working on a day-to-day basis is more economical than on a planned basis.

https://rbigradeb.com/

4. Establishment of advance plans tends to make administration inflexible. When unforeseen changes in the environment, such as a business recession, change in government policy, crop failure, etc. take place, the original plan loses its value and there is need to draw up a fresh plan. But there is a tendency to make the original plan work.
5. There is the difficulty of formulating accurate premises. Since these premises are the background against which a set of plans is made, they necessarily deal with the future. Since the future cannot be known with accuracy, premising must be subject to a margin of error.
6. Planning may sometimes face people's resistance to it. In old, established organisations, managers are often frustrated in instituting a new plan simply by the unwillingness or inability of people to accept it.

Whatever be its limitations, planning is essential for every business enterprise. Unplanned business operations produce chaos and disorder. Moreover, it is always possible to overcome some of the limitations of planning. For instance, the rigidity of a plan can be overcome by revising it periodically, the expensiveness of a plan can be overcome by avoiding elaborate processes and errors in premising can be overcome by entrusting the work of planning to knowledgeable and competent staff.

MAKING PLANNING EFFECTIVE

Some guidelines for making planning effective are given below.

Coordination The planning process is complex, consisting of many major and derivative plans. Even so simple a plan as that to select a new piece of factory machinery may require many subsidiary or derivative plans, such as plans for its purchase, shipment, payment, receipt, unpacking, inspection, use, maintenance, etc. *It is important that all these derivative plans fit together*, not only in terms of content and action but also in terms of timing. Similarly, short and long-range planning should fit together.

Communication Best planning occurs when every manager in the organisation has access to complete information, not only pertaining to his own area of planning but also to others' area. This is necessary to make him understand how his departmental goals and policies tie in with those of the enterprise as a whole. He should know what are the premises upon which he is expected to plan. The *interchange of plans* thus becomes an important task that should be recognised in the structure of plans.

Participation Participation of subordinates with superiors is also a key element in making planning effective. It improves understanding of objectives and loyalty in the subordinates and makes execution of plans easy. There are several methods to increase participation of subordinates. MBO is one such method.[8] Bottom-up planning is another method which encourages subordinates to develop, defend and sell their ideas. Committees and management clubs also develop in subordinates a strong feeling of unity with top management.

Proper Climate It is critical that top managers establish proper climate for planning. This involves stimulating planning interest among the rank and file of managers by setting their goals, establishing planning premises, communicating policies and developing a tradition of change in the organisation.

[8]See Chapter 13 for details.

https://rbigradeb.com/

PLANNING SKILLS

(i) Ability to think ahead
(ii) Ability to define company objectives
(iii) Ability to forecast future environmental trends
(iv) Ability to frame correct strategies
(v) Ability to monitor the implementation of strategies
(vi) Ability to provide an appropriately timed, intermeshed network of derivative and supporting programmes.

STRATEGIC PLANNING IN THE INDIAN INDUSTRY

Nowadays, corporate planning is receiving great importance by Indian companies. Many large companies have established separate corporate planning divisions and have formalised the planning process. Many companies have now come to realise on the basis of their SWOT (Strengths and Weaknesses. Opportunities and Threats) analysis that they should concentrate on their *core competence* and should not spread themselves too thin by getting into more businesses than they can handle. Notable among these organisations are the Videocon Group, the Thapars, Whirlpool India Ltd., Mafatlals, Hindustan Lever and Larsen and Toubro. Several banks in India from across regions (north-south. east-west) are wanting to merge in a bid to create a larger market for themselves. Joint ventures are also becoming the order of the day. Some notable joint ventures of recent years are Shriram-Honda, Ford-Mahindra, Telco-Benz, Pal-Peugot, Hindustan Motors–Mitsubishi and Government of India–Suzuki.

On the other hand, there are also cases of diversification and demergers. Examples of diversified firms in India include Reliance Industries (Petrochemicals, Textiles, Power Telecommunications), Nagarjun Group (Power, Fertilisers, Finance), Tata (Paper, Tea, Automobiles, Steel, Telecommunications, Software, Consultancy) and Aditya Birla Group (Cement, Textiles, Rayon, Palm oil). Examples of demergers include demerger of Ciba specialties from Hindustan Ciba-Geigy Ltd., demergcr of Sandoz India Ltd., from the old Sandoz and demerger of Aptech from Apple Industries Ltd.

SUMMARY

- Planning has a primacy over the management functions and is a pervasive element in organisations. By planning, managers minimise uncertainty and help focus the sight of their organisation on its goals.
- There are two important forms of planning: strategic and tactical. *Strategic planning involves* deciding the major goals of the organisation. It is always done at the top management level. *Tactical planning* is concerned with the implementation of strategic plans. It is done at the middle and lower management levels.
- Besides objectives, which are the end goals of the organisation, there are two broad categories of plans: single-use plans and standing plans. *Single-use plans* are developed for a specific activity that is usually not repeated. They include programmes and budgets. Conversely, *standing plans* are used for repetitive activities. They include policies, procedures, methods and rules.
- There are eight steps in the process of planning: (a) establishing verifiable goals: (b) establishing planning premises; (c) deciding the planning period; (d) searching alternative courses of action;

https://rbigradeb.com/

(e) evaluating and selecting a course of action; (f) developing derivative plans; (g) establishing and deploying action plans; and (h) measuring and controlling the progress.

- The major limitations of planning are: (a) it is time-consuming and expensive; (b) it stifles the initiative of the manager; (c) its flexibility cannot be maintained in rapidly changing situations; (d) it is sometimes based on inaccurate premises; and (e) it sometimes faces people's resistance.

KEY TERMS

Strategic Planning It is long-range planning, used to define and achieve organisational goals.

Tactical Planning It is a short-range planning providing details about how the strategic plans will be accomplished.

Strategy It is the pattern of an organisation's response to its environment over time.

Standing Plans These are plans which commit managers to follow a standard approach in situations which occur repeatedly.

Appealed Policy This is a policy which comes into existence when a manager asks his superior about the way to handle an exceptional case.

Procedure It is a chronological description of the steps to be followed in attaining an objective.

Derivative Plans These are plans drawn up by lower level managers for their respective areas on the basis of plans formulated above.

Action Plans These plans identify the activities that are necessary to turn the derivative plans into action. They thus link the planners (who focus on "doing the right thing" with the doers (whose focus is on "doing things right").

Review Questions

1. What is planning? What are the steps involved in it?
2. What is the nature and purpose of strategic planning? Briefly explain its steps.
3. "Planning is the essence of management, it is a management function". Elucidate.
4. What is planning? Explain its characteristics.
5. Define mission, vision and values. What is the purpose of each?
6. What are planning premises? Explain the classifications of planning premises.
7. Explain the advantages and limitations of planning. What should be done to overcome its limitations?
8. Define objectives. Discuss the characteristics of business objectives. Why should objectives be verifiable?
9. Define objectives. Explain the criteria of sound objectives. Can an objective be a planning premise?
10. What do you understand by the term "policy"? Explain the different types of policies and describe how policies are formulated.
11. Distinguish between the terms "strategy" and "policy". List some of the issues on which a policy is to be laid down in the area of finance. How can policies be made effective?

https://rbigradeb.com/

12. What is the difference between a policy and a procedure? Should a policy be permanent or subject to changes?
13. "Planning is essentially forward looking". Explain.
14. Explain "planning premises". List the planning premises you would have as a manufacturer of any one of the following: cement, sugar, liquor.
15. Why are strategies important? Can an organisation be successful without effective strategies? How do policies differ from strategies?
16. Indicate whether the following statements are TRUE (T) or FALSE (F):
    (a) Budgets are standing plans.
    (b) Policy is a single-use plan.
    (c) Tactical planning is long-term and uncertain.
    (d) Principle of navigational change implies that a plan must be flexible.
    (e) Potential conflict between the objectives of two units of an enterprise results in sub-optimisation of their goals.
    (f) The period of a plan is generally decided after taking into account the time required to recover the investment outlay.
    (g) Strategic planning is done at lower levels of management.
    (h) "Outside-in" mode of strategy formulation is reactive and timid.
    [(a) F, (b) F, (c) F, (d) T. (e) T, (f) T, (g) F (h) T.]
17. "The essence of a strategy is in being different from rivals." Explain.
18. Explain the strategic planning process.
19. (a) Is it possible that a method would involve just one department and just one person in that department?
    (b) Which do you think is more likely?
        (i) A change in a particular method will dictate a change in overall procedure.
        (ii) A change in overall procedure will affect the need for a particular method.
        [(a) Yes, (b) (ii)]

Projects

1. Collect mission statements of some local firms and discuss the following:
   - Do they *vary* much from firm to firm or make the same empty promises?
   - Are they *specific* or lack specificity?
   - Do they *inspire* employees as well as signal what is important to the firm and to those outside the firm?
   - Are they translated into strategy?
2. "Are mission statements critical to every business organisation or they rarely provide useful value?" Take a position in a classroom discussion.
3. Research the strategic planning practices of some companies. Discuss the different approaches that these companies use and why they seem appropriate for their organisations.

https://rbigradeb.com/

Cases

1. Faulty Procedure

Godha Engineering Works specialises in the installation of heating and air conditioning equipment in a metropolitan area of about one million people. Although the company usually installs nationally known equipment, it engages in limited manufacturing of certain components needed for commercial installations. Since it was established some forty years ago, the company has earned a reputation for quality work.

Prabhu Lal has been with the company as sales representative for two years. During this period he believes that the company has missed a number of opportunities to obtain lucrative contracts because of the conditions under which he is forced to operate. Particularly in the case of commercial installations, he does not have the authority to make any decision or commitments during preliminary contract negotiations. He has to postpone discussion of price, completion time and credit terms until after each of the technical experts in these areas has studied the job and made formal commitments. By this time, some competing firm already completes negotiations and gets the contract. Prabhu Lal considers this a continuing problem, and feels hampered.

Discussion Questions

(a) In what respects do you think Prabhu Lal is justified or not justified in his complaint?
(b) What can be done on a company-wide basis to improve the situation?

2. Goal Setting

Bharat Engineering Works Limited is a major manufacturer of industrial machineries besides other engineering products. It has enjoyed considerable market preference for its machineries because of limited competition in the field. Usually there have been more orders than what the company could supply. However, the scenario changed quickly because of the entry of two new competitors in the field with foreign technological collaboration. For the first time, the company faced problem in marketing its products with usual profit margin. Sensing the likely problem, the chief executive appointed Mr Arvind Kumar as general manager to direct the operations of industrial machinery division. Mr Kumar had similar assignment abroad before coming back to India.

Mr Kumar had a discussion with the chief executive about the nature of the problem being faced by the company so that he could fix up his priority. The chief executive advised him to consult various heads of department to have first hand information. However, he emphasised that the company lacked an integrated planning system while members of the Board of Directors insisted on introducing this in several meetings both formally and informally.

After joining as General Manager, Mr Kumar got briefings from the heads of all departments. He asked all heads to identify major problems and issues concerning them. The marketing manager indicated that in order to achieve higher sales, he needed more sales support. Sales people had no central organisation to provide sales support nor was there a generous budget for demonstration teams which could be sent to customers to win business.

https://rbigradeb.com/

The production manager complained about the old machines and equipments used in manufacturing. Therefore, cost of production was high but without corresponding quality. While competitors had better equipments and machinery, Bharat Engineering had neither replaced its age-old plant nor reconditioned it. Therefore to reduce the cost, it was essential to automate production lines by installing new equipment.

Director of research and development did not have specific problem and, therefore, did not indicate for any change. However, a principal scientist in R&D indicated on one day that the director of R&D, though very nice in his approach, did not emphasise on short-term research projects, which could easily increase production efficiency by at least 20 per cent within a very short period without any major capital outlay.

Discussion Questions

(a) Discuss the nature and characteristics of the problems in this case.
(b) What steps should be taken by Mr Kumar to overcome these problems?

https://rbigradeb.com/

CHAPTER

5

DECISION-MAKING

Learning Objectives

This chapter will enable the reader to:

- **Define** the meaning of a decision
- **Describe** various types of decisions
- **Examine** different models of decision-making
- **Present** the steps in a rational decision-making process
- **Identify** the different types of environment of decision-making
- **Relate** common difficulties in decision-making

https://rbigradeb.com/

Decision-making is an essential part of modern management. A manager's life is filled with a constant series of decisions—where to invest profits, what to do about an employee who is always late, where should the firm's new warehouse be built, what subject will have top priority at the departmental meeting the next morning, and so on. Hundreds of decisions are made by the manager, consciously and subconsciously everyday. The actions are usually carried out by others. Decisions which are relatively minor are taken almost subconsciously, following rules and patterns of behaviour established over many previous encounters with the problem. All major decisions, however, are taken very carefully and consciously. Such decisions usually involve the application of considerable human judgement and experience before a solution is obtained.

Decision-making is thus a key part of a manager's activities. It permeates through all managerial functions such as planning, organisation, direction and control. In planning it is through the process of decision-making that objectives and policies are laid down and the manager decides many things such as what to produce, what to sell, where, when, how and so on. In organising, decision-making relates to the choice of structure, nature and form of organisation, division of work, delegation of authority, fixing of responsibility and the like. In directing, decision-making relates to determining the course, deciding the orders and instructions to be given, providing dynamic leadership and similar other issues. In controlling, the decisions relate to the laying down of performance standards, strategic control points, procedure for control, and so on.

In this chapter, we will describe how managers can best go about reaching a good decision.

MEANING OF A DECISION

A decision is a choice between two or more alternatives. This implies three things:

1. When managers make decisions they are *choosing—they* are deciding what to do on the basis of some conscious and deliberate logic or judgement.
2. Managers have *alternatives* available when they are making a decision. It does not require a wise manager to reach a decision when there are no other possible choices. It does require wisdom and experience to evaluate several alternatives and select the best one.
3. Managers have a *purpose* in mind when they make a decision. There would be no reason for carefully making a choice among alternatives, unless the decision brings them closer to some goal.

TYPES OF DECISIONS

Decisions can be classified in a number of ways as shown below.

Programmed and Non-Programmed Decisions

Programmed decisions are those that are made in accordance with some policy, rule or procedure so that they do not have to be handled *de novo* each time they occur. These decisions are generally repetitive, routine and are obviously the easiest for managers to make. Examples of such decisions are: pricing ordinary customers' orders, determining salary payments to employees who have been ill, recording office supplies, and so on. Non-programmed decisions are novel and non-repetitive. If a problem has not arisen before or if there is no cut and dry method for handling it or if it deserves a custom-tailored

https://rbigradeb.com/

treatment, it must be handled by a non-programmed decision. Such problems as how to allocate an organisation's resources, what to do about a failing product line, how community relations should be improved—will usually require non-programmed decisions for which no definite procedure exists.

In the case of programmed decisions, since each manager is guided by the same set of rules and policies, it is *not* possible for two managers to reach different solutions to the same problem. But in the case of non-programmed decisions, since each manager may bring his own personal beliefs, attitudes and value judgements to bear on the decision process, it is possible for two managers to arrive at distinctly different solutions to the same problem, each claiming that he is acting rationally. The ability to make good non-programmed decisions helps to distinguish effective managers from ineffective managers. The decision-making process we describe in this chapter is used mainly for the non-programmed decisions. As one moves up in the hierarchy, the ability to make these decisions becomes important.

There is a general tendency for programmed decisions to overshadow non-programmed decisions. Much of a manager's time is usually spent in making routine, unimportant, programmed decisions, and very little time is left for making non-routine, important, non-programmed decisions. This state is referred to as the *Gresham's Law of Decision-Making*.

Major and Minor Decisions

Some decisions are considerably more important than others. We can measure the relative significance of a decision in four ways:

1. **Degree of Futurity of Decision** For how long into the future does a decision commit the company? A decision which has a long-range impact, like replacement of men by machinery or diversification of the existing product lines must be rated as a very major decision. The decision to store raw material may be taken as a minor decision, since it does not have a long-range impact, although the amount involved may be substantial.

2. **Impact of the Decision on Other Functional Areas** If a decision affects only one function, it is a minor decision. Thus the decision to shift from bound ledger to loose leaf ledger may be made by the accountant himself since it affects no one except his department. But a decision to change the basis of overhead allocation in preparing department profit and loss account affects all other functional areas, and as such it is a major decision.

3. **Qualitative Factors that Enter the Decision** A decision which involves certain subjective factors is an important decision. These subjective factors include basic principles of conduct, ethical values, social and political beliefs, etc. For example, the decision to pay even a small sum of Rs 25 to the Excise Inspector as illegal gratification may be made at a very high level in certain companies having an acute sense of propriety.

4. **Recurrence of Decisions** Decisions which are rare and have no precedents as guides may be regarded as major decisions and may have to be made at a high level. Decisions which recur very often, for example, whether or not to renew the office's subscription to *Business Week*, become minor and routine decisions and may be taken at a lower level.

Routine and Strategic Decisions

Routine, tactical or housekeeping decisions are those which are supportive of, rather than central to, the company's operations. They relate to the present. Their primary purpose is to achieve as high a

https://rbigradeb.com/

degree of efficiency as possible in the company's ongoing activities. Provision for air conditioning, better lighting, parking facilities, cafeteria service, deputing employees to attend conferences, etc. are all routine decisions. On the other hand, lowering the price of the product, changing the product line, installation of an automatic plant, etc. are strategic decisions. Usually, routine decisions require little deliberation and money and are taken by managers at lower levels, while strategic decisions require lengthy deliberation and large funds and are taken by managers at higher levels.

Individual and Group Decisions

Decisions may be taken either by an individual or by a group. Individual decisions are taken where the problem is of a routine nature, where the analysis of variable is simple and where definite procedures to deal with the problem already exist. Important and strategic decisions which may result into some change in the organisation are generally taken by a group. Interdepartmental decisions are also taken by groups consisting of managers of the departments affected by the decision. The *Dialectic method* is a time-honoured group decision-making method which calls for managers to foster a structured debate of opposing view points prior to making a decision. The other method called *Devils Advocacy* involves assigning someone the role of a critic. This method gets its name from a traditional practice of the Roman Catholic Church. When someone's name came before the College of Cardinals for elevation to sainthood, it was absolutely essential to ensure that he or she had a spotless record. Consequently one individual was assigned the role of devil's advocate to uncover and air all possible objections to the person's canonisation.

Some *advantages* of group decisions are:

1. ***Increased acceptance by those affected*** Decisions made by a group are mostly accepted by the group's members, and they help implement those decisions more readily.

2. ***Easier coordination*** Decisions made by groups reduce the amount of coordination necessary to bring the decision into play.

3. ***Easier communication*** Decisions made by groups reduce the amount of communication necessary to implement the decision.

4. ***More information processed*** Because many individuals are involved, more data and information can be brought to bear on the decision. This can help improve the quality of the decision and uncover obstacles in the way of its execution.

Following are the *disadvantages* of group decisions:

1. ***Group decisions take longer*** Groups take longer than individuals to make decisions.

2. ***Groups can be indecisive*** Groups can drag on and never take decisions because they can always blame other members of the group for lack of progress.

3. ***Groups can compromise*** This can lead to decisions that satisfy the "lowest common denominator". It can lead to "*group think*" or conformity to peer pressure and neglect of better solutions.

4. ***Groups can be dominated*** The highest status individual, if he chooses, can influence the group so that it notices his or her choices. This negates the advantages of group decision-making.

5. ***Groups may have a prior commitment to a particular solution*** This may be due to ties to persons outside the groups, "empire building" attempts, or belief that a decision will have sufficient personal impact.

https://rbigradeb.com/

The manager will do well to weigh the various advantages and disadvantages before deciding to submit a subject to a group. It is not advisable to use a group when a problem of research or study is involved. Groups are not suitable for gathering data which usually requires *independent* study and investigation. They do well in criticising the results of a study, or of a research project. The fact that a group can produce both good and bad consequences should always be kept in mind. If a cohesive group can be induced to accept the goals of management, such as high productivity, low wastage, and high quality, it can also be set against management objectives. When working against management, a group can turn into a cabal, intolerant of any deviant opinion, or dissonant information, and this can lead to disaster. In brief, a correct understanding of group dynamics is essential to enhance desirable consequences and inhibit undesirable ones.

Two approaches to group decision-making have recently been proposed as alternatives to the conventional *interacting* or discussion group. These two approaches, known as the *nominal group technique* and the *delphi technique* are designed to avoid the disadvantages of groups and to utilise the advantages of groups for effective problem solving.

Nominal Group Technique This technique proceeds as under:

1. Members first *silently* and independently generate their ideas on a problem in writing.
2. They then present their ideas (one by one) to the group *without* discussion. The ideas are summarised and written on a black board.
3. The recorded ideas are then discussed for the purposes of clarification and evaluation.
4. Finally, each member silently gives his independent rating about various ideas through a system of voting. The group decision is the pooled outcome of individual votes.

Nominal grouping does not rely on free discussion of ideas and it purposely attempts to *reduce* verbal interaction. From this latter characteristic a nominal group derives its name; it is a group in "name only". The approach provides a democratic way of making decisions and helps individuals to feel that they have contributed to the process.

Delphi Technique In this technique, the group consists of persons who are physically dispersed and are anonymous to one another. They are asked to send their opinion on a topic through mail. For this purpose, they are first sent a carefully designed questionnaire. Their responses to the questionnaire are then summarised into a feedback report and sent back to them along with a second questionnaire which is designed to probe more deeply into the ideas generated in response to the first questionnaire. Thus, there is a learning process for the group as it receives new information and there is no influence of group pressure or dominating individuals. Generally, a final summary is developed on the basis of replies received the second time. Two important limitations of this technique are as follows:

1. There may be a bias in the way the questions are worded.
2. A different group of experts may not reach the same conclusions.

Simple and Complex Decisions

When variables to be considered for solving a problem are few, the decision is simple; when they are many, the decision is complex. When we combine these two types of decisions with the low or high certainty of their outcomes, we get four types of decisions:

https://rbigradeb.com/

1. Decisions in which the problem is simple and the outcome has a high degree of certainty. These are called *mechanistic* or *routine* decisions. Managers often develop standard operating procedures to take these decisions.
2. Decisions in which the problem is simple but the outcome has a low degree of certainty. These are called *judgemental decisions.* Many decisions in the area of marketing, investment and personnel are of this type. For example, a marketing manager may have several alternative ways of promoting a product, but he may not be sure of their outcomes. Good judgement is needed for such decisions.
3. Decisions in which the problem is complex but the outcome has a high degree of certainty. These are called *analytical decisions.* Many decisions in the area of production are of this type. A variety of computational techniques, such as linear programming, network analysis, queuing theory, etc., are used to arrive at such decisions.
4. Decisions in which the problem is complex and the outcome has a low degree of certainty. These are called *adaptive decisions.* Changes in corporate plans and policies to meet the changes in environment and technology are decisions of this type. These decisions usually require the contributions of many people with diverse technical backgrounds, and may even need frequent modifications to adapt to the changing environment.

STEPS IN RATIONAL DECISION-MAKING

What is a rational decision? A decision is rational if appropriate means are chosen to reach desired ends.

Following are the seven steps involved in the process of rational decision-making: as portrayed in Fig. 5.1.

1. Recognising the problem
2. Deciding priorities among problems
3. Diagnosing the problem
4. Developing alternative solutions or courses of action
5. Measuring and comparing the consequences of alternative solutions
6. Converting the decision into effective action
7. Follow-up

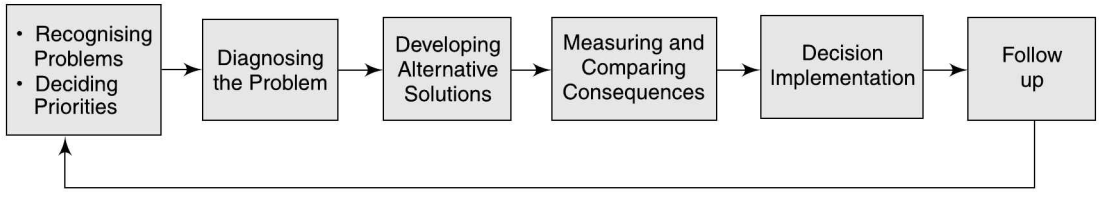


Fig. 5.1 Flow diagram of the rational decision-making process

Recognising the Problem

First of all, it is necessary to search the environment for the existence of a problem. A problem exists:

https://rbigradeb.com/

1. *When there is a deviation from past experience* For example, this year's sales are falling behind last year's; expenses have suddenly increased; employees' turnover has grown; too many defective products are suddenly coming off the assembly line.
2. *When there is a deviation from the plan* For example, profit levels are lower than anticipated; a department is exceeding its budget; a project is off schedule.
3. *When other people bring problems to the manager* For example, customers may complain about late deliveries, a lower level manager may complain about the high performance standard set for him, workers may complain about poor working conditions and so on.
4. *When competitors outperform the manager's organisation* For example, other companies might develop new processes or improvements in operating procedures.

Deciding Priorities among Problems

A manager should not allow himself to be bogged down by all sorts of problems. On examination he will find that some of his problems are such which can be solved best not by him but by his subordinates because they are closest to them. All such problems should be passed on to the subordinates. Then, some problems may need to be referred upward because they affect other departments or require information available only at a higher level. Some problems may be deferred because it may not be the best time to act. For example, in many product development areas, delaying a decision may be advisable until the outcome of anticipated technical breakthrough is known. Some problems may even be procrastinated and allowed to be solved without any effort. The classic example of this principle concerns Napoleon, who was reputed to let incoming mail pile-up on his desk for three weeks or more. When he finally read the accumulated mail, he was pleased to find that most matters had been resolved in the interim. Ultimately, there would be only very few problems requiring the manager's attention.

Diagnosing the Problem

Every problem should be correctly diagnosed. A manager should remember that the symptoms of a problem that he observes may sometimes mislead him. They may lead him to suspect one part of the system or operation when, in fact, the defect may lie hidden in another part which is perhaps less visible. For example, if the sales decline, the management may think that the problem is one of poor selling procedures, sharp competition, or the saturation of old markets. But the real problem may be the tightfisted control of the firm and its consequential inability to move quickly enough to meet changes in customers' demand. Hence the efforts made by the management in other directions may not help in increasing sales.

How can a manager make sure that he has correctly diagnosed the problem? Unfortunately, there is no simple answer. The same problem may be looked at differently by different individuals having different background orientations and trainings. However, one thing which can be said for certain is that a manager should follow the systems approach in diagnosing a problem. He must make a thorough study of all the sub-parts of his organisation which are connected with the sub-part in which the problem seems to be located. In other words, he must explicitly recognise that the boundaries of a decision problem are not necessarily identical to formal organisational boundaries.

Developing Alternative Solutions or Courses of Action

After having diagnosed the problem, the next step is to develop alternative solutions. Generally, for every problem there are alternative solutions. In fact, if there seems to be only one way of doing a thing,

https://rbigradeb.com/

that way is probably wrong. In other words, in every course of action alternatives exist. For instance, if a factory manager is considering a proposal to raise production to meet increased demand, there are several alternatives which can be considered. These might be: (i) build a new plant, or (ii) buy better equipment, or (iii) add an extra shift, or (iv) authorise overtime.

While developing various alternatives, a manager should always keep in mind their feasibility. He should have clear recognition of all those *limiting factors* which can make the accomplishment of an alternative difficult or impossible. Thus, in the above example, various limiting factors might be non-availability of cash and credit, late delivery of capital equipment, anti-expansion laws, or hostile attitude of employees.

Nemawashi i.e., the process of discussing problems and potential solutions with all of those who might be effected by the decision helps *broaden the search for solutions* and *builds consensus*.

Creativity and innovation Two simple ways of developing alternatives are to review the past experience of a similar situation and to scrutinise the practice of other companies. But sometimes these ways may not yield the right types of alternatives because yesterday's solutions may be found inadequate for today's problems or the practices of other companies may not be wholly transferable to one's own company. In such cases, the manager has to depend upon his own ability to develop new and useful ideas. This is called "creativity" (read Exhibit 5.1). To be creative and to be "innovative" is one and the same thing. *Innovation is successfully bringing into use an invention*. The invention may or may not originate in an organisation but if the organisation successfully uses that invention then that organisation has innovated. Psychologists[1] point out that one important cause of a person's creativity is his *divergent thinking*. This is in contrast to convergent thinking which leads him to generate responses that are based mainly on knowledge and rational logic. In the crooked tailpipe problems, convergent thinking led to the shaping of tailpipe to suit the make and model of a car but divergent thinking resulted in shaping a straight tail pipe.

EXHIBIT 5.1

THE CROOKED TAILPIPE

In the early 1960's, most automobile exhaust tailpipes were manufactured in Detroit. The tailpipes made for the replacement market were shipped from Detroit to garages and service stations throughout the country. A tailpipe carries the exhaust from the muffler to the rear of the car and is shaped to avoid touching any part of the body or frame. Therefore, a tailpipe may have several bends and a shape unique to the particular make and model of the car for which it is designed. As the number of makes and models of cars increased, it became more difficult to predict which particular pipes to stock. It also became more expensive to ship and inventory these pipes as their shape became more irregular.

An initial solution to this problem was to decentralise the manufacturing facility, which tended to reduce the amount of inventory that individual service units were required to store. Unfortunately, the cost of manufacturing increased as the volume per producing facility decreased and so the trade-off between the manufacturing subsystem and the distribution subsystem resulted in a negative improvement for the total system.

The ultimate solution was to manufacture a straight tailpipe at a centralised location and to ship it to local service units. The local unit installed a small pipe-bending machine that reacted to punched card instructions to bend the pipe exactly as it was programmed for each particular make and model. *This was*

[1]Feldman, *Understanding Psychology*, 2nd ed., McGraw Hill, New York, 1990, pp. 242-243

https://rbigradeb.com/

a creative solution, which resulted in optimising the total system, improving customer service and reducing costs.

Source: Richard A. Johnson, William T. Newell and Roger C. Vergin: *Operations Management* (Houghton Mifflin Co., Boston), p.174.

Although no two managers can think exactly alike, the testimonies of inventors and great scientists indicate that the creative process consists of five stages. First of all, the manager must make himself thoroughly familiar with the problem. This is called *saturation.* Next, he must think of the problem from several view-points. This is called *deliberation.* Then, if there is no fruitful result of deliberation, he must temporarily turn-off the conscious search and relax. This is called *incubation.* In the next stage called *illumination,* a flash of insight may take place and the manager may get some good ideas. In the last stage called *accommodation,* the manager refines his ideas into a usable proposal.

As with many other human abilities, some managers have more creativeness than others. In any case, the manager who is working in an organisation having the following structural attributes is far more likely to produce original ideas than his counterpart who is working in an organisation that does not have these attributes.

1. Support of the top executive
2. Awareness of internal problems
3. Close coordination
4. Adequate incentives to promote out-of-box thinking
5. Intra-organisation exchange of ideas

Xerox™ has created a Web-based system where everyone across the globe submits practical solutions to common problems. What motivates people is not the reward they get but the excitement about the number of times their tip is downloaded. It is a simple way of knowledge sharing.

The techniques for stimulating creativity can be either *educational* or *operational*. Educational techniques aim at raising the individual's level of creativity. Operational techniques aim at making him produce more new ideas faster.

Under permissive conditions, a group of individuals seems to generate new ideas faster than a single individual. One popular group technique is *brain storming.* The ideal brain storming group consists of 5 to 10 people. The basic idea behind brain storming is to indulge in an uninhibited search for solutions, however bizarre they may seem without evaluating them as they come up. Some people however assert that creativity being more intuitive than logical, the best ideas always come from *brain stilling* and not from brain storming. In brain stilling, the individual quietens his excitement and develops the right half of his brain which controls intuition as opposed to the left half which controls logic and analytical capacities. A story is often told about a nun, of how intuition helped her to outthink a man who was following her with a bad intent, through a lonely path. The nun asked the man to take his pants down while she lifted her skirt up. This enabled her to escape, because with her skirt up, she could run faster than the man with his pants down.

Measuring and Comparing the Consequences of Alternative Solutions

Once appropriate alternative solutions have been developed, the next step in decision-making is to measure and compare their consequences. This involves a comparison of the *quality* and *acceptability*

https://rbigradeb.com/

of various solutions. The quality of a solution must be determined after taking into account its tangible and intangible consequences. Tangible consequences are those which can be quantitatively measured or mathematically demonstrated. For example, one can easily calculate the costs of the various alternatives to meet rising demand in the foregoing example and compare the results. If analysis shows that the demand is only temporary, it would not be worthwhile to build a new plant or even to purchase new equipment. Thus adding a second shift or authorising overtime might be the most profitable course. Using overtime would have the advantage of making an immediate increase in production possible, although it would, of course, require extra labour costs and this would have to be taken into account. Intangible consequences are those which cannot be quantitatively measured or mathematically demonstrated. For example, one cannot easily calculate and compare the effects of good labour relations in one industrial location against low local taxes in another or of selecting a supplier with a lower price proposal against another with a better reputation for meeting delivery promises. *One must then use his judgement and intuition to solve the problem.* There is nothing wrong in relying on one's judgement in such a situation. On the contrary, it is harmful to manufacture data to facilitate some calculations.

Acceptability of a solution is also very important. Difficulties generally arise when a solution, though good in quality is poor in acceptability or vice versa. In such cases the managers should determine the relative importance of these two attributes. Broadly speaking, in all technical matters such as engineering, production, finance, purchase, etc. the solution's quality is more important than its acceptability and in all human matters such as working conditions, office layout, etc. the solution's acceptability is more important than its quality.

As in diagnosing the problem, here also a manager should follow the systems approach. He should always consider the quality and acceptability of a solution, not merely from the point of view of his own department but from the points of view of all departments. His failure to do so may result in lowering the attainments of other departments, and of the total organisation. Thus, the production manager of a seasonal factory who decides to schedule production at an even rate throughout the year to minimise his production cost, may thereby increase the inventory carrying cost of other departments and suboptimise the total costs.

In situations where enough information is not available about the quality or acceptability of a solution, it is advisable to experiment with it on a small scale. This is called *pilot-testing.* Thus, a company may test a new product in a certain market before expanding its sale nationwide. A new organisational technique may be tried in a branch office before being applied over the entire company. An advertising programme may be tested in a limited area before being applied widely, and so on.

An alternative may have not one, but several possible outcomes, depending upon the occurrence of external conditions (called *states of nature)* over which the decision-maker has little or no control. Hence, his evaluation of alternatives, to be complete, must include consideration of such conditions, and an assessment of the probabilities that they will occur. Later in this chapter we will examine ways in which uncertainty and probability forecasts may be formally included in a decision analysis.

Converting the Decision into Effective Action

The next step is to translate the decision into action. A decision is not complete until someone has been assigned responsibility to carry it out. This requires the communication of decision to the employees in clear and unambiguous terms. Failure to inform everyone who needs to know of the decision can lead to unfortunate results. Consider the problem of a food company that decided to launch an extensive promotional campaign on one of its speciality items. The management carefully prepared the sales force

https://rbigradeb.com/

and had newspaper, magazine and television advertisements ready. However, they did not properly inform the production group. As a result, sufficient amounts of the product were not available to take full advantage of the increased demand generated by the promotional campaign. By the time production rates could be increased, much of the potential benefit of the campaign was lost.

Follow-up of Action

In the final step, the action should be continuously followed up, to ensure whether the decision is achieving its desired purpose and whether the forecasts and assumptions upon which the decision was based are still valid. Changing conditions necessitate new decisions and the process begins again.

Herbert A. Simon[2] compresses the above steps into four principal stages: *intelligence*—searching the environment for conditions calling for decisions; *design*—inventing, developing, and analysing possible courses of action; *choice*—selecting a particular course of action from the available alternatives; and *review*—assessing past choices.

RATIONALITY IN DECISION-MAKING (MODELS OF DECISION-MAKING BEHAVIOUR)

We have described above the seven steps of a rational decision-making process, which are based on the view that a manager is completely rational in his decisions. Some decision theorists say that he is completely irrational. Still others say that he exercises limited rationality. These three types of views on a manager's decision-making behaviour are based on three models of man: economic man, administrative man and social man. Figure 5.2 shows, on a continuum, the two major extremes and the in-between model of Simon's administrative man. Following is a description of these models.

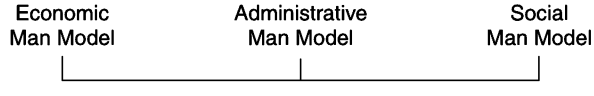


Fig. 5.2 The continuum of decision-making behaviour

Economic Man Model or Econologic Model

This is the earliest model of man developed by the classical economists. They believed that man is *completely rational* in his decisions. He always selects that alternative which gives him the greatest advantage. He makes his search for the best alternative in a planned, orderly and logical manner.

The seven steps of rational decision-making, which we have described above, portray the behaviour of economic man. But many writers criticise this model and say that it lacks realism. The seven decision-making steps of this model prescribe how decisions *should* be made. They do not adequately portray how decisions are *actually* made. When we look closely into this prescriptive model, we find that many of its assumptions about the capabilities of man are unrealistic. For example, as envisaged in this model, a man does not have enough capacity to

- gather *all* necessary information for a decision;

[2]Herbert A. Simon, *The New Science of Management Decision* (N.Y. 1960, Harper and Row), pp. 1–4.

https://rbigradeb.com/

- mentally store this information;
- accurately recall information any time he likes;
- do a series of complex calculations; and
- rank all consequences on the basis of their merits.

Moreover, a man's loyalty to his organisation is also not always high. His personal motives, and motives of others, interfere with his organisational-decisions.

Thus fully rational decision-making is an infrequent decision mode except when it relates to the performance of technical tasks. Management decisions in all other areas can be made fully rational by computers only.

Administrative Man Model or Bounded Rationality Model

A more realistic description of decision-making behaviour is based on the administrative man model which has been developed by Herbert Simon. Simon's administrative man uses only *limited rationality* in his decisions because his information-processing skills are limited. It is, therefore, also known as bounded rationality model. The decision-making behaviour of this man may be summarised as follows:

1. In choosing between alternatives, the administrative man, hot having the ability to "maximise" (i.e., to find the best alternative) attempts to "satisfice" i.e., to look for the one which is "good enough". Search for the *ideal* alternative may promote "paralysis" by analysis.
2. Because an administrative man satisfices rather than maximises, his search for alternatives is sequential or incremental. Like an economic man he is not required to initiate a comprehensive, all encompassing search from the very beginning to find out all possible alternatives and to evaluate which of them is the best. He can search and evaluate alternatives one by one in a sequence. If the first alternative does not work, only then does he need to make a search for another. As soon as a workable alternative is found, he discontinues his search. The R&D department of an enterprise is perhaps the only exception which continues search for still better solutions.
3. An administrative man's search for alternatives is guided by his experience. He uses heuristics (rule of thumb) to reduce the area of his search to manageable limits. In other words, he looks for reasonable, rather than optimal, solutions into those areas which have a past record for yielding satisfactory solutions. Some people regard this judgemental heuristic model as a separate model taking the bounded rationality model one step further.

Simon's administrative man model involves the following eight steps in the decision-making process:

1. Set the goal to be pursued or define the problem to be solved.
2. Establish appropriate criteria to judge the acceptability of a solution.
3. Use heuristics to narrow down the field of search and identify a feasible solution. Remember that one easily recalls emotional experiences many of which do not adequately represent the current problem.
4. If no feasible solution is identified, then lower the criteria to judge the acceptability of a solution and begin the search afresh, repeating step 3.
5. If a feasible solution is identified, evaluate it to determine its acceptability.
6. If the solution is found acceptable, implement it.
7. If the solution is found unacceptable, initiate search for a new solution, repeating steps 3 to 5.

https://rbigradeb.com/

8. Following implementation, evaluate the degree of difficulty with which the goal was or was not attained and raise or lower the criteria to judge the acceptability of a solution accordingly for future decisions of this type.

Boulding[3] also agrees with this bounded rationality concept of Simon. But he says that a man settles for a good enough decision, not because he lacks information or computational ability but because he is unable to do anything else. "We start by finding a wall between us and our desires; we end by bringing our desires to our own side of the wall. We start by trying to get what we want, we end by wanting what we get." A manager is obliged to feel satisfied with the third best decision because the second best comes too late and the best never comes at all.

It is often said that in contrast to the prescriptive econologic model, this model is descriptive. It describes how decisions are actually made and not how they should be made. This does not seem to be totally correct once we take into account the implication of this model which states that decisions should be taken as soon as the relevant information has been compiled. The need for more detailed investigation is often an excuse for delaying, if not avoiding a decision. Once a manager has a good factual base he must cut off further research and act.

Social Man Model

At the opposite extreme from the economic man is the completely irrational social man model developed by classical psychologists. Freud, in particular, says that man being a bundle of feelings, emotions and instincts is guided by his *unconscious desires.* He is also subject to social pressures and influences. Obviously, such a person is not capable of making rational management decisions. The well-known experiment by Solomon Asch[4] demonstrates that this world is full of irrational conformists. His study utilised several groups of seven to nine subjects each. They were told that their task was to compare the lengths of lines. All except one of the subjects in each group had pre-arranged with the experimenter to give clearly wrong answers on twelve of the eighteen line-judgement trials. About 37% of the 123 naive subjects yielded to the group pressures and gave incorrect answers to the twelve test questions. Strong social pressures can similarly force managers also to choose obviously wrong alternatives. In all such cases, their decisions cannot be termed as organisationally rational, though they may be personally rational, being oriented to their personal goals.

ENVIRONMENT OF DECISION-MAKING

In a previous section on the types of decisions, we saw that a decision-maker may not have complete knowledge about decision alternatives or about the outcomes of a chosen alternative i.e., his problem may be highly complex and uncertain. These conditions of knowledge are often referred to as the environment of decision-making. This environment may be of three types: certainty, risk and uncertainty.

[3]Kenneth E. Boulding, "The Present Position of the Theory of the Firm. In K.E. Boulding and W. Allen Spivery", *Linear Programming and the Theory of the Firm* (N.Y.: Macmillan, 1960), p. 17.

[4]Solomon E. Asch, "Opinions and Social Pressure", *Scientific American,* November 1955, pp. 31–35.

https://rbigradeb.com/

Certainty

By conditions of certainty, we mean that the decision-maker can specify the consequences of a particular decision, or act. Of course, certainty about future events is difficult and managerial decisions must be made in awareness that future conditions may vary widely from those contemplated when the decision is being made. Nevertheless, many managerial decisions may be made in conditions approaching certainty. For example, when a company has to make shipments to a number of customers from a number of warehouses, it is possible to obtain the relevant facts for the problem, e.g., the types of transport available, the costs per unit for each type from each source to each destination and so forth, and to develop a least-cost distribution pattern.

Decision-making under certainty may seem trivial, but as the number of possible alternatives increases, finding the one with the highest payoff becomes more and more difficult.

Risk

In decision-making under conditions of risk, the consequences of a particular decision cannot be specified with certainty but can be specified with known probability values. The value of the probability associated with the event is a measure of the likelihood of the occurrence of that event.

Evaluation of alternatives is done by calculating the *expected value of the pay off* associated with each alternative. The expected pay off associated with an alternative is the sum of the value of each possible outcome times its associated probability, as shown in the following example. As a decision-making criterion, the use of this approach maximises the expected pay off (or minimises the expected loss) over the long-run, and thus the average pay off over a series of decisions, rather than the pay off in any particular instance, is what is maximised.

Suppose that a transport company has to choose between two alternatives—whether to run one bus or two on a particular route. Suppose that the probability is 0.7 that one bus will be sufficient to meet the demand and 0.3 that 2 buses will be needed. Given that there is an average of Rs 1000 in revenue associated with each bus needed and Rs 500 in costs for each bus provided the pay off table in this case would be as in Table 5.1.

Table 5.1 Expected Pay Offs Associated with Two Decisions Alternatives

Alternatives available to management	*No. of buses needed*		*Total expected pay off*
	1	*2*	
	P = 0.7	*P = 0.3*	
1. Run one bus	Rs 500	Rs 500	(500 × 0.7) + (500 × 0.3) = Rs 500
2. Run two buses	Re 0	Rs 1000	(0 × 0.7) + (1000 × 0.3) = Rs 300

In reviewing Table 5.1 it can be seen that the total expected pay off if the company runs one bus is Rs 500, while a decision to run 2 buses yields a total expected pay off of Rs 300. Using only the rupee figures, it would be best to run one bus only because of the greater expected value.

Note, again, that an expected payoff does not directly indicate the outcome of a particular event or its value. Rather, it indicates the average pay off in the long run, assuming the probability distribution used as the basis of the decision continues to apply. Thus, Rs 500 is the expected average pay off if

https://rbigradeb.com/

the company were to make a number of such decisions involving the same possible pay off and probability values.

Decision Tree

One of the best ways to analyse a decision is the use of what has been called a "decision tree". The approach involves linking a number of event "branches", which when fully arrayed, resemble a tree. The process starts with a primary decision that has at least two alternatives to be evaluated. The probability of each outcome must be ascertained as well as its monetary value. As an illustration let us take our previous bus example. As shown in Fig. 5.3 there would be a net cash flow of:

Rs 500 when one bus is run against the need for one;
Rs 500 when one bus is run against the need for two;
Re 0 when two buses are run against the need for one;
and Rs 1000 when two buses are run against the need for two.

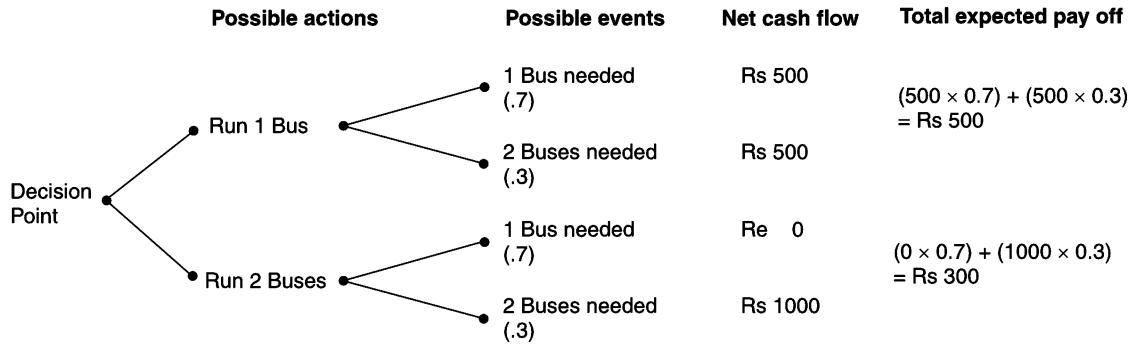


Fig. 5.3 One-step decision tree of the transport co.

Both sides of the event fork can be evaluated in terms of expected value. Multiplying the probabilities by the net cash flow and summing them results in the expected pay off of Rs 500 for running one bus and Rs 300 for running two buses.

It should be noted that a decision tree of a one-step problem, such as that given above is quite similar to the pay off matrix given in Table 5.1. The real contribution of a decision tree can be seen in the following types of situations.

(a) *Where the first decision leads sequentially to the necessity of making other decisions based on intermediate results*. For example, the first decision may be whether or not to develop a product, and then the second decision may be concerned with the level of manufacturing if the product is in fact successfully developed.

(b) *Where several decisions (of the type illustrated in the transport company case) are to be linked together in order to see the impact of a sequence of decisions-events-results over time*. For example, the transport company could expand its analysis to include a second season and develop a decision tree. Assuming that only one bus was run in the first season and that the results as estimated also accrued, the company would again be faced with the problem of whether to run one bus or two buses at the beginning of a subsequent season. The difference now would lie in

https://rbigradeb.com/

the probabilities of events. The company may on the basis of its experience in the past and market analysis adjust the probabilities for the states of nature in the second season. Next, after summing up the net cash flow of the 2 seasons for each event the company can compute the expected value for each event fork and relate it to each action by working backward in the decision tree from right to left. Taking the highest values for the possible actions, the decision tree can be simplified and reduced. The same process can then be applied to the reduced tree, and expected values can be obtained for the 2 principal branches stemming from the original point of decision.

The additional decisions in the sequence might result in a changed picture for the overall system. For example, whereas the one season analysis indicated that the company should run one bus, analysis over a two- or three-season period might indicate that two buses should be run.

Uncertainty

More prevalent than either conditions of certainty or risk are conditions of uncertainty. Uncertainty exists when the decision-maker does not know the probabilities associated with the possible outcomes, though he has been able to identify the possible outcomes and their related pay offs. This is not the same as decision-making under conditions of complete ignorance, in which even the possible outcomes and their pay offs cannot be identified. Since pay offs are identified but probabilities are unknown under conditions of uncertainty, the criterion of maximising the expected pay off cannot be used in evaluating the decision alternatives, or acts. Three other bases that can be used, however, are the maximin, maximax and minimax regret criteria.

Suppose that an electronic firm has perfected a television receiver with a three-dimensional pictures and now faces several alternative choices regarding the scheduling of the production and related market promotion activities for the receiver. Consumer acceptance of the product within next 10 years is considered certain, but the timing of that acceptance is considered unknown, partly because of the receiver's necessarily high price. Table 5.2 presents four decision alternatives, ranging from immediate full-scale production and promotion, to limited production in five years. Similarly, the possible consumer reactions range from immediate acceptance to acceptance in eight years. Thus, each figure in the table represents the pay off associated with each possible combination of decision and outcome.

Table 5.2 Pay Off Associated with each Possible Combination of Decision and Consumer Reaction

(Pay off stated in lakh of rupees)

Decision	***Consumer acceptance***			
	Immediate	***2nd year***	***5th year***	***8th year***
Immediate production and promotion	80	40	–10	–50
Limited production now	30	40	30	10
Limited production in 2 years	20	30	40	15
Limited production in 5 years	5	10	30	30

Since the manufacturer has no probability figures available, he cannot determine the expected pay off for each decision act. However, he can consider the following decision criteria.

Maximin If the manufacturer is pessimistic or cautious in his approach, he can choose that decision act which *maximises the minimum pay off.* This is called the maximin criterion. The minimum pay offs

https://rbigradeb.com/

for four decision acts are –50, 10, 15 and 5. Therefore, by choosing "limited production in two years", he will be able to maximise the minimum pay off.

Maximax If the manufacturer is optimistic, he may choose that decision act which *maximises the maximum pay off.* This is called maximax. The maximum pay offs for four decision acts are 80, 40, 40 and 30. Therefore, by going in for "immediate production and promotion" he will be able to maximise the maximum.

Minimax Regret The third possible criterion, called minimax regret, looks at the decision problem from the point of view that is neither as pessimistic nor as optimistic as the maximin and maximax criteria, respectively. After the outcome in question has occurred, to the extent that the decision act was not "perfectly matched" with that outcome, there will be an opportunity loss, or regret, associated with the decision. As the name again implies, the minimax-regret criterion is the one by which the decision-maker *minimises the maximum regret* that can occur, no matter what the outcome.

To illustrate the meaning of an opportunity loss or regret, suppose that the television receiver in our example wins consumer acceptance in five years. The highest pay off associated with this outcome is 40 lakh rupees (for the decision "limited production in two years"). If any decision other than limited production in two years had been made, there would be an opportunity loss, or regret, in terms of the difference between the pay off for the best decision act under the circumstance and the decision that was actually made. For the outcome of acceptance in five years, the amount of regret associated with the decision to go into immediate production is 50 lakh rupees and both for limited production now and for limited production in 5 years it is 10 lakh rupees (i.e., 40 lakh–30 lakh).

Table 5.3 presents the opportunity losses, or regrets, associated with each possible combination of decision act and outcome. For the decision to go into immediate production and promotion, the maximum regret that can occur is 80 lakh rupees. The maximum regrets for the other three decision acts are 50, 60 and 75 lakh rupees. Therefore, by choosing "limited production now", the decision-maker will be able to minimise the maximum regret.

Table 5.3 Opportunity Losses or Regrets

(Stated in lakh of rupees)

Decision act	*Consumer acceptance*			
	Immediate	*2nd year*	*5th year*	*8th year*
Immediate production and promotion	0	0	50	80
Limited production now	50	0	10	20
Limited production in 2 years	60	10	0	15
Limited production in 5 years	75	30	10	0

COMMON DIFFICULTIES IN DECISION-MAKING

Some common difficulties faced in making decisions and implementing them are as follows.

Non-actionable Information

This is a major problem for every manager. Actionable information is the information that can become the basis for action. Such information has to be timely, complete and accurate. Finally, it has to incorporate data pertaining to the future in most instances.

https://rbigradeb.com/

Unsupporting Environment

The environment—physical and organisational—that prevails in an enterprise affects both the nature of decisions and their implementation. If there is all round goodwill and trust and if the employees are properly motivated, the manager is encouraged to take decisions with confidence. On the other hand, under the opposite circumstances he avoids decision-making.

Non-Acceptance by Subordinates

If subordinates have a stake in the decision or are likely to be strongly affected by it, acceptance will probably be necessary for effective implementation. On the other hand, subordinates may not really care what decision is reached. In such situations, acceptance is not an issue. Democratic leadership style which encourages subordinates to suggest, criticise, make recommendations or decide upon policies or projects is an effective device for gaining their acceptance and commitment.

Ineffective Communication

Another important problem in decision-making is the ineffective communication of a decision. This makes implementation difficult. The manager should, therefore, take care to communicate all decisions to the employees in clear, precise and simple language.

Incorrect Timing

In decision-making, the problem is not merely of taking a correct decision. It is also of selecting an appropriate time for taking the decision. If the decision is correct but the time is inopportune, it will not serve any purpose. For example, if the manager wants to decide about introducing a new product in the market, he should take the decision at a correct time. Otherwise, he may lose the market to his competitors.

SUMMARY

- Managers spend a great deal of time in making decisions that must be carried out by others. One can classify decisions in several ways. For example, there are programmed and non-programmed decisions, major and minor decisions, routine and strategic decisions, individual and group decisions and so on.
- A decision is rational if appropriate means are chosen to reach desired ends. There are seven steps of a rational decision-making process: (i) recognising the problem; (ii) deciding priorities among problems; (iii) diagnosing the problem; (iv) developing alternative solutions or courses of action; (v) measuring and comparing the consequence of alternative solutions; (vi) converting the decision into effective action and (vii) follow-up of action. According to Herbert Simon, a manager uses only limited rationality in his decisions. He only tries to reach satisfactory, rather than ideal, decisions. Search for ideal decisions may promote paralysis by analysis!
- Weighing and measuring of the consequences of each alternative can be done in three types of conditions: certainty, risk and uncertainty. Under conditions of certainty, managers know precisely as to what the results of each of the alternatives available to them will be. Under conditions of risk, they

https://rbigradeb.com/

know within a small margin of error the probable outcome of each alternative. Under conditions of uncertainty, the probabilities are not known precisely. Most management decisions are made under some degree of uncertainty.

KEY TERMS

Bounded Rationality This means that in organisational life, a manager frequently settles for a decision that will adequately serve his purpose, rather than seeking the best or ideal decision.

Gresham's Law of Decision-making This is the tendency for routine decisions to overshadow non-routine decisions.

Decision Tree This is a technique for analysing complex management decision problems by displaying alternatives and their consequences in the form of branches of a tree.

Social Man Model of Decision-making This model believes that a manager, being subject to social pressures and influences, does not always base his decisions on rational material and economic criteria, but rather on the irrational bases of showing off, gaining prestige, family considerations and so on.

Review Questions

1. Discuss the importance of decision-making in management.
2. Define decision-making. Explain the essential steps in decision-making.
3. What is decision-making? Explain its various phases. Is decision-making a rational process?
4. Describe various techniques of decision-making. What types of decisions are business executives generally called upon to make?
5. "Decision-making is the primary task of a manager." Comment.
6. "Administration essentially is a decision-making process...." Elucidate this statement and explain the various types of decisions which are generally taken by business executives.
7. Discuss the importance of rationality in decision-making.
8. What do you understand by the process of decision-making? What are the main stages in the process of rational decision-making?
9. What kind of decisions is a manager generally required to take in organisational context? Explain with examples which of these correspond to "programmed" and "non-programmed".
10. What are the different models of decision-making? Explain any two of them.
11. Distinguish between individual and group decision-making. Explain the advantages and disadvantages of group decision-making.
12. Describe the role of bounded rationality and intuition in decision-making.
13. Write short notes on the following:
    (a) Environment of decision-making
    (b) Minimax Regret
    (c) Common difficulties in decision-making
    (d) Devil's Advocacy
    (e) Nominal group technique of decision-making

https://rbigradeb.com/

14. Fill in the blanks:
    (a) Decision in which there is no cut and dry method for handling a problem is a _____ decision.
    (b) Some people believe that the best ideas always come from brain-stilling and not from _____.
    (c) The figure that portrays all decision acts that occur in their sequential order of occurrence is called a _____.
    (d) When the conscious search of ideas is temporarily turned off it is called _____.
    (e) Administrative man model of decision-making (also called the "Bounded Rationality Model") has been developed by _____.
    (f) In decision-making under conditions of risk, the consequences of a particular decision _____ be specified with certainty.
    (g) Conformity to peer pressure and neglect of better solutions are the symptoms of _____.
    [(a) Non-programmed, (b) Brain-storming, (c) Decision Tree, (d) Incubation, (e) Herbert Simon, (f) Cannot (g) Group think.]

Cases

1. Choice of Location for the New Plant

Harish Bhatt, a very bright and ambitious young executive, was born and raised in Jaipur. He graduated from a local college and married a girl who was his classmate. Harish then went to Mumbai where he received an M.B.A. He was now in the seventh year with Birla Steel Ltd., which was located in Jaipur.

As part of an extension programme, the Board of Directors of Birla Steel decided to build a new branch plant. Bhatt was selected to be the manager at the new plant. He was also informed that if the new plant is a success he would be promoted to a higher post. The location of the new plant was to be decided by an ad hoc committee of which Bhatt was made the chairman. In the committee's first meeting Bhatt explained to the members the ideal requirements for the new plant and gave them one month to come up with three choice locations.

When after a month the committee re-met, it recommended the following cities in order of preference: Gurgaon, Chennai, and Indore. Bhatt thanked the committee members for their fine job and told them he would like to study the report in more depth before he made his final decision.

That evening he asked his lovely wife. "Honey, how would you like to move to Gurgaon?" Her answer was quick and sharp. "Heavens no!" she said. "I have lived in Rajasthan all my life and am not at all inclined to move out to Gurgaon—extension of Delhi. That kind of life is not for me." Bhatt weakly protested by saying that the committee had ranked Gurgaon as the best location for the new plant. The second was Chennai and the third was Indore. His wife thought a moment, then replied, "Well I would consider moving to Indore, but if you insist on Gurgaon, you will have to go by yourself."

The next day, Bhatt called his committee together and said, "Gentlemen, you should all be commended for doing an excellent job on this report. However, after detailed study, I am convinced

https://rbigradeb.com/

that Indore will meet the needs of our new plant better than Gurgaon or Chennai. Therefore, the decision will be to locate the new plant in Indore. Thank you all again for a job well done"

Discussion Questions

(a) Did Bhatt make a personally rational decision?
(b) Did he make an organisationally rational decision?

2. The Frustrated Plant Manager

Hemant Jha, plant manager of a manufacturing company, attended a seminar of four weeks duration, conducted by a reputed university. The seminar was devoted largely to the topic of executive decision-making.

During the seminar, Jha was particularly impressed by Professor Tripathi's lectures on group discussion and group decision-making. Professor Tripathi was convinced that employees, if given the opportunity, could intelligently consider, and then formulate quality decisions.

Returning to the plant at the conclusion of the seminar, Jha decided to practice some of the principles that he had learned. He called together the twenty five employees of his department and told them that the production standards established several years ago were now too low in view of the recent installation of automated equipment. He wanted the employees to decide among themselves, as a group, what the new standards should be.

Jha believed that employees would doubtlessly establish much higher standards than the existing ones. But he was amazed when he came to know that contrary to his belief, the group considered the existing standards as already too high, and therefore decided to reduce them by 10 per cent. These standards, Jha knew, were far too low to provide a fair profit on the owner's investment. Yet, it was clear that his refusal to accept the group decision would be disastrous. Before taking a course of action, Jha called Professor Tripathi at the university for his opinion.

Discussion Questions

1. How could Jha have avoided his present difficulties?
2. If you were a management consultant, what advice would you give to Jha?

Project

The exercise is intended to help you examine the strengths and weaknesses of individual decision-making versus group decision-making.

It is approximately 10.00 a.m. in mid-June and you have just crash-landed in the Thar desert in north-western Rajasthan. The light twin-engine plane containing the bodies of the pilot and co-pilot has completely burned. Only the airplane frame remains. Miraculously, none of the passengers, including you, have been injured.

The pilot was unable to notify anyone of your position before the crash. However, he had indicated before the impact that you were 120 km south-south east from a B.S.F. camp, which was the nearest

https://rbigradeb.com/

known habitation. The photos of the ground taken before the crash indicated that you were approximately 90 km off the course that was filed in your Flight Plan.

The immediate area is quite flat and, except for occasional shrubbery and long barrel cacti appears to be rather barren. The last weather report stated that the temperature would reach 46°C that day, which means that the temperature within a foot of the surface will be 57°C. You are dressed in light clothing short-sleeved shirts pants, socks and slip-on shoes. Everyone has a hankerchief. Collectively, your pockets contain ₹ 18.50 in coins, ₹ 1050.00 in notes, a pack of cigarettes and a ballpoint pen.

Your Task

Before the plane caught fire, your group was able to salvage the 15 items listed on the Desert Survival Data Sheet. Your task is to rank these items according to their importance to your survival, starting with "1" (the most important) to "15" (the least important).

You may assume:

1. The number of survivors is the same as the number in your team having 4 to 7 members.
2. The team has agreed to stick together.
3. All items are in good condition.

Step 1 Each member of the team is to individually rank each item *without* discussing the situation with other members.

Step 2 After everyone has finished individual ranking, rank the fifteen items *as a team*. Once the discussion begins, do not change your individual ranking. Although the discussion among the members would reveal differences of opinion, an effort should be made to reach at the least a decision acceptable to everyone.

Step 3 The instructor should now provide the expert's rankings.

Step 4 Each participant should compute the differences between individual ranking (step 1) and the expert's ranking (step 3) and between the team ranking (step 2) and the expert's ranking (step 3).

To know the result of this exercise, add the two "difference" columns. Whoever has smaller score is closer to the expert ranking.

Desert Survival Data Sheet

Item	*Step 1 Individual Ranking*	*Step 2 Team Ranking*	*Step 3 Expert Ranking*	*Step 4 Difference between*	
				1 and 3	*2 and 3*
1. Torch Light (four-battery size)					
2. *Rampuri* knife					
3. Air map of the area					
4. Plastic raincoat (one for each member)					
5. Magnetic compass					
6. First aid kit with gauze					
7. .45 caliber pistol (loaded)					
8. Parachute (red and white)					

(Continued)

https://rbigradeb.com/

(Continued)

Item	*Step 1 Individual Ranking*	*Step 2 Team Ranking*	*Step 3 Expert Ranking*	*Step 4 Difference between*	
				1 and 3	*2 and 3*
9. Salt tablets (1000)					
10. Water (one bottle for each)					
11. Book on edible animals of the desert					
12. Sunglasses (a pair for each)					
13. Liquor (one 750 ml of rum)					
14. Woollen overcoat (one for each member)					
15. Cosmetic mirror					
			Total (The lower the score, the better)	Your Score	Team Score

https://rbigradeb.com/

CHAPTER

6

Business Forecasting and Operations Research

Learning Objectives

This chapter will enable the reader to:

- **Explain** the meaning, use and classification of forecasting
- **Identify** the difference between forecasting and planning
- **Describe** the methods and techniques of forecasting
- **Give** the meaning and uses of OR
- **Illustrate** the linear programming technique
- **Identify** the advantages and limitations of OR

https://rbigradeb.com/

We have seen in the two preceding chapters how good planning and decision-making are the essence of good management. To help managers improve the quality of their planning and decision-making, a variety of techniques and tools have been developed. Without being concerned with their technical details, we will describe two such tools—business forecasting and operations research—in this chapter.

BUSINESS FORECASTING

Meaning and Use

Forecasting is a technique of anticipating future problems and events. It involves making a detailed analysis of the past and present to get an idea about probable events in the future. Forecasting, according to Fayol, includes both assessing the future and making provision for it. Forecasting helps a businessman in a number of ways.

Makes Planning Possible Forecasting is the very basis of planning and without it, planning is an impossibility. The most important use of forecasts is as **premises** for planning. Short and long-range planning within the enterprise requires estimation of prospective changes in economic conditions and in the general environment in which the business operates. Forecasting awakens the management against business cycles, minimizes risks and reveals management's weaknesses if any, to face the future.

Ensures Coordination As forecasting involves a joint effort of all departments in the concern, it creates team spirit, unity and coordination in the efforts of subordinates. There is increase in pressure for dynamically adjusting and adopting the company's supply chain strategy. In the words of Henri Fayol,[1] "The act of forecasting is a great benefit to all who take part in the process and is the best means of ensuring adaptability to changing circumstances. The collaboration of all concerned leads to a unified front, an understanding of the reasons and a broadened outlook."

Facilitates Control Forcasting helps in exercising control. The key executives, by mutually developing the forecast, automatically assume co-responsibility and individual accountability for such later deviation of the actual from the estimated result as may occur. Not only this, a good forecast becomes the basis for good budget—a widely used device for managerial control. Thus, for example, forecasts about the receipt and disbursement of cash are translated in a cash budget; forecast about manpower are translated into a manpower budget; forecasts about sales are translated into a sales budget, and so on.

Enables strategic changes such as development of new markets or services and expansion or creation of new facilities. The above uses make it essential even for those firms who prefer to imitate innovations to make their own sale forecasts.

CLASSIFICATION OF FORECASTING

Classification of forecasting may be done according to *space* and *time*. If forecasting is done on a national level to appraise the course of general business or of major segments of economic activity, it is "economic forecasting" or "business forecasting". There may be "area" or "regional" forecasts also, where the course of business activity in a region, a state, a district or a city is studied. The two forecasts are not independent and unrelated activities. In many cases, "regional", forecasts are greatly influenced by the total level of economic activity. In contrast, if the economic base of a region is substantially

[1]Henry Fayol, *General and Industrial Management* (N.Y.: Pitman Publishing Corporation, 1949).

https://rbigradeb.com/

different from that of the nation as a whole, a forecast of national business conditions may not be helpful in appraising the regional outlook. For example, in an industrially advanced region where agriculture is relatively much less important, there can be no mechanical transfer of predictions from the national to the regional level. The forecasting function within the enterprise follows in a sequence, beginning with national and regional forecasting.

If classified according to the time span of the prediction involved, forecasting may be short, intermediate or long-term. The short-term forecast is a prediction extending to a maximum of two years into the future. The intermediate range covers three to five years; long-range projections have a minimum time-span of five years into the future. Short-term forecast is useful in making internal estimates of the company's operations. It provides management with more rationally ordered information for effective scheduling of goods in process and inventory requirements. Intermediate-range forecasting may be especially valuable in formulating a capital expenditure programme and the related financial plan for research and product development. Intermediate forecasts must consider the problem of cyclical fluctuation if they are to be meaningful. The purpose of the long-term projections is to give a rough picture of future prospects, a picture that has some empirical foundation. Such forecasts are very useful, e.g., a long-range forecast may indicate the volume of investment necessary in plant and equipment. There are, however, certain pitfalls in long-range projections. These projections extend past economic conditions into the future. But economic conditions in the future are not a function of economic development alone. They are a joint function of political and social happenings, as well as of factors in the physical sciences. Therefore, long-term forecasting can be useful only (a) where it establishes the basis for a choice between alternative courses of action; and (b) where it provides a diagnosis of possible future economic developments as a basis for decisions to alter the course of economic events which might be threatening to invalidate the original projection.

Difference between Planning and Forecasting

1. Planning commits individuals to certain goals. It also calls for some activity to achieve the planned goals. Forecasting does not commit individuals to any goals nor does it stimulate any activity among them (except when the forecast is pessimistic).
2. Planning is done with the help of forecasting which provides assumptions about the future environment of a plan. Forecasts made about the kind of markets, quantity of sales, prices, products, technical developments, costs, wage rates, tax rates, political or social environment and similar other matters, become premises for the future. Forecasting is thus only a tool of planning.
3. Planning is done by every manager. It is all-pervading. Forecasting is not done by every manager. It is mostly undertaken by staff people.

METHODS AND TECHNIQUES OF FORECASTING

There are essentially four basic types of forecasting methods used in the field of business. These are briefly described below along with their techniques (specific tools).

Qualitative and Judgemental Method

This forecasting method involves the use of *subjective judgements* and is appropriate in situations where essential data are not available. For instance, when a new product or technology is introduced,

https://rbigradeb.com/

past experience is not available for estimating what the near-term effects will be. Examples of qualitative techniques used in *economic forecasting* are the jury of executive opinion, sales force composite and survey.

In *jury of executive opinion,* the manager may bring together top executives from major functional areas of the organisation; sales, finance, production and purchase, for example. The manager supplies the group with background information on the item to be forecast, then combines and averages the executives' views. The idea is that discussion by the group will produce better forecasts than any one individual.

The *sales force composite* is similar to the executive jury, except that it is limited to the sales organisation. In this method, the top management asks each area sales manager to develop a sales forecast for his area. The area sales manager in his turn asks his salesmen to develop forecasts for their areas. They in turn ask wholesalers and retailers in their areas to do the same. In this way, different opinions are gathered and composite forecasts are made for specific products or total sales. Since this technique derives a forecast by compiling inputs from those at the end of the hierarchy who deal with what is being forecast, it is also known as *grass roots* technique.

In the *survey technique,* polls and surveys are conducted to find out what the future will be. Thus, if we wish to develop a sales forecast, we may conduct a market survey and interrogate selected customers about their future needs.

Qualitative techniques most commonly used in *technological forecasting* are the Delphi method, brainstorming (see Chapter 5) and scenario construction.

In *scenario construction,* a scenario containing a logical and hypothetical description of events is developed.

Method Based upon Past Results

In many situations, where the past has been more or less consistent and the future is expected to conform to the past, an efficient way to make a forecast is to extrapolate from past experience. Thus, if we want to forecast sales, we may draw a graph of the past sales and project the same into the future and then adjust it for any changes that are expected to occur. This is called *time series analysis*. Focus forecasting, which is the creation of Bernie Smith[2], also falls under this head. Smith uses it primarily in finished goods inventory management.

Focus forecasting simply tries several rules that seem logical and easy to understand to project past data into the future. Each of these rules is used in a computer simulation programme to actually project demand and then measure how well that rule performed when compared to what actually happened. Therefore, the two components of the focus forecasting technique are (i) several forecasting rules and (2) computer simulation of these rules on past data.

These are simple common-sense rules made up and then tested to see whether they should be kept. Some examples of these rules are given below:

1. Whatever we sold in the past three months is what we will probably sell in the next three months.
2. What we sold in the same three-month period last year, we will probably sell in that three-month period this year. (This would account for seasonal effects.)
3. We will probably sell 10 percent more in the next three months than what we sold in the past three months.

[2]B.T. Smith, *Focus Forecasting: Computer Techniques for Inventory Control*, (Boston: CBI Publishing, 1984).

https://rbigradeb.com/

4. We will probably sell 50 percent more over the next three months than we did for the same three months of last year.
5. Whatever percentage change we had for the past three months this year compared to the same three months last year will probably be the same percentage change that we will have for the next three months of this year.

These forecasting rules are not hard and fast. If a new rule seems to work well, it is added. If one is not working well, it is deleted.

The second part of the process is computer simulation. To use the technique, a data history should be available, for example, 18 to 24 months of data. The simulation process then uses each forecasting rule to predict some recent past data. The rule that did best in predicting the past is the rule used to predict the future.

Example 1 The following table shows unit demand for a particular brand of television over an 18-month period. Forecast what demand might be for July, August and September this year, using focus forecasting.

	Last Year	*This Year*		*Last Year*	*This Year*
January	6	72	July	167	To be estimated
February	212	90	August	159	
March	378	108	September	201	
April	129	134	October	158	
May	163	92	November	76	
June	96	137	December	30	

Solution

For brevity, we use only two rules to demonstrate the method: 1 and 5. *In practice, they would all be used.*

Using focus forecasting, we first try. Forecasting rule 1—whatever we sold in the past three months is what we will probably sell in the next three months. We first test this rule on the past three months.

$$\text{Forecast (April, May, June)} = \text{Demand (January + February + March)}$$
$$= 72 + 90 + 108 = 270$$

Because what actually occurred was (134 + 92 + 137) = 363, the forecast was 270/363 = 74 percent. In other words, it was 26 percent low.

Let us try rule 5—whatever percent change we had over last year in the past three months will probably be our percentage change over last year in the next three months.

Forecast (April + May + June)

$$= \frac{\text{Demand (Jan.} + \text{Feb.} + \text{Mar.) this year}}{\text{Demand (Jan.} + \text{Feb.} + \text{Mar.) last year} \times \text{Demand (Apr.} + \text{May} + \text{June) last year}}$$

$$= \frac{72+90+108}{6+212+378} \times (129+163+96)$$

https://rbigradeb.com/

$$= \frac{270}{596}(388) = 175.77$$

What actually occurred during April, May and June this year was 363 and so the forecast was 175/363, or only 48 percent of the actual demand.

Because rule 1 was better in predicting the past three months, we use that rule in predicting July, August and September of this year. Rule 1 says that whatever we sold in the past three months is what we will probably sell in the next three months.

Forecast (July + August + September) = Demand (April + May + June)
= 134 + 92 + 137 = 363

Example 2 Here are the actual demands for a product for the past six quarters. Using focus forecasting rules 1 through 5, find the best rule to use in predicting the third quarter of this year.

	Quarter			
	I	*II*	*III*	*IV*
Last Year	1,200	700	900	1,100
This Year	1,400	1,000		

Solution

Rule 1: Next three months' demand = Last three months' demand

Actual demand was 1,000 and $\frac{1,000}{1,400} = 71.4\%$.

Rule 2: This quarter's demand equals demand in the same quarter last year.

The forecast for the second quarter this year will, therefore, be 700, the amount for that quarter last year.

Actual demand was 1,000, and $\frac{1000}{700} = 142.9\%$.

Rule 3: Ten percent more than last quarter = 1540

Actual demand was 1,000 and $\frac{1000}{1,540} = 64.9\%$.

Rule 4: Fifty percent more than same quarter last year = 1,050

Actual demand was 1,000 and $\frac{1,000}{1,050} = 95.2\%$.

Rule 5: Same rate of increase or decrease as in the last three months.

$$\frac{1,400}{1,200} = 1,167$$

$$700 \times 1.167 = 816.7$$

Actual demand was 1,000 and $\frac{1,000}{816.7} = 1.224\%$.

Rule 4 was the closest in predicting the recent quarter—95.2 percent or just 4.8 percent under. Using this rule (50 percent more than the same quarter last year), we would forecast the third quarter this year as 50 percent more than the third quarter last year or 1,350 units.

https://rbigradeb.com/

Method Based upon Causal Relationship

In some situations, it may be possible to understand the relationship between the item being forecast and the system underlying or surrounding the item. Thus, we may say that the sale of cars is dependent upon personal income and consumer confidence or increase in sales of umbrellas and raincoats is dependent on an extended period of rain. In areas where correct causal relationships can be established, *regression analysis* is the most accurate of forecasting tool.

Method Based upon Simulation Models

Simulation models, usually computer based, allow the forecaster to run through a range of assumptions about the condition of the forecast. Depending on the variables in the model, the forecaster may ask such questions as: What would happen to my forecast if the price increases by 10 percent and what effect would a mild national recession have on my forecast?

No single technique of forecasting can satisfy the requirements of all types of managers and organizations. The technique a manager will select depends on his own technical ability, the functional area involved, the amount of information available, the level of accuracy required, the time-period to be forecast, the time available to complete the analysis, and the value of the forecast to the oganisation. A good strategy is to use two or three techniques and look at them from the common-sense view.

A manager should bear in mind that a perfect forecast is impossible. Therefore, rather than searching for a perfect forecast, it is far more important to establish the practice of continual review of forecasts.

OPERATIONS RESEARCH [OR] OR MANAGEMENT SCIENCE

Meaning and Use

The terms "Operations Research" (OR) and "Management Science" are in general, used interchangeably. Broadly defined, Operations Research is a system-wide or enterprise-wide approach, by which all variables, in a decision situation are quantified for the purpose of analysis. Thus, the two salient features of OR are its systems orientation and use of a mathematical model. OR considers what is best for the organisation as a whole, not for a department or division. A special difficulty arises when the OR process must not only eliminate differences between the parts and the whole but between the parts as well. A traffic manager, for instance, may seek to minimise freight costs. But the sales manager may insist on fast customer service. These objectives clash: faster deliveries cost more, but if the traffic manager minimises costs, customers may turn to other sources for faster delivery. The OR analysis will take both cost and service into account, seeking a balance that advances the overall interests of the enterprise even though the special interests of the two managers are not fully satisfied.

Of course, even though a system-wide point of view is encouraged, a particular problem may sometimes involve just specific functions within the enterprise. Thus, if an inventory problem is being studied, the entire enterprise is not necessarily involved.

We have seen above how forecasting techniques are normally used in the *planning process* to anticipate future problems and events. Operations Research techniques, on the other hand, are used in the *decision-making process* to solve problems that already exist. Unlike forecasting techniques, most OR techniques tend to be quantitative rather than qualitative.

https://rbigradeb.com/

OR reduces the elements of a complex problem to their mathematical equivalents. These are then used to construct a model on which experiments can be made by the computer and the best solution arrived at. For example, let us assume, we wish to determine the optimum size and cost of our sales force. Major elements of our problem are territory size, commission percentage, salary and so on. The computer will analyse changes in these variables until the best solution is found, that is, the pay scale and sales force size that will lead to the best combination of high sales and low costs.

OR Techniques

Of the many problem-solving OR techniques that are available, four that are among the most popular are described below.

Queuing Theory This technique is applicable to waiting line situations, such as may be involved when several departments use a centrally located computer. When departments or individuals must wait for service of some kind, the delay in service represents a cost in the organisation. There is also cost involved in reducing or eliminating waiting line. Thus balancing the cost of bottlenecks against the cost of idle capacity is the principal characteristic of the type of problem to which the queuing theory can be applied. A facility that is too small incurs high costs of waiting by customers, whereas a facility that is too large incurs high idle time costs. The optimum solution to this type of problem is the one that minimises the sum of the two types of cost.

Linear Programming This technique is applied extensively for determining the optimum combination of limited resources to obtain a desired goal.

There are *five essential conditions* in this type of problem situation for linear programming. *First*, there must be ***limited resources*** (such as a limited number of workers, equipment, finances and material); otherwise there would be no problem. *Second*, there must be an ***explicit objective*** (such as maximise profit or minimise cost). *Third*, there must be ***linearity*** (two is twice as much as one; if it takes three hours to make a part, then two parts would take six hours, and three parts would take nine hours). *Fourth*, there must be **homogeneity** (the products produced on a machine are identical, or all the hours available from a worker are equally productive). *Fifth* is ***divisibility***. Normal linear programming assumes that products and resources can be divided into fractions. If this subdivision is not possible (such as hiring one-fourth of a person), a modification of linear programming, called ***integer programming***, can be used.

We describe the *steps* involved in solving a simple linear programming model in the context of a sample problem, that of Jangid Bros., which manufactures doors and windows, both of which require processing for different number of hours on two machines, M_1 and M_2. The time requirements for the system are given below:

Machine	*Hours required to produce each unit*		*Total machine hours available per day*
	Doors	*Windows*	
M_1	3	5	120
M_2	5	2	80

The marginal profit is ₹2 per door and ₹1 per window. The linear programming problem is to allocate the scarce resource of time on M_1 and M_2 among the two products in such a manner that total marginal profit is maximised.

https://rbigradeb.com/

Though limited in application to problems involving only two products as in the above example, we describe below the *graphical* solution to provide a quick insight into the nature of linear programming.*

1. Formulate the problem in mathematical terms If X_1 is the number of doors and X_2 is the number of windows, to maximise profit the objective function may be stated as

$$\text{Maximise } Z = ₹\ 2X_1 + 1X_2$$

The maximisation will be subject to the following constraints:

$$3X_1 + 5X_2 \leq 120 \ (M_1 \text{ constraint})$$
$$5X_1 + 2X_2 \leq 80 \ \ (M_2 \text{ constraint})$$
$$X_1, X_2 \geq 0$$

2. Plot constraint equations The constraint equations are easily plotted by letting one variable equal zero and solving for the axis intercept of the other. (The inequality portions of the restrictions are disregarded for this step.) For the machine M_1 constraint equations are: when $X_1 = 0$, $X_2 = 24$ and when $X_2 = 0$, $X_1 = 40$. For the machine M_2 the constraint equations are: when $X_1 = 0$, $X_2 = 40$ and when $X_2 = 0$, $X_1 = 16$. These lines are graphed in Fig. 6.1

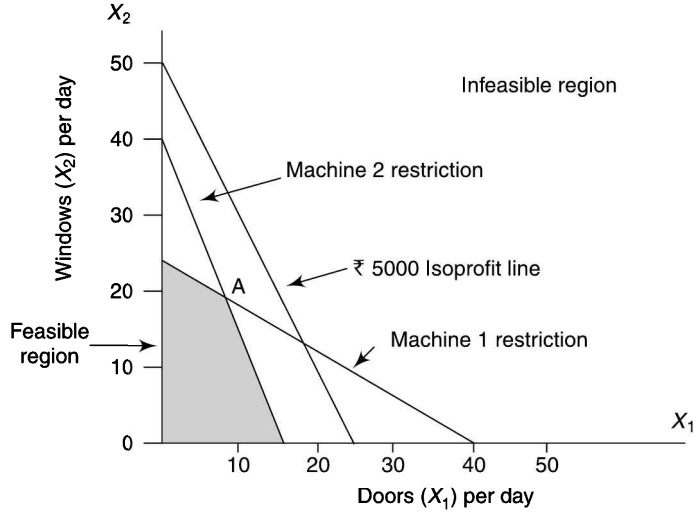


Fig. 6.1 Linear programming sample problem

3. Determine the area of possible production Taking the first constraint line, we see that any point on this line would utilise all 120 available hours of M_1 time. The combinations falling below the line could also be produced and some M_1 time would remain unused. *Since processing is required on both M_1 and M_2 the two constraints together determine the area of feasible production in the shaded area in the figure*. Therefore, although sufficient capacity exists on M_1 to produce 20 units of doors and 10 units of windows, this point falls outside the M_2 constraints since 120 hours of M_2 time would

*It is also possible, although difficult, to use the graphical method when there are three products by drawing a third axis and expressing the constraints and the objective function as two-dimensional planes rather than one-dimensional lines. When there are more than three products, however, it is impossible to use the graphical method since the additional dimensions cannot be represented graphically. Such problems are solved algebraically rather than graphically.

https://rbigradeb.com/

be required and only 80 hours are available. The shaded portion in Fig. 6.1 defines the area of possible production.

4. Plot the objective function The objective function may be plotted by assuming some arbitrary total profit figure and then solving for the axis coordinates, as was done for the constraint equations. It we choose ₹ 5,000 as the arbitrary profit figure, the objective function becomes

$$5{,}000 = 200X_1 + 100X_2, \qquad \text{when } X_1 = 25, X_2 = 0$$
$$\text{or when } X_1 = 0, X_2 = 50$$

The line connecting the two points in the figure is the ₹ 5,000 isoprofit line because it shows all possible production combinations for any given profit figure.

5. Find the optimum point It should be noted that in our case we cannot achieve a profit of ₹ 5,000 because the whole isoprofit line lies beyond the range of feasible production. Therefore, to find the maximum profit, we simply move a straight line parallel to the ₹ 5,000 profit line toward the area of feasible production until it touches it at some point. In our problem, this occurs at point A at which X_1 is approximately 8½ and X_2 is approximately 19. Inserting these values in the objective equation, we have total profit = 200(8.5) + 100(19) = ₹ 3,600, the maximum possible profit.

Note that if we produce as much of product X_1 (doors) as possible (since it is the most profitable product), we would produce 16 units for a total profit of only ₹ 3,200 since there would be no remaining capacity on M_2 to produce X_2 (windows).

Simulation Method This method generally refers to using a computer to perform experiments on a model of real system to see how the system might react to changes in its operating rules or to changes in its structure. If the experiments are sufficiently realistic, the manager can infer the behaviour of the system from the observation of behaviour of the simulation model. He can easily alter conditions in the model and infer what the impact of those changes would be on the system. In this way, he may ask a series of "what if' questions about the system. For example, he may ask what should be the size of orders, and when to reorder, if the number of units demanded are so many per day, and the lead time (i.e., the time between placing an order and receiving the goods) is so many days.

A feature that distinguishes simulation from techniques such as linear programming or queuing theory is the fact that a simulation model must be custom built for each problematic situation. A linear programming model, in contrast, can be used in a variety of situations with only a restatement of the values for the objective function and constraint equations.

Game Theory The last technique we consider is the game theory. Game theory attempts to predict how rational people will behave in competitive situations. Game theorist might, for example, attempt to describe how competitors will respond to a price increase, the introduction of a new product, or a new advertising campaign. By so doing he helps the organisation develop effective strategies.

ADVANTAGES AND LIMITATIONS OF OR

Advantages

1. In building and analysing OR models, researchers have to pay close attention to details and to follow logical, systematic procedures. This improves the likelihood of a good decision. Errors

https://rbigradeb.com/

creep in more easily when decisions are made on the basis of subjective judgement, past experience or "rules of thumb" rather than on the basis of a systematic approach.

2. Another advantage of OR techniques is that they make it possible to break down a complex large-scale problem into smaller parts that can be more easily diagnosed and manipulated.
3. The greatest advantage of all OR techniques is that they permit experimentation to take place without interfering with actual operations.

Limitations

1. OR projects are costly.
2. OR techniques cannot be effectively applied in many situations where the underlying variables cannot be quantified, e.g., situations involving human qualities and interpersonal relationships.
3. OR analysis cannot be more sound than the information it is based upon. If the records and statistics themselves are far from exact, the analysis based on them may turn out to be faulty.

SUMMARY

- Forecasting techniques are used to anticipate future problems and events. Once forecasts have been made, they become the *premises* upon which planning and decision-making are based. Techniques used for economic forecasting include quantitative methods, historical analysis and mathematical modes. Technological forecasting tools include the Delphi method, brainstorming and scenario construction.
- Management science or Operations Research techniques help managers improve the effectiveness of their decisions by systematically analysing a problem and alternative solutions. The basic management science approach is to build a mathematical model that describes the relationship between all the elements of the problem, analyse the model with a computer by changing the values of the problem variables, and then recommend a solution to the problem.
- Some widely used OR tools are linear programming models, queuing or waiting line models, game theory and simulation models. OR can improve our chances of making good decisions. However, it does have disadvantages. These include its cost and its inapplicability in many problem situations.

KEY TERMS

Operations Research It is the science of first representing the problem arising in the operation of a system, by a mathematical model, and then resolving the problem by solving the equation.

Linear Programming It is a mathematical technique for allocating the limited resources between two or more competing activities, in an optimum manner. It is a normative technique because it tells what ought to be done.

Game Theory This is a mathematical technique to determine the optimum strategy in a competitive situation.

Waiting Line or Queuing Theory This is a mathematical technique which aims at attaining an economic balance between the cost of service and the cost of waiting.

https://rbigradeb.com/

Review Questions

1. Explain the term "business forecasting". Briefly discuss the various techniques of forecasting.
2. What is the importance of sales forecasting in planning? A sales forecast is often regarded both as a plan and as a premise. Comment.
3. What are the important features of an OR programme?
4. What are the major merits and limitations of OR?
5. Describe the various quantitative methods used in economic and technological forecasting?
6. Why is forecasting an important part of the planning process?
7. Choose the correct alternative:

(a) Forecasting is mostly done by	(i) every manager (ii) staff people
(b) Judgemental forecasting is appropriate when essential data are	(i) available (ii) not available
(c) Operations Research techniques are used in the	(i) planning process (ii) decision-making process
(d) Queuing theory is applicable to	(i) a situation where the problem is to choose the best combination of values for several variables that effect the attainment of the desired goal (ii) waiting line situations
(e) Game theory attempts to	(i) predict how rational people will behave in competitive situations (ii) replicate a part of an organisation's operations to see what will happen to that part over a period of time by changing certain variables

[(a) (ii), (b) (ii), (c) (ii), (d) (ii), (e) (i)]

Projects

1. Given the following history, use focus forecasting to forecast the third quarter of this year. Use three focus forecasting strategies.

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Last year	100	125	135	175	185	200	150	140	130	200	225	250
This year	125	135	135	190	200	190						

2. Sales by quarter for the last year and the first three quarters of this year were as follows:

	Quarter			
	I	***II***	***III***	***IV***
Last year	23,000	27,000	18,000	9,000
This year	19,000	24,000	15,000	

Using the focus forecasting procedure, forecast expected sales for the fourth quarter of this year.

https://rbigradeb.com/

Cases

1. New Product Success

Leo Medical Diagnostic and Research Center has patented its new invention of poly fiber cardio-vascular valve. The product developed is a novel one and can be manufactured at a very low cost. The utility and life of the product in laboratory testing was found to be more than the life expectancy of patients. The product could enhance the life of the patient by at least five years. Considering all these factors Leo Medical Diagnostic and Research Center chose to set a unit to manufacture the product. However, the company has a dilemma. As the product is new and requires the acceptance of medical community, it is considering appointing a promotion and sales co-coordinator to manage the promotional and communication efforts of the firm.

Discussion Questions

(a) Do you think the number of units of a product to be manufactured is a random number? Explain your reasoning.
(b) How does one determine the number of units of a product to be manufactured in an organisation?
(c) What are the elements you would take into consideration for forecasting the production and sales requirement of the product developed by Leo Medical Center?
(d) How would you go about planning and organising the manufacturing and selling efforts of the organisation?

2. To be a Pioneer or a Follower?

The president of a large and successful cosmetics firm attributes his success to waiting for his competitors to do his innovating, forecasting and testing for him. "We let them dream up the new products and promotions and we watch the results. If they go over, we copy all of the best features and add a few of our own. Sometimes we get a little less for being second, but considering the number of flops they have which we do not copy, and the cost they incur by 'pioneering' we come off far better than they."

Discussion Questions

(a) What do you think of the above approach to developing, forecasting, and testing innovations?
(b) Under what conditions will the above approach be most and least successful?

https://rbigradeb.com/

CHAPTER

7

ORGANISATION

Learning Objectives

This chapter will enable the reader to:

- **Examine** the meaning, characteristics and typology of organisations
- **Learn** the principles and process of organising
- **Understand** the meaning and significance of the span of management and the factors governing it
- **Describe** the advantages and disadvantages of different bases of departmentalisation
- **Analyse** the advantages and disadvantages of two broad categories of organisation structures, viz., mechanistic and organic
- **Present** the newly emerging organisation concepts and the international organisation structures

https://rbigradeb.com/

WHAT IS AN "ORGANISATION"?

There is no standard definition of the word "organisation". Different writers have defined the word differently. According to Amitai Etzioni[1] an organisation is a social unit or human grouping *deliberately structured* for the purpose of attaining specific goals. Sehein[2] defines an organisation as the *rational coordination of the activities* of a number of people for the achievement of some common explicit purpose or goal, through division of labour and function, and through a hierarchy of authority and responsibility. Allen[3] defines the term as the process of *identifying and grouping of the work* to be performed, *defining and delegating responsibility and authority* and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing their objectives. According to Pfiffner and Sherwood[4], an organisation is the pattern of ways in which large numbers of people, too many to have intimate face to face contact with all others, and engaged in a complexity of tasks, relate themselves to each other in the *conscious, systematic establishment and accomplishment of mutually agreed purposes.*

In terms of all the above definitions, corporations, armies, schools, hospitals, churches, prisons, etc. all are organisations. But tribes, ethnic and friendship groups and families are not organisations because they do not involve any significant amount of conscious planning, coordination or deliberate structuring.

Characteristics of an Organisation

An attempt to synthesize some important definitions indicates that every organisation has:

1. a purpose, goal or goals which as already indicated in a previous chapter are the task of planning,
2. a clear concept of the major duties or activities required to achieve the purpose,
3. classification of activities into jobs, and
4. establishment of relationships between these jobs in order to ensure coordination. This is achieved through division of labour and delegation of authority.

A group of organisations sharing a common profile of characteristics is called an *organisational configuration.*

Typology of Organisations

To the untrained eye, all organisations appear alike. But this is not so. Every organisation has certain unique combination of the above characteristics which distinguish it from all other organisations. This makes classification of organisations into specific types difficult. Yet, in order to enable generalisations to be made on the basis of certain characteristic features of organisations within a particular grouping, it is necessary to group similar types of organisations together. Blau and Scott[5] group organisations into four categories using the criterion of *cui bono*—who benefits:

1. Organisations which benefit their *owners.* All business organisations fall in this category.
2. Organisations which benefit their *members.* A wide class of unions, cooperatives and clubs come under this category.

[1]Amitai Etzioni, *Modern Organisations,* (N.D.: Prentice-Hall of India, 1965), pp. 3–4.
[2]Edgar Schein, *Organisation Psychology,* (N.D.: Prentice-Hall of India, 1969).
[3]Allen, *Management and Organisation,* (N.Y.: McGraw Hill, 1958).
[4]Pfiffner and Sherwood, *Administrative Organisation,* (N.D.: Prentice-Hall of India, 1968).
[5]M. Blau and W. Richard Scott, *Formal Organisation,* Chandler Pshg. Co., San Francisco, 1962.

https://rbigradeb.com/

3. Organisations which benefit their *clients*. Examples are insurance companies, private schools, etc.
4. Organisations which benefit the *whole society* (commonweal organisations) such as governmental departments, the armed services and the police.

PROCESS OF ORGANISING

Organising means designing the organisation structure. In performing the organising function, the manager *differentiates* and *integrates* the activities of his organisation. By differentiation is meant the process of departmentalisation or segmentation of activities on the basis of some homogeneity. Integration is the process of achieving unity of effort among the various departments (segments or subsystems). We can describe this differentiation and integration in terms of a seven-step procedure.

Consideration of Objectives

The first step in organising is to know the objectives of the enterprise. Objectives determine the various activities which need to be performed and the type of organisation which needs to be built for this purpose. Management writers, such as Alfred D. Chandler[6] refer to this phenomenon as one in which "structure follows strategy." For example, the structure required for an army is different from the structure required for a business enterprise. In view of this, consideration of objectives is the first step in the process of organising.

Deciding Organisational Boundaries

After the consideration of objectives, the next step is to decide what to do inside and what outside the boundaries of the organisation. This means making manufacture-versus-buy choices for different goods and services and choices about strategic alliances with other firms. Also choices have to be made about the extent to which the different parts of the organisation interact directly with the outside environment. Should customers be allowed to interact directly with workers in the manufacturing plant or should they only interact with the sales force? Overall, these choices define the boundaries of the organisation and how it interacts with its environment.

Grouping of Activities into Departments

The next step is to group all closely related and similar activities into departments and sections. For example activities of a manufacturing concern may be grouped into such departments as production, marketing, financing and personnel.

It should be remembered that sometimes even diverse activities may be deemed closely related and grouped in one department. Thus, one may find intraplant transportation, warehousing and the entire traffic management function being placed with the major production department because it makes most use of it. Similarly, closely related activities may be deemed diverse and placed in different departments for development and enforcement of specific policies. For example, in order to ensure that the pressure

[6]Alfred D. Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, Mas.: MIT Press, 1962), p.14.

https://rbigradeb.com/

for output imposed upon the average foreman may not influence inspection employees controlling the quality of his output, product inspection may be separated from product manufacturing.

The topic of departmentalisation has been dealt with in a separate section in this chapter.

Deciding which Departments will be Key Departments

Key departments are those which are rendering key activities, i.e., activities essential for the fulfilment of goals. Such key departments demand key attention. Other departments exist merely to serve them. Experience suggests that where key departments are not formally identified, the attention of top management is focused on the minor issues raised by vocal managers. This is known as the "decibel system" of management. The key departments should be placed directly under higher management.

Which department needs to be emphasised how much will depend, of course, on the company's objectives and the way it seeks to be distinctive. For example, a company which believes that advertising is a primary key to success will set up a separate advertising department that reports directly to the president. But another company which considers it much less important may only create a separate section for it under its sales department. Similarly, product development, which is treated as a key department in all chemical and pharmaceutical companies, with those in charge reporting directly to the president, may be treated only as a section of the production department in textile companies. The importance of an activity may also grow with times. Thus, personnel management which was hitherto considered less important is now treated as an important activity and has risen in organisational status.

Determining Levels at which Various Types of Decisions are to be Made

After deciding the relative importance of various departments, the levels at which various major and minor decisions are to be made must be determined. Each firm must decide for itself as to how much decentralisation of authority and responsibility it wants to have. Extreme decentralisation may lead to loss of control and effective coordination as a result of which the firm as a whole may fail to achieve its overall objectives. Extreme centralisation, on the other hand, may lead to wrong decisions at wrong times and complete breakdown of the morale of employees. A detailed discussion of the advantages and disadvantages of decentralisation is given in Chapter 8.

Determining the Span of Management

The next step to be taken in designing a structure is to determine the number of subordinates who should report directly to each executive. The narrower the span, the taller would be the structure with several levels of management. This will complicate communication and increase the payroll. For these reasons, a flat structure is generally desirable. However, the span of management for each executive position must be tailored in the light of the description of this topic given in a subsequent section.

Setting up a Coordination Mechanism

A direct consequence of departmentalisation is the need to coordinate the independent activities of the members of the organisations. Effective integration is as important as careful differentiation. As individuals and departments carry out their specialised activities, the overall goals of the organisation may

https://rbigradeb.com/

become submerged or conflicts among organisation members may develop. For example, production managers in a manufacturing company may press for a standardised product line to hold down costs, when the larger interests of the company may be best served by a diversified product line. In a university, various schools or departments may begin to compete for limited funds. Coordinating mechanisms, described in Chapter 9, enable the members of the organisation to keep sight of the organisation's goals and reduce inefficiency and conflicts.

Managers have considerable discretion in the choices they make regarding the above seven issues. These are features of the organisation that they can willfully manipulate and change. However, there are three other structural features of organisations that are equally important but over which managers have a limited influence. These are use of power, informal organisation and organisational politics. We have described these issues in Chapter 10 and 23 respectively.

PRINCIPLES OF ORGANISING

In order to develop a sound and efficient organisation structure, certain principles need to be followed because if an organisation is not founded on principles, then those directing it have nothing to fall back on, but personalities. In the words of E.F.L. Brech[7], "if there is to be a systematic approach to the formation of organisation structure, there ought to be a body of accepted principles." These principles are as follows:

Objectives The objectives of the enterprise influence the organisation structure and hence the objectives of the enterprise should first be clearly defined. Then every part of the organisation should be geared to the achievement of these objectives.

Specialisation Effective organisation must promote specialisation. The activities of the enterprise should be grouped according to functions and assigned to persons according to their specialisation.

Span of Control As there is a limit to the number of persons that can be supervised effectively by one boss, the span of control should be as far as possible, the minimum. That means, an executive should he asked to supervise a *reasonable number* of subordinates only say six.

Management by Exception Principle As the executives at the higher levels have limited time, only exceptionally complex problems should be referred to them and routine matters should be dealt with by the subordinates at lower levels. This will enable the executives at higher levels to devote time to more important and crucial issues.

Scalar Principle This principle is sometimes known as the "chain of command". The line of authority from the chief executive at the top to the first-line supervisor at the bottom must be clearly defined.

Unity of Command Each subordinate should have only one superior whose command he has to obey. Multiple subordination must be avoided, for it causes uneasiness, disorder, indiscipline and undermining of authority.

Delegation Proper authority should be delegated at the lower levels of organisation also. The authority delegated should be equal to responsibility, i.e., each manager should have enough authority to accomplish the task assigned to him. Inadequate delegation often results into multiplication of staff and service activities.

[7]E.F.L. Brech (Ed). *The Principles and Practice of Management* (London: Longmans, Green & Co., 1959).

https://rbigradeb.com/

Responsibility The superior should be held responsible for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.

Authority The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined. Further, the authority should be equal to responsibility.

Efficiency The organisation structure should enable the enterprise to function efficiently and accomplish its objectives with the lowest possible cost.

Simplicity The organisation structure should be as simple as possible and the organisation levels should, as far as possible, be minimum. A large number of levels of organisation means difficulty of effective communication and coordination. Too many committees and excessive procedures also unduly complicate the structure.

Flexibility The organisation should be adaptable to changing circumstances and permit corrections of demonstrated deficiencies in the existing structure without dislocation and disruption of the basic design.

Balance There should be a reasonable balance in the size of various departments, between centralisation and decentralisation, between the principle of span of control and the short chain of command, and among all types of factors such as human, technical and financial.

Unity of Direction There should be one objective and one plan for a group of activities having the same objective. Unity of direction facilitates unification and coordination of activities at various levels.

Personal Ability As people constitute an organisation, there is need for proper selection, placement and training of staff. Further, the organisation structure must ensure optimum use of human resources and encourage management development programmes.

Acceptability The structure of the organisation should be acceptable to the people who constitute it. Two things generally happen if people oppose the structure: it is modified gradually by the people, or it is used ineffectively.

SPAN OF MANAGEMENT

First we will dwell upon the meaning and significance of the span of management.

Meaning and Importance

The term "span of management" is also referred to as span of control, span of supervision, span of authority or span of responsibility. It indicates the number of subordinates who report *directly* to a manager.

Determination of an appropriate span of management is important for two reasons. First, span of management affects the efficient utilisation of managers and the effective performance of their subordinates. Too wide a span may mean that managers are overstraining themselves and that their subordinates are receiving too little guidance or control. Too narrow a span of management may mean that managers are underutilised and that their subordinates are overcontrolled. Second, there is a relationship between span of management and organisation structure. A narrow span of management results in a "tall" organisation with many levels of supervision between top management and the lowest organisational

https://rbigradeb.com/

levels. This creates more communication and cost problems. There is also the problem of finding trained managerial personnel. On the other hand, a wide span for the same number of employees, means a "flat" organisation with fewer management levels between top and bottom. This can be understood with the help of an example. Suppose a sales manager has 16 salesmen reporting directly to him. His span of management is 16. Let us assume he feels that he is not able to work closely enough with each salesman. He decides, therefore, to reduce his span by adding four assistant sales managers—each to supervise four salesmen. His span of management is now 4. But as shown in Fig. 7.1, he has added a level of management through which communication between him and the salesmen must pass and he has added the cost of four additional managers.

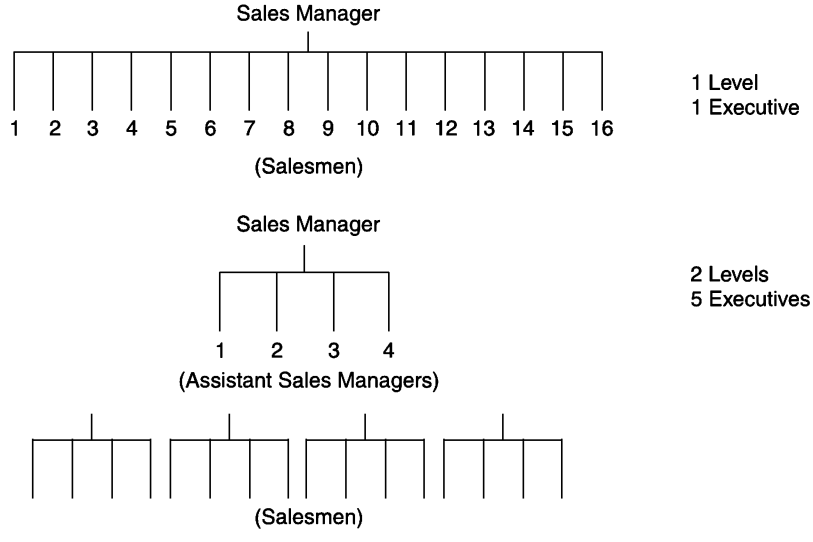


Fig. 7.1 Decreasing the span of management increases the number of levels

What is an Appropriate Span?

The search for guidelines by which we can determine the ideal number of subordinates directly reporting to a manager has long been a preoccupation of management writers. Different writers have suggested different number of subordinates for effective supervision by the managers. Traditional management theory argues for a small span of management. For example, Lyndall Urwick[8] suggests that no executive should attempt to supervise directly the work of more than five, or at the most six direct subordinates whose work interlocks. According to Hamilton[9], the ideal number of subordinates is 3 to 6. On the other hand, some experts (e.g., J.C. Worthy[10]) believe that a manager can effectively manage as many as 20 subordinates. Ernest Dale[11] in his study of 100 large companies has found that

[8]Lyndal F. Urwick, *Scientific Principles and Organisation* (N.Y.: AMA, 1938), p. 8.
[9]Sir Ian Hamilton, *The Soul and Body of an Army* (London: Edward Arnold Publishers Ltd., 1921), p. 229.
[10]James C. Worthy, "Men, Management and Organisation", *Proceedings, Fifth Personnel Management and Industrial Relations Seminar* (Los Angeles: University of California, Oct. 30, 1951, Mimeographed).
[11]Ernest Dale, op. cit.

https://rbigradeb.com/

the median number of executives reporting to company presidents is 8 and in some cases there are as many as 20 or more.

V.A. Graicunas[12], a management consultant of Paris, has made a significant contribution to the span of management theory. He points out that the limiting factor in the span of management is the *number of relationships* supervised and not merely the number of jobs and people supervised. This means that in selecting a span, managers should consider not only the direct one-to-one relationships with the people they supervise but also two other kinds of relationships, namely, direct group relationships, and cross-relationships. Thus, if A has two subordinates B and C, the following would be the various kinds of relationship involved.

1. ***Direct one-to-one relationships*** These are relationships which relate the superior directly and individually with his immediate subordinates. Thus, A with two subordinates B and C will have two direct one-to-one relationships, viz., A to B and A to C.

2. ***Direct group relationships*** Direct group relationships exist between the superior and each possible combination of subordinates. In the above example, A may talk to B with C in attendance or A may talk to C with B in attendance. According to Graicunas, these two cases have different psychological implications, though the individuals are the same in both the cases. Where the number of subordinates is large, the number of direct group relationships can be found out by the following formula: $n\left(\frac{2^n}{2}-1\right)$, where n stands for the number of subordinates.

3. ***Cross-relationships*** Cross-relationships are created when subordinates consult one another. In the above example, the two cross-relationships created are B with C and C with B. The formula for finding the number of these relationships is $n(n-1)$.

The formula to ascertain the number of all three kinds of relationships is as under:

$$\text{Number of relationships} = n\left(\frac{2^n}{2}+n-1\right)$$

where n stands for the number of subordinates.

With the help of this formula, one can easily see how the number of relationships increases dramatically as the number of subordinates rises. With four subordinates, the total relationships go up to 44, with five subordinates to 100, with six subordinates to 222, with 10 subordinates to 5,210, with 12 subordinates to 24,708, and with 20 subordinates to more than a crore.

Graicunas' formula, however, is not very useful in practice for two reasons:

1. It ignores the frequency and importance of relationships. The possible number of total relationships are perhaps not so important for a manager as their frequency and their demands on his time. It is unlikely that each of the potential relationships occurs on a daily basis or that each relationship is important for successfully managing a group of subordinates.
2. The actual span of management is determined by a number of factors which have not been taken into consideration while framing the formula.

[12]V.A Graicunas, "Relationship in Organisation", *Bulletin of the International Management Institute,* in Gulick and L. Urwick (Eds), *Papers on the Science of Administration,* (N.Y.: Institute of Public Administration, 1937), pp. 181–187.

https://rbigradeb.com/

Factors Governing the Span of Management (Contingency Approach)

From the above discussion, it is clear that there is no unanimity among writers about the average span that will be appropriate for all managers. Also, the situation is not as simple as that implied by Graicunas. How can we then determine the appropriate span of management? Modern writers suggest a contingency approach to this problem. They say that the appropriate span of management must be determined by the *specifics of the manager's particular situation.* These are discussed below.

1. **Ability of the Manager** Some managers whose span of knowledge, time, energy, attention and personality are greater than those of others are more capable than others and can, therefore handle a large number of subordinates. In planning an organisation, the span of management should be based on a manager of average ability.

2. **Ability of the Employees** If the employees are competent and possess the necessary skill and motivation to perform the task assigned, less attention from the manager is required and a larger span of management can be used. On the other hand, if the employees are dissatisfied with their jobs or are incompetent or untrained, close supervision by the manager is needed. This will reduce his span of management.

3. **Type of Work** If employees are doing similar jobs, the span of management can be larger. If their jobs are quite different, a small span may be necessary. This is analogous to saying that a professor of a class in which every student does identical work can handle more students than one in which instructions, assignments and testing are individualised. Similarly, where the work is machine-paced, or is of such a nature as to require few working contacts with each other, the employees will require less supervision. For example, a supervisor can direct more employees if they are working on an assembly-line operation than if they are working in a warehouse or maintenance situation. Woodward[13] found that the span of control of the first-line supervisor was larger in firms employing mass production and assembly-line technology than in firms employing custom or continuous process technologies.

4. **Well-defined Authority and Responsibility** If the authority and responsibility of each employee are properly defined and if there are clear policies and procedures, they need not make frequent calls on their supervisors for guidance and instructions. This helps a superior to manage a large number of subordinates.

5. **Geographic Location** An office manager who has 25 employees, all located in one room may be able to supervise them very well. But a sales manager who has 25 sales people located in 25 different districts would find direct supervision impossible.

---

[13]Joan Woodward, *Industrial Organisation* (London: Oxford University Press, 1965).

[In custom technology, because each product or service is, for the most part, unique, work can be routinised only to a limited extent. In continuous process technology, such as that employed in oil refining, while work is usually heavily automated, the operator has important monitoring responsibilities toward the machine—it must frequently be adjusted in the light of the readings on the various dials and gauges, and so the work is not very routinised. The operator may frequently need to consult the supervisor. In mass production, assembly-line technology, on the other hand, work is generally extremely routinised, and there is extreme division of labour (e.g., one worker does nothing but turn the screws, another does nothing but rivet pipes together, etc.). The role of the superior is more that of an overseer of operations than that of expert or a guide to subordinates. It is likely, therefore, that in organisations or parts of organisations in which work is heavily routinised, the average span of control will be large, other things being equal.]

https://rbigradeb.com/

6. **Sophisticated Information and Control System** If the company uses a sophisticated information and control system and objective standards to detect deviations from established plans, the need for close supervision is obviated. This factor also helps the superior to control a large number of subordinates.

7. **Level of Management** Span of management also varies with each level in the organisation. Gerald G. Fisch[14] has divided the management hierarchy for this purpose into four basic groups—super managers, general managers, middle managers and supervisors. The maximum span of management of super managers, whose functions involve only broad policy control rather than direct supervision, can be 50 subordinates. But in the case of general managers who are more closely involved with their subordinates than super managers, the span of management has to be comparatively narrow (say 10 to 12 subordinates only). For middle managers, the appropriate span of management depends in part, on the precise mix of executive and operative supervision that their specific jobs require. Generally speaking, it can be 50 subordinates. At the supervisory level where the work involved is of routine nature, the span of management is normally quite wide, say 100 subordinates.

8. **Economic Considerations** Economic considerations also affect the choice of span. As we have already described above, smaller spans means a larger number of managers with the added salaries and other costs they entail. But wide spans also involve extra costs in the inefficiencies that result from diminished managerial leadership. Hence, an economic balance has to be arrived at between cost savings that result from the largest possible span and the added costs that an organisation begins to incur as the span grows too wide.

DEPARTMENTALISATION

The horizontal differentiation of tasks or activities into discrete segments is called departmentalisation. As noted earlier, departmentalisation is one important step of building an organisation. The aim is to take advantage of the division of labour and specialisation up to a certain limit.

There are several bases for departmentalisation, each of which is suitable for particular corporate sizes, strategies and purposes. Most bases conveniently fall into one of two categories which March and Simon refer to as *process deparmentalisation* and *purpose departmentalisation*. Following is a brief description of these bases.

PROCESS DEPARTMENATALISATION

There are two widely used and internally oriented arrangements for dividing work by process as described below:

Business or Organisational Functions

By far the most widely used base for departmentalisation is business or organisational function. Each major function of the enterprise is grouped into a department. For example, there may be production, finance and marketing departments in a manufacturing company or underwriting and claims departments in an insurance company. A sales manager in this kind of departmentalisation is responsible for the sale of *all* products manufactured by the company or a claims manager is responsible for dealing

[14]Gerald G. Fisch, "Stretching the Span of Management", *Harvard Business Review,* Sept.–Oct. 1963, pp. 74–84.

https://rbigradeb.com/

with *all* claims from different areas where the company operates. Similarly, *managerial functions* such as planning, organising and controlling can also be used as base for departmentalisation.

Advantages

1. It is a simple form of grouping activities for small organisations which manufacture only a single or a limited number of closely related products or render only a limited number of services. Everybody in this form of organisation understands his own task and feels highly secure both in his work and in his relationships.
2. It promotes excellence in performance because of development of expertise in only a narrow range of skills.
3. It promotes economies of scale. Producing all products in a single plant, for instance, enables the organisation to acquire the latest and most scale intensive machinery. Constructing only one facility instead of a separate facility for each product line reduces duplication and waste.

Drawbacks

1. It fosters sub-goal loyalties. It is difficult for anyone to understand the task of the whole and to relate his own work to it. Each manager thinks only in terms of his own departmental goals and does not think in terms of the company as a whole. For example, the manufacturing department may concentrate on meeting cost standards and delivery dates, and neglect quality control. As a result the sales or marketing department may be flooded with complaints. This results in inter-departmental conflicts and disagreements. All sorts of feuds, misunderstandings, lust for aggrandisement and Berlin Walls develop among departmental heads. Decisions taken by one departmental head are poorly implemented by other heads. They are seen as "who is right" rather than as "what is right". Thus there arises need for elaborate, expensive and clumsy management crutches called coordinators, committees and meetings which waste everybody's time without contributing much.
2. It does not offer a good training ground for the overall development of a manager. The manager gains expertise in handling problems of his particular department only. Careers are normally defined on the basis of experience within the function.
3. It is unsuitable for organisations which are large in size or complexity or work under uncertain environment. Thus, where either geographical dispersal of units is required or emphasis on separate product lines is called for this design may not work well. The design is also less applicable in innovative work for the simple reason that here one does not know where and when a particular skill will be needed, for what time, in what degree or in what volume.
4. In this form customer needs evoke conflicting interpretations from each departmental head like the story of twelve blind people and the elephant.
5. In this form procedures are overly complicated, wasteful and time-consuming—a weakness sometimes called *"organisational arthritis"*. The structure is rigid and resists adaptation.
6. In this form because of "common pot" accounting it is difficult to judge whether the activities of a particular department are worth their cost. If a new product fails, which department should be blamed for the failure?

Technology

Departmentalisation is here done on the basis of several discrete stages in the process or technologies involved in the manufacture of a product. Thus a concern engaged in the production of vegetable oil

https://rbigradeb.com/

may have separate departments for crushing, refining and finishing. Similarly, a cotton textile mill may have separate departments for ginning, spinning, weaving, dyeing and printing and packing and sales. In this way, whenever work that would otherwise be done in several different locations in an enterprise is done in one place because of the special equipment used, departmentalisation by process is involved.

Advantages

1. It facilitates the use of heavy and costly equipment in an efficient manner. There is very little chance for the equipment remaining idle or under-utilised because there is no duplication of the same.
2. It follows the principle of specialisation—each department is engaged in doing a special type of work. This increases efficiency.
3. It is suitable for organisations which are engaged in the manufacture of those products which involve a number of processes.

Drawbacks

1. In technology departmentalisation workers tend to feel less responsible for the whole product.
2. It does not provide good training ground and opportunity for the overall development of managerial talent.
3. When the technology is sequential, a breakdown in one department slows the work of all other departments, the dependent departments generally become hostile to other departments, and they express their resentment either by complaining directly about other departments or by passing on inferior work to their successive departments.
4. It is difficult to compare the performance of different technology-based departments, except in some notional way (for example, by calculating the profits of each department on the basis of transfer pricing).
5. Top management needs to devote extra attention to maintaining inter-departmental co-operation.

PURPOSE DEPARTMENTALISATION

There are the following five externally-oriented ways in which work can be departmentalised by purpose. Each way tends to feed to easier coordination and is, therefore, more appropriate when the situation is rapidly changing or unpredictable.

Products

Under this method, for each major product, a separate self-contained department is created and is put under the charge of a manager who may also be made responsible for producing a profit of a given magnitude. Within each department, all the needed manufacturing, engineering, marketing, manpower and other facilities are assembled. Product departmentalisation is the logical pattern to follow when each product requires raw materials, manufacturing technology, and marketing methods that are markedly different from those used by other products in the organisation. Several companies in India, such as Hindustan Lever (manufacturing detergents, toiletries. chemicals and agro-based products), Richardson Hindustan (manufacturing a range of Vicks products, Clearasil cream and soap), and Johnson and Johnson (manufacturing a range of products for children and surgical sutures) have product-based departments.

https://rbigradeb.com/

Advantages

1. This form leads to continuous and undivided attention to the product.
2. This form enables top management to compare the performances of different products and invest more resources in profitable products and withdraw resources from unprofitable ones.
3. In this form, since the responsibility for each product's performance in entrusted to a particular departmental head, he is better motivated for improving his performance.
4. In this form, the department's work is more clearly evaluated since it does not get lost in the activities of other departments.

Drawbacks

1. There is duplication of staff and facilities. Extra expenditure is incurred in maintaining a sales force for each product line. Employment of a large number of managerial personnel is required. Equipment in each product department may not be used fully.
2. The department may drift away from overall organisational goal.

Customers

An enterprise may be divided into a number of departments on the basis of the customers that it services. For example, an electronics firm may have separate departments for military, industrial and consumer customers. A big automobile servicing enterprise may have separate departments for servicing cars, heavy vehicles and scooters or an educational institution may have separate departments for day, evening and correspondence courses to impart education to full-time students, locally employed students and outstation students, respectively.

One big advantage of this form is that it ensures full attention to major customer groups which have a very different set of criteria governing their decisions to purchase. The disadvantages of this form are that (i) it may result in under-utilisation of resources and facilities in some departments; and (ii) there may be duplication of facilities.

Regions, Territory or Location

When several production or marketing units of an organisation are geographically dispersed in various locations, it is logical to departmentalise those units on a geographical basis. A hotel chain, for example, might decide to establish geographical divisions and make one officer responsible for the operation of all the hotels within his division. The Indian Railways are departmentalised on this basis. Northern Railways, Western Railways, Southern Railways, Eastern Railways, Central Railways, etc. are departments in this sense. The Food Corporation of India has also geographical organisation with several zonal offices at different places and a head office in New Delhi.

Advantages

1. It motivates each regional head to achieve high performance.
2. It provides each regional head an opportunity to adapt to his local situation and customer need with speed and accuracy.
3. It affords valuable top-management training and experience to middle-level executives.
4. It enables the organisation to take advantage of locational factors, such as availability of raw materials, labour, market, etc.

https://rbigradeb.com/

5. It enables the organisation to compare regional performances and invest more resources in profitable regions and withdraw resources from unprofitable ones.

Drawbacks

1. It gives rise to duplication of various activities. Many routine and service functions performed by all the regional units can be performed centrally by the head office very economically.
2. Various regional units may become so engrossed in short-run competition among themselves that they may forget the overall interest of the total organisation.

Division

It should be remembered here that when large, multi-product companies segment themselves into several independent *profit centres* on the basis of product, territory or customer, these units are called *divisions.* Each divisional head enjoys a relatively free hand to operate his division within the framework of general company-wide policies. Since each division is much smaller than the whole company, the problems created by functionalisation are reduced to a more manageable size. A division can be dropped or added with little disruption to the rest of the organisation. Larsen & Toubro, one of the leading engineering companies in India, has recently become the umbrella organisation with a dozen self-contained divisions such as infrastructure, metallurgical, heavy equipments, etc. All these divisions have independent support functions and boards of directors.

Time

In departmentalisation by time, activities are grouped on the basis of timing of their performance. For example, as a small machine shop grows in size, its owner has the choice of either adding extra shifts (thus separating identical sub-groups by time) or renting two more shops (thus separating the two sub-groups territorially). Generally, departmentalisation by time is found in the production function of the enterprise.

Combined Base

It is quite typical to find an organisation following a different base of departmentalisation at different organisational levels. For example, an organisation manufacturing agricultural machinery may follow "product" as the base (tractor department, appliance department, generator department, etc.) at the primary level (i.e., the level immediately below the chief executive), "territory" as the base at the intermediate level and "function" as the base at the ultimate level. This is shown in Fig. 7.2.

Another form of combined base organisation which is becoming very popular nowadays is *matrix organisation.* In this form of organisation (also called grid or lattice pattern), two types of departmentalisation—functional and product—exist simultaneously as shown in Fig. 7.3. (It is also possible for the functional departmentalisation to combine with customer or territory departmenlisations.)

Functional departments are a permanent fixture of the matrix organisation; they retain authority for the overall operation of their respective units. Product departments or project teams, on the other hand, are created as the need for them arises that is, when a specific programme requires a high degree of technical skill in a concentrated period of time. Members of a project team are borrowed from the functional departments and are placed under the direction of a project manager. The manager for each project is responsible and accountable for its success; thus he has authority over the other team

https://rbigradeb.com/

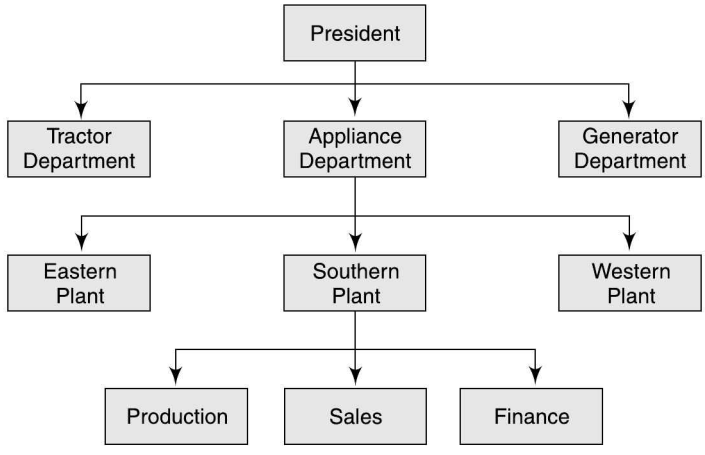


Fig. 7.2 A combined base organisation

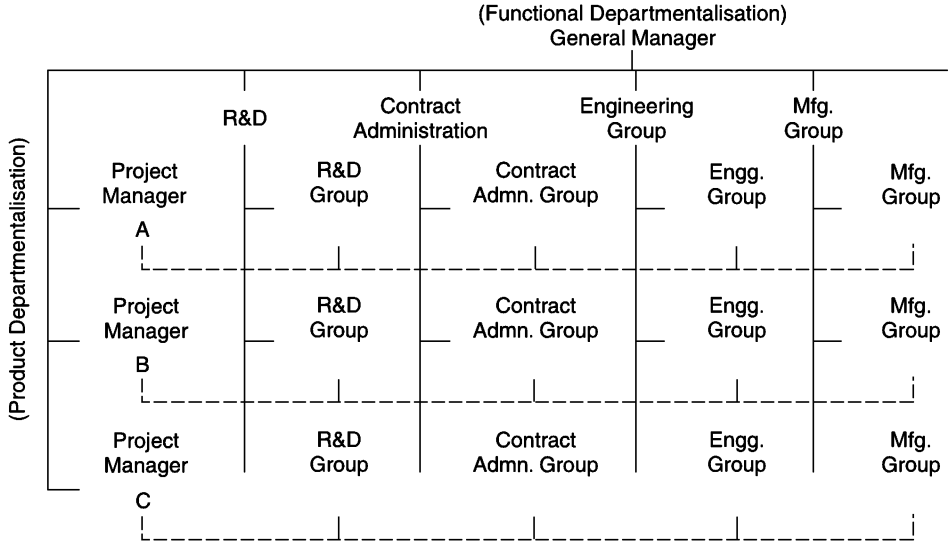


Fig. 7.3 A typical matrix organisation

members for the duration of the project. (This temporary authority is shown in Fig. 7.3 by broken lines.) On the completion of the project, the members of the team, including the project manager revert to their respective departments until the next assignment to a project.

Advantages

1. Combination of all necessary inputs at one place reduces problems of communication and coordination.
2. Flexibility in organising resources around the priorities of individual customers creates the ability to innovate around specific customer needs.

https://rbigradeb.com/

3. Stress on optimisation of the total project eliminates chances of suboptimisation of goals.
4. Assignment of specific jobs to employees makes passing of buck difficult.
5. Change of projects promotes the intellectual growth and development of employees.
6. Team members have a functional home when they are not needed on a project.

Drawbacks

1. It violates the traditional organisational principle of unity of command. The personnel have two bosses. They report *administratively* to their functional managers, but *technically* to their project managers. As long as these two areas can be kept separate, there is no problem, but this separation is often difficult. For example, performance evaluations and salary recommendations are usually made by the functional manager who is an individual's continuing supervisor. However, major inputs for performance evaluation must come from project manager or managers, the individual has worked for during the evaluation period.
2. It fosters interpersonal conflict because of the heterogeneity of team members.
3. It lowers members' loyalty to the project because of the following factors:
   - They have no other motivation besides the pay cheque.
   - They fear becoming professionally obsolete if they go on repeating the same task over a period of time without keeping up with technological advances.
   - They are often worried about loss of employment when the project ends or getting another project involving work at a lower level or not returning to the old job with the parent department.
   - Some highly professional employees who prefer to be associated with their technical peers do not want to work on multidisciplinary projects.
   - Many employees have strong autonomy needs and, therefore, are inclined to sneer at formal authority or restrictive rates.

Following are some *suggestions* for removing the above drawbacks:

1. There should be a challenging career system that gives strong support and recognition to professional advancement.
2. There must be a provision for a dual promotional hierarchy with suitable job titles.
3. There should be highly competitive salary scales and some system of reward within the project.
4. There should be a performance appraisal system different from the one which is common in classical organisations.
5. Employees should be trained in interpersonal skills and should be inspired by a shared vision of the project's purpose and goals.
6. Project culture should be appropriate to the needs. In some projects, a great deal of specialisation, structuring of activities and jobs and the like may be necessary, in others of a more creative kind, much greater flexibility may be in order.

This form is now used in a variety of organisations such as R&D laboratories, entertainment companies, advertising agencies, construction companies, management consulting firms, accounting firms, hospitals, universities, etc. Hospitals now have both functionally arranged departments (such as x-ray, medicine, and orthopedics) and laterally organised patient care teams. Universities have both functionally organised academic departments and specialised inter-disciplinary programmes (such as M.B.A.).

https://rbigradeb.com/

Choice of a Suitable Base

We have described above the various bases on which departmentalisation may be done. It is now necessary to discuss in detail some of the factors that make one choice more appropriate than others. These are as follows:

1. **Specialisation** The base should ensure maximum specialisation of skill and effort. The questions which should be answered for this purpose are: Which approach permits the maximum use of special technical knowledge? How will the choice affect differentiation among specialists? Will it allow the necessary differences in viewpoint to develop so that specialised tasks can be performed effectively?

2. **Coordination** The base should ensure proper coordination and control of the activities of different departments. The questions which need to be answered for this purpose are: Which base provides the best hope of obtaining the required control and coordination? Will a particular base increase the problems of achieving integration or reduce them? How will the decision affect the ability of organisation members to communicate with each other, resolve conflicts and reach the necessary joint decisions? According to Miller[15], each base fosters a specific interaction pattern between individuals and groups in an organisation. If the interaction pattern fostered by a particular base is inconsistent with the interaction pattern required for the completion of the task, consequences of social dissatisfaction, disintegration, conflict and technical inefficiency will result. As a simple example, we might consider the technical and social dysfunctions of separating by more than a few feet the technologically interdependent members of a surgical operating team.

3. **Economy** The expenditure involved in introducing departmentalisation is another important point which should be considered. Whatever the type of departmentalisation used, its benefits should always be more than its costs. The questions to be asked here are: Which base provides the most efficient utilisation of machinery and equipment? What is the financial burden involved in following a particular base etc.?

4. **Whole Task** Miller[16] Stresses the point that the organisation should be broken down, such that each department has a "whole task". Depending on the nature of the task, this "wholeness" may be achieved either by technological departmentalisation (weaving and spinning in a textile plant) or by territorial departmentalisation (track crews on a railroad) or by time departmentalisation (as with shifts in electricity generation) or by a combination of these. Thus in each case, the departmental heads have a realistic accountability and those who work within the departments derive satisfaction from identification with a recognisable goal.

ORGANISATION STRUCTURE

An organisation structure is more or less *permanent* arrangement of the parts of a whole, permanent arrangement of its horizontal and vertical parts. The horizontal parts are made of different departments. The vertical parts are made of a number of levels from top to bottom. Authority flows downward along these levels. Higher the level, greater the authority and vice versa.

By creating the most appropriate configuration of work units, organisation structure enables its members to

[15]Eric J. Miller, "Technology, Territory and Time: The Internal Differentiation of Complex Production System", Human Relations, April, 1959.

[16]Ibid.

https://rbigradeb.com/

- *undertake* a wide variety of activities according to departmentalisation of tasks and functions;
- *coordinate* activities through various coordinating mechanisms;
- *define boundaries* of their organisation and its interfaces with the environment and other organisations with which it must react; and
- *acquire, store, interpret and use* information to be able to react with flexibility to changing environmental demands. Edgar H. Schein[17] calls this information processing capacity/process "*adaptive-coping cycle*".

Organisation Chart

The usual way of depicting the *apparent structure* of the formal organisation is by means of an *organisation chart.* It is a snapshot of an organisation at a particular point in time which shows the flow of authority, responsibility and communication among various departments which are located at different levels of the hierarchy. The connecting lines on this chart show who is accountable to whom and who is in charge of what department. The process of charting the organisation is one good test of its soundness, as any organisation relationship which cannot be readily charted is likely to be illogical and therefore confusing to those working under it. There are three principal *forms* of organisation charts, viz., vertical, horizontal and circular.

A **vertical** organisation chart reads from top to bottom. It shows the chief executive at the top and all other successive levels of management vertically downward. A **horizontal** organisation chart reads from left to right. It shows the chief executive at the left and all other successive levels of management horizontally rightward A **circular** organisation chart shows the position of the chief executive in the centre of various concentric circles of different radii, on which all other successive levels of management are shown (read Exhibit 7.1).

EXHIBIT 7.1

SENCO S/A: PROMOTING UNCONVENTIONAL CIRCULAR ORGANISATION CHART

Some organisations refuse to be tied down by a conventional organisation chart, to the extent that employees make a running joke of titles. For example, Senco S/A, a radically unconventional manufacturer of industrial equipment (mixers, washers, air conditioners, bakery plant units) located in Sao Paulo, Brazil, has what is called a "circular" organisation chart with four concentric circles. They avoid the use of the term *levels*. The titles that go with these are Counselors (CEO and the equivalent of vice presidents), Partners (business unit heads), Coordinators (supervisory specialists and functional leaders) and Associates (every one else). If anyone desires, he or she can think up a title for external use that describes his or her area of work or job responsibility.

Consistent with the above policy when a promotion takes place at Senco, the newly elevated individual is simply supplied blank business cards and told, "Think of a title that signals externally your area of operation and responsibility and have it printed." If the person likes "Procurement Manager", fine. If he wants something more elegant, he can get it printed. But inside the company, there are only four options. Anyway, almost all choose to print only their name.

Source: James R. Evans and William M. Lindsay, *The Management and Control of Quality*, Sixth Edition, Thomson (South Western), p.230.

[17]Edgar H. Schein, *Organisational Psychology*, Prentice-Hall of India, N.D., 1969.

https://rbigradeb.com/

Following are the *advantages* of having an organisation chart:

1. It acquaints everybody with the makeup of a company such as its size, basis of division of activities, coordination, etc.
2. It reveals whether or not the span of management is wide or narrow.
3. It reveals many of the deficiencies in the organisation structure such as one man might be reporting to two persons.
4. It reveals whether the organisation is evenly balanced.

The chart has, however, certain *limitations*. It cannot show certain important aspects about the organisation's structure. These are as under:

1. It does not indicate who has the greater degree of responsibility and authority at each managerial level.
2. People often read into the chart meanings that are not intended. For example, employees may infer status and power according to one's distance on the chart from the chief executive box
3. It does not indicate the organisation's informal relationships and channels of communication
4. It makes people overly conscious of being superiors or inferiors, destroys team feeling and encourages in them a competitive drive for higher executive positions.

Organisation Manuals

Organisation Manuals promote understanding of structures, by means of *description of the various jobs* that may be listed only by title on charts. Usually, they include the charts as well, and sometimes the following information:

- Company's mission or philosophy,
- Company's objectives, policies and processes,
- Authority and responsibilities of each position,
- Relationship of each position with other positions,
- Means of measuring performance, and
- Committees—their membership, objectives and functions.

Mechanistic and Organic Structures

Organisation structures vary considerably in their complexity, formalisation and centralisation. *Complexity* considers the extent of differentiation within the organisation in terms of departmentalisation, the number of levels in the organisation's hierarchy and the extent to which the organisation's units are dispersed geographically. *Formalisation* considers the extent to which an organisation relies on rules and procedures to direct the behaviour of its employees. *Centralisation* considers where the locus of decision-making authority lies. Is authority centralised upward or dispersed downward? Broadly, however, according to Burns and Stalker[18], there are two types of structures: mechanistic and organic, which represent polarity, not dichotomy. There can be several intermediate types between these extremes.

A *mechanistic* or *classical organisation structure* is usually pyramid-shaped. This implies centralisation of authority at the top, departmentalisation of jobs, hierarchy of command, narrow span of supervision and intense division of labour. This is shown in Fig. 7.4.

[18]T. Burns and G.M. Stalker, *The Management of Innovation*, (London: Tavistock). 1961.

https://rbigradeb.com/

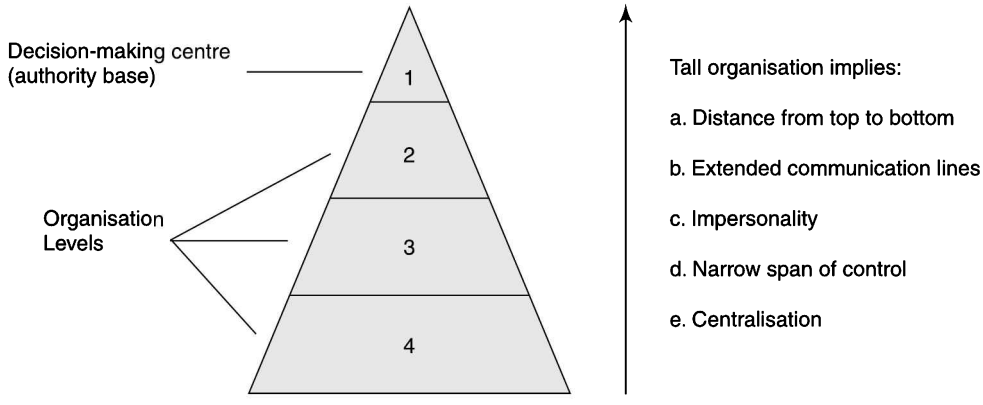


Fig. 7.4 Tall organisation

The *merit* of this type of structure is that it provides a clear and well-defined work setting to its employees. It tells them what they have to attend to and how, and also tells them what they do not have to bother with, what is not their affair, what is not expected of them—what they can post elsewhere as the responsibility of others. The *demerits* of this structure are as under:

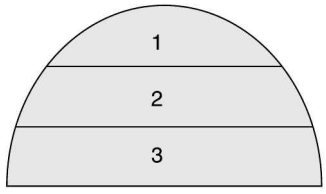
1. Each individual carries out his assigned part as something apart from the overall purpose of the organisation as a whole. He does not care to know how his job fits into the entire picture.
2. Task, authority and information are arranged according to levels. As one descends through the levels, one finds the task more and more simple and the authority and information more and more reduced. People at lower levels are thus required to use very little skill and do not experience any sense of accomplishment.
3. Once the tasks of people at lower levels have been defined, it is difficult to change them.
4. Decision-making is centralised at the top. It is assumed that the boss at the top knows everything It is he who determines what is important in the environment. This tends to alienate people at lower levels. They are provided with a scapegoat, a place to lay the blame: the boss, the organisation, fellow-workers, the rules, etc.
5. Communication is mostly downward between the superior and his subordinates in the form of commands. The upward flow of communication is very little and it takes place through a succession of filters.
6. There is insistence on loyalty to the organisation and obedience to superiors as a condition of membership.
7. There is a tendency to develop many stages in the innovation process, which often necessitates transferring a project from one department or group to another via liaison agents.

An *organic or behavioural* structure has generally wider spans of control—no unnecessary management layers, no "sandwich managers"—which give rise to a flat form, more general supervision and more decentralisation. There is little specialisation and hierarchy of command. People are grouped according to their social needs. This is shown in Fig. 7.5.

The *merits* of this type of structure are as under:

1. It is flexible, people's responsibilities and functions can be quickly changed to meet situational demands.

https://rbigradeb.com/



Flat organisation implies:

a. High levels of decentralisation.

b. Extremely wide spans of control determined on the basis of each superior's interpersonal skills.

c. Less extended communication lines.

Fig. 7.5 Flat organisation

2. Communication takes place in all directions. The content of communication is information and advice and not commands and instructions.
3. Decision-making is not centralised at the top. It is done by people at all levels.
4. Commitment to one's task is more highly valued than loyalty and obedience.
5. Task, authority and information flow to the person who has the greatest expertise to deal with the problem. He thus becomes the *ad hoc* focal point for every body in the organisation.
6. In case of failure the individual cannot help but feel that he is to blame to some degree.
7. Innovation unit is assigned a central place in the organisation.

One *demerit* of organic structure is that due to people's tasks often changing, there is continuous uncertainty about their roles. This sometimes proves to be too exhausting for anyone to bear.

WHAT TYPE OF STRUCTURE IS BEST? (CONTINGENCY VIEW)

Researches concerning organisation structure are not conclusive enough to support any specific organisation structure. Thus, for example, whereas in the Sears Roebuck Study, James C. Worthy[19] has found that the flatter structure is the best way to design an organisation because with maximum decentralisation it develops self-reliance, initiative and decision-making abilities, in another study Porter and Lawler[20] have concluded that there is no clear overall superiority of a flat organisation structure over a tall organisation structure. The latter research thus prevents one from making the sweeping generalisation that a flat structure produces more favourable job satisfaction. In fact, no one structure is best for all situations. The type of structure useful for a particular organisation depends on a number of factors, as described below. In other words, what is called for is the *contingency view* of organisations.

1. **Environment** Researches have shown that different types of environments require different types of organisational structures for effectiveness. Burns and Stalker[21] have found that in stable environments when people do fixed and specialised jobs and feel little need to change their skills, classical structures with strong controls and tightly specified duties are appropriate. But in fast-changing environment and when jobs need to be constantly redefined to cope with the ever-changing needs of the environment and when the creative problem-solving and decision-making processes require free and

[19]James C. Worthy, "Organisational structure and employee morale," *American Sociological Review*, Vol. 15 (April 1950), pp. 169–49.

[20]L.W. Porter and E.E. Lawler, "The effects of tall vs. flat organisation structures on managerial job satisfaction", *Personnel Psychology*, Vol. 17 (Summer 1964), pp. 135–48.

[21]T. Burns and G.M. Stalker, *The Management of Innovation*, (London: Tavistock, 1961).

https://rbigradeb.com/

open communication among members, behavioural structures are appropriate. Another study made by Lawrence and Lorsch[22] also strongly indicates that decentralised informal structures are best able to cope with uncertain environmental conditions. Conversely, centralised formal structures are more effective in stable environments.

2. **Culture and history** Another factor shaping the underlying structure of an organisation is culture. Culture sets the bounds on what may or may not be done, on what is desirable and what is not. Firms in North America tend to be more decentralised than firms in, say, Germany; American culture sanctions, in fact supports, decentralisation of authority, whereas German culture does not, at least not to the same degree. Standard practices that have developed over the organisation's history often dictate how a company organises and operates.

3. **Task** The task of an organisation is another major determinant of its structure. It is determined by the organisation's original charter and the role which the organisation decides to play in the society at large. The task of business is production and marketing of economic goods and services: of government, the fulfillment of such social needs as security and welfare: of a university, research and teaching: of a temple, administering to religious needs; and so on.

There are differences in the structure of these four types of organisations. The degree of authority exercised and the nature of control employed in a temple organisation cannot be the same as that in a business concern. The voluntary character of the former organisation will need a liberal structure.

4. **Technology** The structure of an organisation is influenced greatly by its technology. Three broad types of technology are: unit, mass and process. Of these, "unit" is the simplest technology and "process' is the most complex. Joan Woodward's study[23] has shown that:

(a) The more complex the technology, the more the need for supervision and coordination and the greater the number of managers and management levels. In other words, complex technologies lead to tall organisation structures.
(b) The more complex the technology, the more the need for better personnel administration and plant maintenance to keep the equipment in operation for higher proportion of the time and the greater the number of clerical and supporting staff.
(c) In mass technology, workers usually perform similar types of unskilled jobs. Hence large numbers of workers can be supervised by one first-line manager. But in unit or process technology, this is not possible. Here workers perform highly skilled jobs, for which small work groups are inevitable.

5. **Strategy** By strategy we mean the basic long-term goals of an enterprise and the allocation of resources necessary for carrying out these goals. Alfred Chandler's study[24] of a number of American companies has shown that with the change in strategy, change in structure becomes essential. The strategy of diversification into new products or new geographical areas inevitably makes a highly centralised structure inefficient and impractical. The different units are required to have a greater measure of independence in order to be able to respond quickly to the changing demands of their special markets. This makes essential for a company to shift to a decentralised structure with near-autonomous divisions, in order to remain successful.

[22]R. Paul Lawrence and J.W. Lorsch, *Organisation and Environment* (Boston: Harvard Business School, 1967).
[23]Joan Woodward, *Industrial Organisation Theory and Practice* (London: Oxford University Press, 1965).
[24]Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, Mass.: MIT Press 1962).

https://rbigradeb.com/

6. **Size** By size we mean the number of employees working for the organisation in a single location. Pugh-Hickson's study[25] has found that as the number of employees increases, the amount of formality also increases to cope with the complexity of employee interrelationships and communication problems. Ten to fifteen people can relate to each other rather informally, five hundred cannot. Moreover, as size increases, specialisation becomes further pronounced and with it the formality of structure.

7. **Span of Control** We have seen above that there is a very close relationship between the span of control and the shape of organisation structure. Small spans give rise to tall structures and big spans to flat structures.

8. **Form** By "form" we mean whether the enterprise is a cooperative, a private company or a government agency. A cooperative is founded on democratic principles and therefore, unlike a private company, cannot be organised and run like a dictatorship at the discretion of its management. A government agency in a democratic country is generally vulnerable to attacks in the legislature and often must adopt many rules and regulations to be able to defend the propriety of its actions, a necessity that forces it to be bureaucratic.

9. **Availability of Finance and Personnel** The structure of an organisation must fit the overall budget. The lack of certain skills may require other personnel, such as supervisors, to assume duties they ordinarily would not be assigned.

10. **Managerial Characteristics** The structure of an organisation is also influenced by the personality and the value system of its top managers. If top managers believe that people are, by nature lazy and uncooperative, they would prefer to create an organisation which emphasises direction and control. On the other hand, if they believe that people are good and committed to organisational goals, they would create an organisation which emphasises freedom of action.

11. **Employee Characteristics** Last, though not the least important factor affecting organisational structure is employee characteristics. By "characteristics" we mean their abilities, skills and experience as well as their needs and personality characteristics. If an organisation is generally composed of employees who are highly skilled and motivated, have strong needs for independence and self-realisation, a behavioural structure would be more appropriate than a classical one. On the other hand, if the organisation is generally composed of unskilled and poorly motivated employees, a classical structure may be more appropriate than a behavioural one.

Collateral Organisations

Does a manager's choice of any one type of structure obviate his need for the other type of structure? Obviously not. Experimental research with small groups has shown that a manager needs both types of structures to deal effectively with his two major categories of problems—routine and non-routine. For routine or well-structured problems of ensuring utilisation of largely pre-determined processes and operations, he needs the classical (mechanistic) structure, which is concerned with mobilising people and equipment to maximise output of a finished product. For non-routine or ill-structured problems of innovation and change (such as launching of new product lines or new marketing strategies), however, he needs the behavioural (organic) structure, which devises solutions of better quality, and more rapidly, than the classical structures. The hierarchy, the division of labour, and the rules that make the

[25]D.S. Pugh, D.J. Hickson and C.R. Hinings, "An Empirical Taxonomy of Structures of Work Organisation", *Adm. Science Quarterly,* 1969, 14, 115–126.

https://rbigradeb.com/

classical structure effective for routine problems, seem to interfere with the organisation's ability to devise quality solutions to non-routine problems.

Now, the question before a manager is how can his choice of anyone type of formal structure (mechanistic or behavioural) successfully deal with both types of problems. The concept of **collateral organisation,** as described by Dale Zand[26] provides the answer. This concept says that a manager should develop a collateral *mode of functioning* to which he should shift, to operate in tandem with the problem without displacing the existing classical or behavioural formal structure. It should be remembered that the change involved is only in the mode of functioning, and not in the structure. Thus, if the existing structure is classical, the collateral mode developed for solving a non-routine problem may result in creating only a special kind of task force, that cuts across the usual kind of functional barriers, builds cross-communication channels and finds new ways of seeing old ideas. Or, if the existing structure is behavioural (as in the case of a research unit or an educational institution), the collateral mode developed for solving a routine problem may result in creating only a special task force, with directive behaviour high use of rules and procedures, and limited communication, as its characteristics.

From what has been said above, it is amply clear that a collateral organisation consists of the same people who work in the formal organisation. There are no new people. However, the ultimate value of a collateral organisation depends on successfully linking it to the formal organisation, so that its output are used.

The above concept underlines the importance of adhoc task forces in the functioning of an organisation. They are called collateral organisations because they operate in parallel, or in tandem, with the formal organisation.

EMERGING ORGANISATION STRUCTURES

The organic structures of the pre-globalisation period worked fine when there was less competition and more stable conditions. But now they are unable to meet the needs of globalised business which demands more fluid organisations with greater flexibility, empowerment, innovation, quality and responsiveness across a broad range of consumer market. The response has been the network and virtual organisations.

Network Organisations

It is a modular organisation comprising several vendors, customers and competitors who enter into partnerships and strategic alliances to operate as a network of what we call client and server functions in each other's supply chain. Some other features of this organisation are as follows:

1. It involves the blurring of boundaries between the organisation and its environment comprising other firms.
2. Coordination between various firms takes place primarily through cross-functional teams.
3. Decision rights are pushed as far down as possible to knowledge workers who are the building blocks of the organisation.
4. Control is exercised by market mechanisms rather than administrative procedures.

[26]Dale Zand, "Collateral Organisation: A New Change Strategy", *Journal of Applied Behavioural Science,* 10 No. 1 (1974).

https://rbigradeb.com/

This organisation is ideally suited for volatile environment which needs immediate and quick response. It, however, suffers from poorly defined accountability. Also, there is often duplication of resources.

Virtual Organisations

Recent phenomenal growth in electronic communication has given rise to the concept of virtual organisation. The essential feature of this type of organisation is *connectivity* i.e., its ability to network, large number of service-providers and contractors whom it outsources its burden of getting infrastructural support, retaining for itself only a few areas of core competence. The organisation has no office as such because its executives with mobile phones and laptop computers can work at any place and at any time.

Following are the *key attributes* of a virtual organisation:

1. **Technology** Informational networks help far-flung companies to link up, and work together from start to finish.
2. **Opportunism** Companies often join hands only temporarily, to meet specific market opportunities and needs, and fall apart once the need is over.
3. **No borders** Intense cooperation among service-providers, contractors and the main company makes it difficult to determine where one company ends and the other begins.
4. **Trust** The relationship among companies is based on trust. Every partner relies on all the others, and is well aware of the fact that its fate is dependent on the fates of its fellow-travellers.
5. **Excellence** Each partner contributes to the virtual organisation what it is best at. This makes possible to create a "best-of-everything" organisation.

The primary benefits of this organisation are: (a) its ability to save on lease rentals of office space and employee commuting costs (b) its ability to *focus on core competence* as a result of outsourcing of all non-essential activities, and (c) its use of synchronous technologies such as audio and video conferencing, which allow members to interact at the same time, or in real time.

A virtual organisation is not an unmixed blessing. Some of its limitations are as follows:

1. There is a phenomenal increase in the daily number of e-mails of its executives.
2. Its employees miss the opportunity of meeting their coworkers. They also fear that their lack of interaction with superiors may not bode well for their careers.
3. It is common for some employees to have conference calls during "off hours" spanning mid-day in Bangalore, early morning in Norway and close to mid-night in California.
4. Some customers do not like to deal with the organisation through e-mail which lacks emotional pitch and body language associated with verbal communication. It is essential to provide clues to the speaker's credibility.

Virtual organisations are increasingly evident in global and partnered operations. In the last few years some organisations in the area of space research and pharmaceuticals have been experimenting with virtual organisational structure. Medico Research Drug, located at Research Triangle Park in the United States is an example of a virtual drug development company. It licenses promising new drugs from other companies, hires research organisations to test these drugs and finally licenses out manufacturing and marketing rights. In the information technology industry, Sun Microsystems designs computers and does all other functions (manufacturing, distribution, marketing and customer service)

https://rbigradeb.com/

through contractual arrangements with partners located throughout the world. Virtual organisations are not popular in India because of our slow internet speed.

COMMITTEES

A committee is a group of people who have been *formally* assigned some task or some problem for their decision and/or implementation. Committees are often set up where new kinds of work and/or unfamiliar problems seem to involve decisions, responsibilities and powers beyond the capabilities of any one man or department. In modem business enterprises there is a widespread use of committees in all areas of management and administration. It is interesting to note that the proponents of participative management as represented by Rensis Likert, like to see committees even more ubiquitous than they are now. A major proposal in Likert's New Patterns of Management[27] is to replace the one-to-one relationship characteristic of conventional hierarchical arrangements with a system of "inter-locking groups". Under this proposal, each unit head and his subordinates would work as a decision-making committee. And since each unit head would serve as a "chief" vis-a-vis the level below him and as a subordinate vis-a-vis the level above, he would be performing a linking-pin function in a system of interlocking groups comprising the whole hierarchy of the company. The linking pin function is shown by arrows in Fig. 7.6. A company thus organised, Likert believes, could enable sub-groups to integrate their activities and to reduce suboptimization.

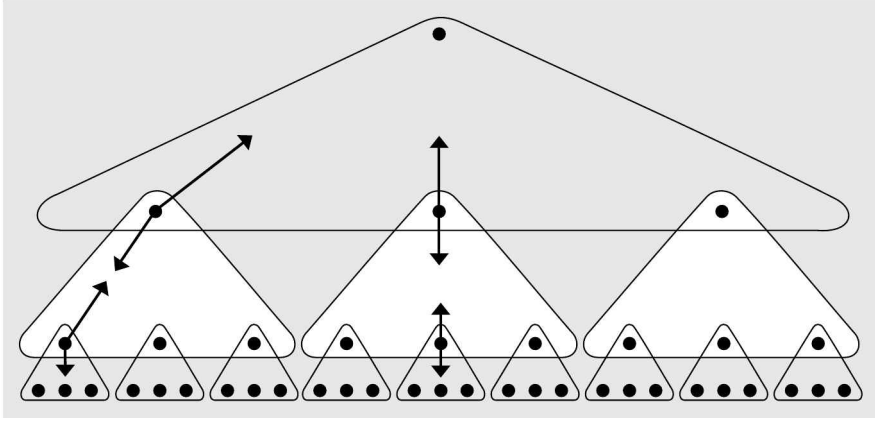


Fig. 7.6 The linking pin

Committees can be broadly classified into *advisory committees* and *executive committees.* Whenever committees are vested with staff authority they are known as advisory committees. Advisory committees have only a recommendatory role and cannot enforce implementation of their advice or recommendation Some of the usual advisory committees formed in business enterprises are: works committees, sales committees, finance committees, etc. Whenever committees are vested with line authority, they are called executive committees or *plural executives.* Unlike advisory committees, executive

[27]Rensis Likert, *New Patterns of Management* (N.Y.: McGraw-Hill, 1961).

https://rbigradeb.com/

committees not only take decisions but also enforce decisions and thus perform a double role of taking a decision and ordering its execution. The Board of Directors of a company is an example of an executive committee.

The above distinction should not, however, lead one to think that these two types of committees are always composed of different collections of individuals. These committees may have the same individuals as members. But these individuals need to see themselves as a different group in each committee. Thus, their functions are separated by time, place or title.

Committees may also be classified as *standing committees* and *ad hoc task forces.* Standing or permanent committees are formed to deal with recurrent organisational problems. Typical standing committees may be the finance committee in a company, or the loan approval committee in a bank, or the admission committee in a college. Members of these committees are mostly chosen because of their title or position, instead of individual qualifications or skills. Ad hoc task forces, as their very name suggests, have a short duration. They are dissolved after the task is over, or the problem is solved. The members are chosen for their skills and experience.

Advantages

1. Where committees consist of all departmental heads as members, people get an opportunity to better understand each other's problems and to move (cooperatively) towards organisational goals.
2. Committees provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds. As George Bernard Shaw has said, "If you have an apple and I have an apple and we exchange these apples then you and I will still each have one apple. But if you have an idea and I have an idea and we exchange these ideas, then each one of us will have two ideas." This helps in improving the quality of decisions.
3. Committees provide an opportunity to many persons to participate in the decision-making process. As the members of a committee participate in discussions and decisions, they also take interest in implementing their decisions.
4. Committees are excellent means of transmitting information and ideas, both upward and downward.
5. By exposing members to different viewpoints, committees contribute indirectly to their training and development.
6. Committees are impersonal in action and hence their decisions are generally unbiased and are based on facts. There is no fear of a single individual taking a biased decision.

Weaknesses

A wholly positive estimate of committees has been criticised by several writers. Lyndal Urwick[28], for example, does not admit that the committees increase the democratic process in administration. He says that there is no connection whatsoever between committees and democracy or between individual leadership and autocracy. Some others remark that a committee is a group of people who individually can do nothing but who can meet together and decide that nothing can be done. Similarly, it is said that a committee is a group of incompetents appointed by the unwilling to deal with the unnecessary.

[28]Lyndall Urwick, *Committees in Organisation,* British Institute of Management, 1950.

https://rbigradeb.com/

Although such remarks may be dismissed as mere exaggerations, they do reflect a widespread disillusionment and frustration with group decision-making. Some of the weaknesses of committees are as follows:

1. It is said that committees keep minutes and waste hours. One of the best administrative procedures to delay action is to say, "Let us set up a committee to study this matter." Almost without exception it takes longer to get action from a committee than from an individual manager.
2. In case a wrong decision is taken by a committee, no member can be individually held responsible. This encourages irresponsibility among the members.
3. A huge amount is spent in convening meetings and giving allowances to the members. Hence, committees are an expensive form of administration.
4. Members of coordinating committees frequently regard themselves as appointed to protect the interest of their departments rather than to find the more appropriate solution to the problem inquestion.
5. Committees have a tendency to perpetuate themselves and it is generally difficult to dissolve them even when they have served the purpose for which they were constituted.
6. Decisions are generally arrived at on the basis of some compromise among the members. Hence they are not the best decisions. There is always some type of trading of support between two or more individuals or groups by which one agrees to support the other's position in one decision problem in return for the other's support in another decision problem. This is known as *log-rolling*.
7. As committees consist of a large number of persons, it is difficult to maintain secrecy regarding the decisions taken at the committee meetings.
8. As the chairman of a committee often changes, influence accumulates in the hands of the permanent secretary or some other person or persons who may then dominate the committee. This may bring about resistance from others.

Suggestions for Making Committees Effective

We have seen above, how a committee suffers from certain limitations. These can, however be overcome if the following suggestions are carried out:

1. The number of members on a committee should not be very large. It is said that committees of twenty, deliberate plenty; committees of ten, act now and then; but most jobs are done by committees of one.
2. A committee's authority should be carefully spelled out, and its activities correctly chosen and closely defined.
3. The members of a committee should enjoy approximately equal formal status so that they interact with each other freely.
4. The members should give precedence to organisational interests over departmental interests and should be prepared in advance on issues to be discussed in the meeting. Information should be shared prior to the meeting so that the focus of the meeting can be on problem solving.
5. The chairman of the committee should plan and conduct the meeting with firmness and fairness. He should remember that his job is to get members to think, rather than to think himself for them. He should recognise the need to perform both group maintenance and task role effectively. While the former role (encouragement, praise, etc.) prevents disintegration of the group, the latter prods it to achieve its purpose.

https://rbigradeb.com/

6. The work of the committee should be periodically reviewed to determine if it is working effectively, in terms of the purpose for which it was established, and whether that purpose is still valid.

TEAMS

Teams have become so popular in today's organisations that they deserve special attention. A team is a small group of people with different backgrounds, skills and knowledge, who are drawn from different functional areas of the organisation, to work together on a specific and defined task. One member of the team is usually designated as the team leader for the duration of the team's assignment. His responsibility is to decide who among the team members should take team leadership for a *particular phase* of the task. This implies two things: *one,* the designated leader should have full knowledge of every member's function and potential contribution and *two,* leadership at any one time should be placed according to the logic of the work and the specific stage in its progress. There are no hierarchical considerations in the working of a team. The designated leader of one team may report to one of his subordinates on some other team. Although the mission of a team is a specific task, the team itself can be permanent. Its composition alone may vary from task to task, with the base remaining fairly constant. A group of doctors and nurses with diverse specialisations, treating a patient, or a director's crew of electricians, sound engineers, cameramen, etc., in a film studio, are the simplest examples of a team.

Characteristics of a Team

1. A team has skill diversity.
2. A team has a clear and sharply defined objective.
3. The leadership in a team is task-oriented. It changes as in a flock of wild geese. Geese fly in their typical "V" formation, with different birds taking the lead at different points in time (see Exhibit 7.2).
4. It is always the team as a whole that is responsible for the task.

EXHIBIT 7.2

FLOCK OF GEESE: EXHIBITING CHARACTERISTICS OF A TEAM

You have undoubtedly seen a flock of geese flying overhead. The following behaviours of this species provide some insight into a team's characteristics.

(a) As each bird flaps its wings, it creates an uplift for the bird behind. By using a "V" formation, the whole flock adds 71 percent more flying range than if each bird flies alone.

(b) Whenever a bird falls out of formation, it suddenly feels the resistance of trying to fly alone and quickly gets back into formation to take advantage of the lifting power of the birds immediately in front.

(c) When the lead bird gets tired, it rotates back into formation and another flies at the point position.

(d) The birds in formation honk from behind to encourage those in front to maintain their speed.

(e) When a bird gets sick or wounded, two other birds drop out of formation and follow their fellow member down to help or provide protection. They stay with this member of the flock until it flies again or dies. Then they launch out on their own, with another formation or catch up with their own flock.

https://rbigradeb.com/

Strengths

1. A team is highly *receptive to experimentation,* to new ideas, and to new ways of doing things. It is the preferred design for innovative work.
2. A team is the *best means available for overcoming functional insulation and parochialism.* Everybody in a team has a clear understanding of each other's role and is flexible enough to adopt any role.
3. *A team assumes responsibility of the whole task.* This holistic responsibility reduces the need for coordination, detailed planning and chasing of work.
4. In a team, all members work closely in decision-making and problem-solving, without 'rubbing people up the wrong way'. This results in *no communication overload on the top executives.*
5. A team *accomplishes more than the sum total of what members are capable of accomplishing individually.* The word 'team' is an acronym which stands for "Together Everyone Achieves More".

Weaknesses

1. A team demands continuous attention to its management, to the relationships of people within the team, to assigning people to their jobs and to explaining to the management, its progress on the job and its important decisions, which have irrevocably committed the whole company, for example, its pricing decisions.
2. In large teams, where individual contributions are more difficult to identify, some individuals reduce their effort and performance levels because they think that the performance of others will cover for their reduced effort. This is called **"social loafing"**. Another dysfunctional phenomenon which occurs is the **"sucker effect"** which means that some individuals do not want to do more than their perception of effort being given by others in the team.

Difference between Traditional Formal Work Groups and Teams

Although the two terms, 'formal work groups' and 'teams', are frequently used interchangeably, there are several points of distinction between the two, which are listed in Table 7.1.

Table 7.1 Differences between a Formal Work Group and a Team

Formal Work Group	*Team*
1. Organisation is done on the basis of hierarchy of superior-subordinate relationship and random skills.	1. Organisation is done on the basis of complementarity of skills. There is no superior-subordinate relationship.
2. Leadership and composition are more or less permanent.	2. Both leadership and composition change according to the situation.
3. Management is by direction and control.	3. Management is by integration and self-discipline.
4. Communication is up and down between the superior and his subordinates.	4. Communication is lateral.

(Continued)

https://rbigradeb.com/

(Continued)

Formal Work Group	*Team*
5. Members vie with each other for power, prestige, recognition and personal autonomy, because rewards are based on individual effort.	5. Members collaborate with each other because rewards are based on team effort.
6. Decisions are taken on the basis of simple majority.	6. Decisions are taken unanimously.
7. The purpose is the same as the organisation's.	7. The purpose is specific.

Types of Teams

There are three broad types of teams prevalent nowadays:

1. **Project Teams** These are cross-functional teams which work on projects to develop something new or to accomplish a complex task for a defined, but typically extended, period of time.

2. **Problem-solving Teams** These are teams which work parallel to the regular organisational structure. These teams are constituted to solve specific problems and then disband. Problems may include determination of customer needs, development of a flow chart to study a process, selection of a project and so on.

3. **Permanent Work Teams** These teams work as self-contained work units, responsible for manufacturing products or providing services. Sometimes also known as *"autonomous work teams",* these teams follow the self-regulation principle, under which only the critical interventions, desired outcomes and organisational maintenance requirements are specified by those managing the work, leaving the remainder to those doing the work. Gulowsen[29] gives the following characteristics of these teams:

(a) Within the four-corners of the superordinate goal, the team can govern its own performance in the following ways:
- It can decide where to work.
- It can decide when to work.
- It can decide how to work (i.e., it can make a choice of its production methods).
- It can decide which other activities it wishes to engage in.

(b) The team establishes the quantity and the quality of its output.
(c) The team makes its own internal distribution of tasks.
(d) The team decides its own membership.
(e) The team makes its own decision:
- Whether it wants to have a leader to regulate its internal conditions and, if it does, who this leader should be;
- Whether it wants to have a leader for regulating boundary conditions and, if it does, who this leader should be.

(f) The team decides how the work operations should be performed.

Two important implications of an autonomous work team are: one, it requires multiple skills within the group so that it can share an array of tasks, two, it requires redesigning the role of the supervisor.

[29]Gulowsen in Davis, Louis E. and James C. Taylor (eds), *Design of Jobs* (Santa Monica, California: Good Year, 1979).

https://rbigradeb.com/

Autonomous team approach increases satisfaction and reduces turnover and absenteeism. Moreover, if a breakdown occurs in one team's operations, all other teams can continue their operations undisturbed. This is not so in the assembly line.

INTERNATIONAL ORGANISATION STRUCTURES

Among the important factors affecting an MNE's choice of structure are (i) its strategy, (ii) home and host country environments, (iii) nature and size of its business, (iv) diversity of its constituencies and (v) the human resources available. As the company marches forward on the road to internationalisation, its coordination and control needs become more and more complex and it changes its present structure. Thus, we find many companies, which had earlier established their footholds in the host countries by creating subsidiaries, later on shifting to international division structures to look after their foreign operations, international division structures shifting to global functional structures, global functional structures to global geographic structures, global geographic structures to global product structures and global product structures to matrix structures. MNEs that use global matrix structures select either a two-dimensional (e.g., ABB) or three-dimensional designs (e.g., IBM). Two-dimensional designs involve combinations of product and geography or product and function. Three-dimensional designs involve combinations of all the three, viz., product function and geography.

Once thought the wave of the future, the matrix structure has lost some of its lustre over the years. It has been criticised for (i) duplication of functions across units, (ii) multiplicity of intersecting levels of authority, which slows decision-making, and (iii) poor accountability and performance evaluation, which reduce the incentive for executives to undertake risks.

SUMMARY

- The word organisation has two common meanings. The first meaning refers to the *process of organising*. The second meaning signifies the *institution or group* which comes into existence as a result of organising.
- The organising process involves a number of steps, viz., consideration of objectives, grouping of activities into departments, deciding which departments will be treated line and which will be treated staff, determining the levels at which various types of decisions are to be made, determining the span of supervision and setting up a coordination mechanism. There are a number of principles of organising, which should be remembered in the process of organising.
- The organisation structure is made up of various departments. Departmentalisation is the grouping together of similar or logically related work activities. There are several bases of departmentalisation. This departmentalisation is usually shown on an organisation chart.
- Two broad categories of organisation structures are classical and behavioural. But none of them can be said to be useful in all circumstances. Hence a contingency view of structures is gaining ground nowadays.
- Dale Zand believes that even in a classical organisation, the mode to solve ill-structured problems should be behavioural. Similarly, for solving routine or well-structured problems, the mode should be classical, even if the organisation structure is behavioural. He calls these modes "collateral organisation".

https://rbigradeb.com/

- Committees play an important role in many organisations nowadays. These can be either executive or advisory. There are a number of advantages and weaknesses of committees. Suggestions for making committees effective include: (a) the need for the chairman to be fair and firm; (b) the need for members to behave like a team; (c) the need to keep the number of members very limited; and (d) the need to carefully select members from all departments.
- Recent phenomenal growth in electronic communication has given rise to the concept of virtual organisation. The essential feature of this organisation is that it has no office as such because its executives with mobile phones and laptop computers can work at any place and at any time.
- A team is a small group of people with skill diversity. It differs from a formal work group in several ways. Its chief strength lies in the dictum "Together Everyone Achieves More". Social loafing and sucker effect are its principal weaknesses. There are three broad types of teams: project teams, problem-solving teams and permanent work teams.

KEY TERMS

Span of Management It is the number of subordinates who report directly to a manager.

Departmentalisation It is the grouping of work activities, so that similar and logically related activities occur together.

Mechanistic Organisation Structure It is usually a pyramid-shaped structure, with centralisation of authority at the top, specialised tasks, hierarchy of command, narrow span of supervision and intense division of labour.

Organic Structure It is a flat structure with a wide span of supervision, more decentralisation, little specialisation and hierarchy of command and people grouped according to their social needs.

Social Loafing This is the tendency of some team members to under-perform on the belief that this will go unchecked, when mixed with the total performance.

Virtual Organisation This is an organisation which has no office as such because its executives, with mobile phones, lap top computers and video-conferencing, can work at any place, and at any time. They can use this synchronous technology to create a worldwide informational network, employ this network to outsource all their non-essential activities, and focus on their core competence.

Review Questions

1. Define the term, "organisation". Give its characteristics.
2. What are the important steps in the process of organising?
3. Explain the important principles of organising.
4. Distinguish between organisation as a "structure" and as a "process".
5. "Sound organisation structure is an essential prerequisite of efficient management." Discuss this statement and point out the various principles which should be followed in developing organisation structures.
6. "Organisation charts provide a broad picture of positions of authority and their relationships in the organisation structure." Critically examine this statement.

https://rbigradeb.com/

7. What is meant by departmentalisation? List different types of departmentalisation.
8. Describe a matrix organisation. What are its advantages and disadvantages?
9. Account for the widespread use of committees in management. Examine the merits and demerits of committees.
10. What do you understand by "span of management"? How is this taken into account in preparing an organisation structure?
11. Briefly describe Graicuna's theory of the superior-subordinate relationship. What is the weakness of this theory? Describe those factors which usually determine the span of management of a manager.
12. Why is it that span of control at the chief executive level is usually narrower than that at operative level?
13. "No one organisation structure is best for all situations". Explain.
14. Write short notes on:
    (a) Virtual organisation
    (b) Collateral organisation
    (c) Organisation chart
    (d) Linking pin function
    (e) Team
15. Match the following:

(a) Classification of organisations according to *cui bono* criterion.	Alfred D. Chandler
(b) Determination of organisation structure according to strategy.	Rensis Likert
(c) Consideration of the number of relationships in determining the span of management.	Joan Woodward
(d) Interlocking of groups.	V.A. Graicunas
(e) Consideration of the type of technology used in determining structure.	Lyndall Urwick
(f) Connection between committees and democracy.	Blau and Scott

    [(a) Blau and Scott, (b) Alfred D. Chandler, (c) V.A. Graicunas, (d) Rensis Likert, (e) Joan Woodward, (f) Lyndall Urwick]
16. Describe the characteristics of an autonomous work team.
17. Fill in the right words:
    (a) Establishing sales districts, each headed by a local manager, is an example of departmentalisation by _____.
    (b) When the major consideration is on being better able to serve different categories of buyers of the firm's products, departmentalisation by _____ deserves serious consideration.
    (c) Grouping all punched-card keypunching machines in one area, even though several departments are served, is an example of departmentalisation by _____.
    (d) A narrow span of management results in a _____ organisation.

https://rbigradeb.com/

(e) If A has three subordinates B, C and D the number of direct group relationships would be _____.

(f) Matrix organisation violates the management principle of _____.

[(a) Territory, (b) Customers (c) Process. (d) Tall, (e) Nine (f) Unity of Command]

18. Describe the strengths and weaknesses of a team.
19. How is a team different from a traditional formal work group? Explain.

Projects

1. Compare the organisation structures of some companies and discuss their appropriateness for these companies.
2. "The organisation structure of a typical general hospital differs substantially from the design of other large-scale organisations." Discuss.
3. What drawbacks and inefficiencies would be encountered if a large, geographically dispersed chain of fifty bakeries decided to use an exclusively territorial basis for organisation at all operating levels below the presidency? At what points in such an organisation might a case be made for some use of process, product and functional basis of departmentation?

Cases

1. Designing an Organisation Structure

Hari Mohan has a position on the corporate planning staff of a large company in a high technology industry. Although he has spent most of his time on long-range, strategic planning for the company, he has been appointed to a task force to reorganise the company. The president and the board of directors are concerned that they are losing their competitive position in the industry because of an outdated organisation structure. Being a planning expert, Hari Mohan convinced the task force that they should proceed by first determining exactly what type of structure they have now, then determining what type of environment the company faces, now and in the future, and then designing the organisation structure accordingly. In the first phase, they discovered that the organisation is currently structured along classic bureaucratic lines. In the second phase, they found that they are competing in a highly dynamic, rapidly growing and uncertain environment, which requires a great deal of flexibility and response to change.

Discussion Questions

(a) What type or types of organisation design do you feel this task force should recommend in the third and final phase of the approach to their assignment?

(b) Explain how the systems and the contingency theories of organisation can each contribute to the analysis of this case.

(c) Do you think Hari Mohan was correct in his suggestion of how the task force should proceed? What types of problems might develop as by-products of the recommendation you made in Question 1?

https://rbigradeb.com/

2. Scalar Chain

Ice Cool Private Limited was an ice cream manufacturing company employing about 100 persons including persons at various levels of management. Because of increasing business, the company needed to strengthen its accounting procedure particularly through computerisation. For this purpose, the company decided to hire a new manager designated as assistant manager. The company invited applications through press advertisement. After receiving the applications, it appointed a selection committee consisting of members of top management including business manager Rakesh Mohan. The committee interviewed several candidates and finally selected Bishwash as new Assistant Business Manager. Bishwash was neat, well dressed and quite articulate.

Bishwash joined the company immediately and started working very hard. He used to put extra efforts and even worked during holidays as he did not have any family responsibility. He gained the reputation of being a dedicated and competent employee, his strong point being his knowledge of accounting and computer system. He was reporting to Rakesh Mohan, the business manager who was quite impressed with his working.

At that time, the company had no computer system, and its accounting procedures were in need of considerable improvement. Anil Kumar, the managing director of the company, directed Rakesh Mohan to get the needful done. Since most of accounting work related to sales, no separate accounting department existed and the work was performed under the direction of business manager. Bishwash was mainly appointed to strengthen the accounting aspects of the business. He was asked to prepare a project report so that necessary changes could be made. In order to get the first-hand information about the problem, Bishwash began meeting regularly with Anil Kumar without the knowledge of Rakesh Mohan. There was no attempt to have secret meeting: Anil Kumar would just call Bishwash in for a report without bothering to tell Rakesh Mohan. The management team, whose members were with the company for a quite long period had formed a tight-knit group and appeared satisfied with the company. They all worked together and the company prospered inspite of fierce competition.

The meetings between Anil Kumar and Bishwash continued and Rakesh Mohan was gradually losing contact with the project and its progress. In fact, Bishwash was almost reporting directly to the managing director though he was placed under business manager and retained his title of assistant business manager. Rakesh Mohan was now visibly upset over the development and was also concerned about Bishwash's spreading share of influence. He started feeling let down in the company.

Discussion Questions

(a) What is the nature of problem in this case?

(b) Could Rakesh Mohan have prevented Bishwash's assumption of power? If so, how specifically, could it have been done?

(c) Suggest the course of action now available to Anil Kumar, Rakesh Mohan and Bishwash.

https://rbigradeb.com/

CHAPTER

8 AUTHORITY DELEGATION AND DECENTRALISATION

Learning Objectives

This chapter will enable the reader to:

- **Define** formal authority
- **Examine** the source of authority
- **Identify** the meaning and types of power
- **Explain** the difference between authority and power
- **Discuss** the types of power of the rank and file/group or department
- **Provide** within the discussion of power the concept of influence
- **Define** responsibility
- **Explain** line, staff and functional authority
- **Describe** the line and staff conflict
- **Describe** the delegation of authority and its advantages
- **Discuss** decentralisation
- **Explain** empowerment

https://rbigradeb.com/

Underlying the task of management is the concept of organisational authority. It is the *formal right* of the superior to command and compel his subordinates to perform a certain act. Henri Fayol defines authority as "the right to give orders and power to exact obedience."[1]
According to Herbert A. Simon[2], three functions of authority deserve special notice:

1. ***It enforces obedience to norms*** The subordinate who accepts the authority of the superior or a union leader who enters into an agreement with the manager is motivated to a very great extent by the fear of sanctions. He knows that if he disobeys, an elaborate set of sanctions may be invoked against him.

2. ***It secures expertise in the making of decisions*** An extremely important function of authority is to enable the enforcement and execution of expert advice given by specialists in the organisation. A fundamental device for securing this is to locate the specialist in a strategic position in the formal hierarchy of authority, that is, in a position where his decisions will be accepted as decisional premises by other organisational members.

3. ***It permits centralisation of decision-making and coordination of activity*** By the exercise of authority it is possible to centralise the function of decision-making and to force all members to take mutually consistent decisions.

SOURCE OF FORMAL AUTHORITY

There are two major views on the origin or source of formal authority in organisations. These are, the classical, and the human-relations views.

Classical View

According to this view, also known as the formal, traditional or legalistic view, authority originates at the top in the formal structure of an organisation and then flows downward to subordinates. It means that managers at each level of the organisation derive their authority from the managers at the higher level. For example, an assistant foreman receives authority from the foreman, a foreman receives it from the assistant production manager, an assistant production manager from the production manager, the production manager from the general manager and the general manager from the board of directors.

A subordinate accepts his superior's authority because he considers it to be *legitimate*. According to Max Weber, the three major bases of legitimacy are tradition, rationality-legality and charisma. Tradition, as the basis of authority, implies that the subordinate accepts his superior's authority because it has traditional support. Rationality-legality as the basis of authority implies that the superior has contractual support. Charisma as the basis of authority occurs in those circumstances where the superior possesses magnetic personality or simply extraordinary qualities which enable him to capture a group of supporters or admirers.

Human Relations View

According to this view, also known as the Barnard–Simon view or the "acceptance" view, the authority of a superior originates in the willingness of his subordinates to accept it. The authority becomes somewhat meaningless unless those affected accept it and respond to it. If the subordinates do not accept

[1]Henri Fayol, *General and Industrial Administration* (N.Y.: Pitman Publishing Corporation, 1949).
[2]Herbart A. Simon, Administrative Behaviour (N.Y.: The Free Press, 1967).

https://rbigradeb.com/

authority, it is not real and does not exist. For example, if a superior storms along an assembly-line shouting at everyone to work hard, the subordinates may not question the superior's right to do so but they may choose not to comply with the order if it is outside their *area of acceptance* regardless of its legitimacy and the sanctions behind it. These areas vary from worker to worker and from situation to situation. They rob orders of their authority. Most managers intuitively aware of their workers' areas, avoid overstepping them.

Also, since not all commands are obeyed in all circumstances, the classical view, which says that authority originates at the top and then flows down to subordinates, is a *normative view* and expresses the way as it should occur and not the way it does.

Notwithstanding the above arguments, majority of writers hold the classical view. They very rightly say that the human relations view suffers from the following implications:

(i) For order to prevail in the organisation, the manager must know from one command to another that he would be obeyed.
(ii) A manager has no sanctions or inducements to secure workers' acceptance of his orders.

The fact of the matter is that managers at all levels in an organisation possess *three* important inducements to secure workers' willing or unwilling acceptance of their authority. These are: (a) use of power, (b) development of influence and (c) reliance on personal leadership. The first two of these—power and influence—are considered in this chapter, leadership is analysed in Chapter 17.

POWER

Power is the *ability* or the available *potential* of a person to influence or to cause another person to perform an act or to change his behaviour or attitude. French and Raven[3] have suggested that there are five types of power an individual may possess: reward, coercion, referent, expert and legitimate. The *reward* power of A over B increases as B feels that A can deliver reward to him. The *coercive* power of A increases as B feels that A can deliver punishment if B fails to respond to A's attempt to influence. The *referent* power of A over B increases as B desires more and more to emulate or imitate A's work habits. The *expert* power exists when B sees that A has some expertise on a given subject. The *legitimate* power occurs when B perceives that A has the legal or traditional right to determine B's behaviour. Thus, legitimate power is the same as authority. The four other types of power would also become authority, if they are formalised. Thus, if the power to administer reward and punishment is given to A by the organisation, if B is attracted to A because of his formal position, if B thinks that A is an expert because of his position, then in all these cases A has authority over B.

A manager to be effective must possess the *right type of power*. For example, an airline captain may be much more effective by having high levels of legitimate and expert power or a product design team leader may be more effective by having high levels of referent power.

Some authors also include the following three additional types of power:

(i) *Charismatic power*, which a person derives from his magnetic personality, or some extraordinary qualities;
(ii) *Reflected power*, which a person derives from his closeness to a powerful individual;
(iii) *Emotional power* as that of a mother over her son.

[3]John R.P. French and Berfram Raven, "The Bases of Social Power" in Darwin Cartwright (Ed.), *Studies in Social Power* (University of Michigan, 1959), pp. 150-167.

https://rbigradeb.com/

It should, however, be understood, that the effectiveness of any type of power constantly ebbs and flows as the person on whom it is exercised changes. Thus, in all the aforesaid examples, the effectiveness of A's power is valid only in relation to B. It may not be the same in relation to C, D and so on who may differ from B in their influence/ability.

Improper use of power turns into *organisational politics* and leads organisations to take irrational decisions. See Chapter 21.

Difference between Authority and Power

The following are the points of distinction between authority and power:

Authority	*Power*
1. It is narrower in scope being only a sub-set of power.	It is wider in scope.
2. It is the legitimate right of a superior to command and compel his subordinates to perform a certain act.	It is the ability of a person to influence another person to perform an act.
3. It rests in the chair (or position). With the change in position, the authority of the individual also changes. A traffic policeman on duty has the authority to direct and control traffic. But after retirement he cannot do it because he has no authority now.	It rests in the individual. Hence even when his position has changed, his power remains with him.
4. It can be delegated to a subordinate by his superior. A manager who has the authority to purchase machine worth Rs 10 lakh on his own, can delegate his authority to his assistant, empowering him to make purchases worth Rs 10 thousand on his own.	It cannot be delegated. A manager who is a very able decision-maker cannot hand over his ability to his assistant.
5. It is mostly well-defined, conspicuous (shown on the organisation chart) and finite (i.e., commensurate with responsibility).	It is undefined, inconspicuous and infinite. Its location cannot be known from the formal organisation chart. As a matter of fact, one might find it in unspecified places.
6. It is what exists in the *eye* of law. It is a *de jure* concept. It is mostly nominal. We find many organisational figure-heads who are administrators in name only. They may be regarded as "reigning without ruling".	It is what exists in fact. It is a *de facto* concept. Some people in organisations exercise significant power far beyond the accepted borders of their authority. They are the real wire pullers behind the figureheads.
7. It serves as a basis of formal organisation.	It serves as a basis of informal organisation.

Types of Power of the Rank and File

Our earlier discussion of the acceptance view of authority reminds us that power is not possessed only by managers. The following are some important types of informal power of people much lower in the hierarchy, i.e., the rank and file:

- *Central position,* for example, a managing director's secretary can develop some power over his boss by regulating the flow of visitors and information to this key executive.

https://rbigradeb.com/

- *Dependence,* for example, a salesman with close ties to key customers can wield power over his employer by threatening to go to work for another concern.
- *Specialisation*, for example, the ground maintenance crew of an airport can wield power over the station director by threatening to withhold its services. Similarly, an individual with intimate familiarity with the organisation's rules and regulations can wield considerable power over a new executive who is not as familiar with the organisation.
- *United front*, for example, a labour union with a monopoly of supplying certain type of skilled labour has power over industries that require such labour.

Types of Power of a Group or Department

As to a group's types of power in a business organisation, important among them are: *substitutability, dependence, centrality, ability to cope with uncertainty* and *control over strategic resources*. A group or department whose work cannot be substituted by other groups or departments is likely to be more powerful than those whose work can be substituted. Likewise, the more other groups or departments are dependent on a given department for information, technical service, etc., the more power it has. The more a group or department renders primary activity of the organisation, the more power it has. The more a group or department helps the organisation in coping with uncertainty associated with changes in the environment, the more power it has. And, last, the more a group or department has control of critical resources such as money, the more power it has.

Considering all the above types of power of the rank and file and groups, which can neutralise managerial power at higher levels, one writer[4] has claimed that organisations are continuously at the mercy of their lower participants and another[5] that authority is really delegated upward, not downward.

INFLUENCE

To some writers, "fear" is an essential element of power. They, therefore, do not regard all the above types as power. They regard *coercion* and *reward* as the only types of power available to a manager. The former induces in the subordinate the fear of receiving punishment and the later the fear of reward being withheld. These writers, however, admit that in certain circumstances even these two types of power may prove inadequate to the task. For example, a threat of discharge may not induce fear in an employee who can readily obtain as good a job elsewhere. Similarly, the prospect of promotion being lost may not induce fear in an employee who dislikes further increase in his authority. In all such cases, where the manager's power is neutralised by employee's counterpower, the manager should try to achieve results through his influence which may comprise several of the above-mentioned types of powers" such as 'referent power', 'expert power', 'charismatic power', 'reflected power', 'emotional power' and so on.

"Influence", these writers say, "has *no element of fear*". Employees accept influence *voluntarily* or perhaps *unconsciously* out of respect for the manager. The following are some other ways in which an organisation can develop the influence of an executive:

1. By giving him an impressive title, salary, office and privileges. Employees generally size up a job in terms of these status symbols and are quick to detect differences in them.

[4]David Mechanic, "Sources of Power of Lower Participants in Complex Organisations."
[5]Chester Barnard, *Functions of the Executive.*

https://rbigradeb.com/

2. By channeling all important information through him. In most instances an executive who has pertinent, reliable and current information is given considerable weight by his subordinates.
3. By backing-up his decisions.
4. By regularly paying attention to his advice.

RESPONSIBILITY

Just as authority is the *right* of a superior to issue commands, responsibility is the *obligation* of a subordinate to obey those commands. Thus, when a superior assigns some work to a subordinate, it becomes his responsibility to perform it.

Responsibility has two dimensions. One dimension may be expressed as responsibility *for,* the other as responsibility *to.* Responsibility *for* is the obligation of a person to perform certain duties written in his job description or otherwise accepted by him. Responsibility *to* is his accountability to his superiors. It is inevitably associated with check-up, supervision, control and punishment.

Responsibility cannot be delegated or transferred. The superior can delegate to a subordinate the authority to perform and accomplish a specific job. But he cannot delegate responsibility in the sense that once duties are assigned, he is relieved of the responsibility for them. This delegation of tasks does not absolve the superior from his own responsibility for effective performance of his subordinate. In other words, we can say that responsibility is divided into two parts at the time of delegation: (a) operating responsibility; and (b) ultimate responsibility. The subordinate assumes only the *operating* responsibility for the task. The superior retains *ultimate* responsibility for getting the job done. If the subordinate fails to perform the job (operating responsibility), the superior is held responsible for this failure (ultimate responsibility). To explain that the ultimate responsibility cannot be shifted or reduced by assigning duties to another, Newman[6] cites the example of a person borrowing money from the bank and then reloaning it to his son. This transaction with his son in no way reduces his own obligation and responsibility to repay the money to the bank.

Responsibility may be *specific* or *continuing.* It is specific when on being discharged by a subordinate it does not arise again. Thus, a consultant's responsibility is specific. It ceases when the assignment is completed. The responsibility of a foreman is, however, of a continuing nature.

Authority Should Equal Responsibility

This means that the subordinate must have been delegated enough authority to undertake all the duties which have been assigned to him and for which he has accepted responsibility. A subordinate manager cannot be expected to accept responsibility for activities for which he has no authority. If an engineer does not have adequate authority to purchase spare parts, how can he be made responsible for the maintenance of plant and machines?

The advocates of this parity principle say that authority and responsibility should be exactly equal. The subordinate should not have more authority than responsibility or vice versa. Inequality between the two produces undesirable results. If authority exceeds responsibility, a misuse of authority can easily result. On the other hand, if responsibility exceeds authority, the subordinate may find himself in a very frustrating situation. But as Haimann[7] points out, there are some situations where the strict

[6]William H. Newman, *Administrative Action* (Englewood Cliffs, N.: Prentice-Hall, 1951), p. 171.
[7]Theo Haimann, *Professional Management* (New Delhi: Eurasia Publishing House. 1962). p. 59.

https://rbigradeb.com/

application of this principle would not be advisable. For example, in emergency situations, executives often exceed the limits of their authority without any criticism.

LINE, STAFF AND FUNCTIONAL AUTHORITY

There are three types of authority in most organisations: line, staff and functional.

In *line authority,* a superior exercises *direct command* over a subordinate. Line authority is represented by the standard chain of command that starts with the board of directors and extends down through the various levels in the hierarchy to the point where the basic activities of the organisation are carried out.

The nature of *staff authority* is merely *advisory.* Literally the word "staff" means the stick carried in the hand for support. A staff officer has the "authority of ideas" only. The information which a staff officer furnishes or the plans he recommends flow upward to his line superior who decides whether they are to be transformed into action. A market researcher who gathers and analyses data on marketing problems and advises the marketing manager on demand for new products; an industrial engineer who prepares layout plans of plant equipment, production methods and operating standards based on time studies and forwards them for the acceptance of the production manager; an internal auditor who checks the accuracy of accounting records and suggests to the head of the accounting department measures to prevent fraud; a personnel officer who advises the personnel manager on all dealings with unions are many examples of staff authority.

There are four levels of authority of a staff man (Fig. 8.1). At the lowest level, consultation of a staff man for his ideas by the line head is purely voluntary. The line head may or may not consult him. In fact, at this level his persuasive ability, status, backing or technical expertise determine the extent of his influence over others. At the next higher level, consultation is made compulsory for each department. Under this arrangement, the staff man must be consulted before action is taken. Line people cannot ignore him. The next higher level of staff man's authority is one where he is granted concurring authority, so that no action can be taken by the line people until he agrees to it. Thus, no finished parts may move to the next stage of production until okayed by the quality control inspector, no contract may be signed with a third party until approved by the legal expert, no new employee may be hired by a department head until approved by the personnel manager, and so on. Under this arrangement, if the staff and the line people do not agree, an appeal is made to the next senior man in the hierarchy. The highest level of the staff man's authority is one where he is granted **functional authority**. This means that he can give direct orders to people in other departments outside his formal chain of command instead of making recommendations to them. In many companies, the personnel manager provides an example of functional authority. He may have complete control over specific areas such as recruitment and training in all departments of an organisation, besides his own.

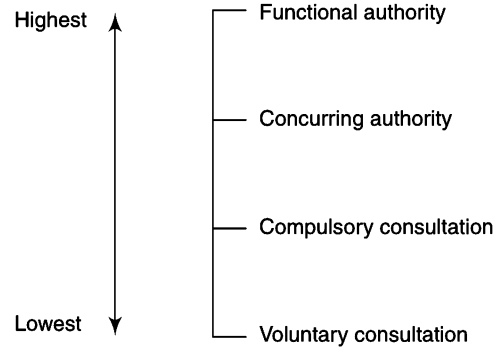


Fig. 8.1 Levels of authority of a staff man

Similarly, the safety director may have complete authority to issue instructions to all departments regarding installation and use of safety equipment.

https://rbigradeb.com/

As a matter of fact, functional authority is more often conferred upon a staff man, because he is an expert, on certain matters. But, at times, it may also be granted to a line officer. Thus, the finance manager in a company may be given the authority to specify the format of financial records kept by other departments. Whenever functional authority is given to a line officer, it is known as *functional line authority,* and whenever it is conferred upon a staff man, it is known as *functional staff authority.* There is no doubt that both these types of functional authority make the affected line officers accountable to two or more than two superiors, and thus violate the principle of unity of command, which states that every individual in an organisation should receive instructions from just one superior.

Too great proliferation of functional authority delegations tends to cause confusion and disorder. Individuals who find themselves unable to carry out the instructions of all superiors usually resort to the "decible" principle of management, satisfying only those superiors who make the most noise.

One way to limit the undesirable organisational effects of functional authority is by specifying that the functional authority of any manager shall not extend beyond one organisational level. See Fig. 8.2.

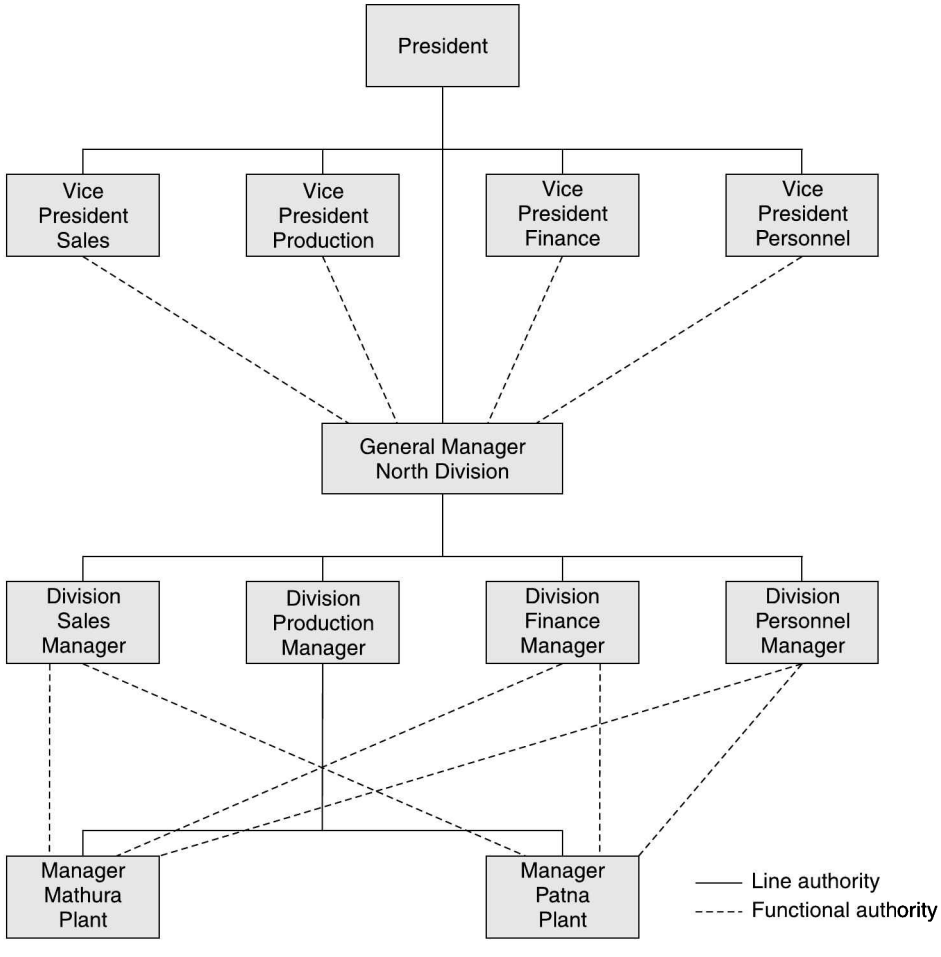


Fig. 8.2 The limitation of functional authority to one organisational level

https://rbigradeb.com/

Line and Staff Conflict

The line and staff departments of an organisation are generally found to be at loggerheads with each other. The line departments complain that:

1. The staff people encroach upon their authority and prerogatives.
2. The advice given by staff people is mostly academic and unhelpful in achieving production goals. Staff research and experimentation is little more than "money wasted on blunders", and that the line department could have accomplished better results with less money.
3. When a project is unsuccessful, it is the line people who are blamed and held responsible for its failure but when it is successful, the staff people receive credit.
4. Staff people fail to see the whole picture. They tend to operate in terms of the limited objectives of their own speciality rather than in the interests of the business as a whole.

Staff departments complain that:

1. Line people are generally ignorant and bull-headed. They resist new ideas. They fear that changes in methods may expose forbidden practices and departmental inefficiency. They fear being shown up before their line superiors for not having thought of the refinements themselves.

   They fear that changes in methods may bring personnel changes which will threaten the break-up of cliques and existing informal arrangements and quite possibly reduce their area of authority.
2. Line people distrust, non-cooperate and even sabotage staff plans.
3. Staff has not enough authority to translate its advice into action. Many staff managers feel that if they have the best answer to a problem, they should be able to enforce the solution on the line man involved.
4. Line departments receive preferential treatment in matters of staff allowances and other facilities on the basis of their being *earning* departments.

The following are two ways to reduce this conflict:

(a) *Better understanding of the nature of the relationship* between line and staff Line should be educated and encouraged to make maximum use of staff. Staff should merely transmit, not originate, orders. It should "sell before tell" when dealing with line personnel. The success of an enterprise is dependent upon both, the front-line and the back-room personnel. The relationship between the two should be of the professional-client type, in which neither party typically exercises authority over the other, although there is influence in both directions.

(b) *Reducing the visibility of status symbols* For example, invite all line and staff officers to the executive cafeteria or place individuals with similar backgrounds in both line and staff positions.

DELEGATION OF AUTHORITY

Meaning

A manager in an enterprise cannot himself do all the tasks necessary for the accomplishment of group goals. Clearly, his capacity to do work and to take decisions is limited. He, therefore, assigns some part of his work to his subordinates and also gives them necessary authority to make decisions within the area of their assigned duties. This downward pushing of authority to make decisions is known as

https://rbigradeb.com/

delegation of authority. In the words of Louis A. Allen,[8] "If the manager requires his subordinate to perform the work, he must entrust him with part of the rights and powers which he otherwise would have to exercise himself to get that work done."

It should be remembered, however, that by delegating authority the manager does not surrender his authority or give this authority away. The delegating manager always retains the overall authority which was assigned to him to perform his functions. As Terry has observed, "it is something like imparting knowledge. You share with others who then possess the knowledge, but you still retain the knowledge too."[9]

According to Mary Parker Follett, the idea of delegating authority is a fallacy because many positions carry with them their own authority. The director of a hospital does not give authority to a surgeon; the position of surgeon already contains authority. If the director gives more or less authority, he is expanding or contracting the position itself. This is an architectural change, not a mere matter of delegating authority from above.

Advantages of Effective Delegation

Following are some important advantages of effective delegation.

1. ***It relieves the manager of his heavy workload*** As Urwick[10] puts it, delegation is something to prevent a manager from being crushed under the weight of accumulated duties. Delegation of authority relieves the manager from heavy load of work and enables him to concentrate on higher functions of management. For example, it would obviously be a waste of a company president's time—most of which should be spent in dealing with the overall goals of the organisation—to check personally the time cards of the lower-level employees. Such a task (sometimes called "*scut work*") can be best delegated to lower-level supervisor in the organisation.

2. ***It leads to better decisions*** Another advantage of delegation is that it frequently leads to better decisions, since subordinates closest to the scenes of action usually have the best view of the facts. For example, for the national sales manager of a company based in Delhi, the south zone sales manager will be in the best position to allocate the sales territories among the salesmen in that zone.

3. ***It speeds up decision-making*** Effective delegation speeds up decision-making. Valuable time is lost when subordinates must check with their superiors (who then may have to check with *their* superiors) before making a decision. This delay is eliminated when subordinates are authorised to make the necessary decision on the spot.

4. ***It helps train subordinates and builds morale*** Effective delegation causes subordinates to accept responsibility and exercise judgement. This not only helps train subordinates but also improves their confidence.

5. ***It serves as compensation to those employees who face the prospect of limited advancement.***

6. ***It helps create a formal organisation structure*** Delegation of authority is the key to formal organisation. Without delegation, a formal organisation structure cannot be created. The process of delegation of authority results in what is generally known as superior-subordinate relationship which gives rise to a formal organisation structure.

---

[8]Louis A. Allen, *Management and Organisation* (N.Y.: McGraw-Hill, 1958). p. 116.
[9]George O. Terry, *Principles of Management* (N.Y.: Richard D. Irwin, 1977), p. 336.
[10]Lyndall F. Urwick, *The Elements of Administration* (N.Y.: Harper & Bros. 1944).

https://rbigradeb.com/

Barriers to Effective Delegation

In spite of the above advantages, many managers are found unwilling to delegate authority and many subordinates are found unwilling to accept it. The reasons for this unwillingness on both sides are as under.

On the manager's side, the reluctance to delegate may be due to the following reasons:

1. **Fear of Loss of Power** Some managers are little Napoleans who want to keep all the authority to make decisions in their own hands. They feel uncomfortable when they see their subordinates making decisions which they themselves once made.

2. **The "I Can Do it Better Myself' Fallacy** Some managers have an inflated sense of their own worth. They, therefore, perform themselves even low-level jobs which come their way.

3. **Lack of Confidence in Subordinates** Some managers hesitate to delegate authority to their subordinates because they doubt their ability. Such managers continue to keep themselves involved in jobs which they have delegated to their subordinates. For effective delegation, it is necessary that a subordinate should only initially work under the guidance of his superior and then he should be freed to work without the superior's guidance.

4. **Fear of Being Exposed** Some inefficient managers are always afraid of their subordinates outshining them and proving more efficient. They are therefore very cautious about delegating, lest their inefficiency be exposed. Effective delegation is possible only when a manager is prepared to accept defeat from his subordinates. *Shishyad Ichhét Parajayam* (Desire defeat from your disciple) should be his motto. One reason why our indigenous system of medicine failed to flourish is that a *vaidya* always kept some knowledge up his sleeve lest his disciples should excel him.

5. **Difficulty in Briefing** Many times managers are reluctant to delegate because they think that it is easier to do a task themselves than to brief the subordinates.

6. **Inability to Establish and Exercise Proper Controls** Since it is only the authority which is delegated and not the responsibility, all managers want to assure themselves about the proper use of delegated authority by their subordinates. They are reluctant to delegate authority if they are unable to keep a tab on whatever their subordinates do.

Notwithstanding the above reasons of unwillingness, the following two situations *force* managers to delegate authority to subordinates:

- When their span of control has been made so wide that there is no choice left but to delegate authority, and
- When they do not qualify for promotion until they have trained some of their subordinates to take over their positions.

On the subordinates' side, the reluctance to accept delegation may be due to the following reasons:

1. They may refuse to accept authority because of their fear of criticism by their superior in case they commit mistakes in decision-making.
2. They may avoid accepting any authority if they feel that they lack mental and physical ability, adequate information and resources to help them discharge their duties properly.
3. They may believe that the authority is inconsistent with the purposes of the organisation and this may also be the cause for their unwillingness to accept it.

https://rbigradeb.com/

4. They may avoid accepting any authority because there are no positive personal gains to them for assuming extra responsibility.
5. They may refuse to accept the authority because it is outside certain limits, which Herbert A. Simon refers to as *areas of acceptance*.

Guidelines for Effective Delegation

1. Make sure that delegation is not loss of power or that you cannot do it yourself.
2. Remember that only two tasks in a list of ten tasks deserve topmost priority. Their performance yields 80 percent of your total rewards and, therefore, you should do these tasks yourself. The remaining tasks can be delegated to others.
3. Before delegating authority, make the nature and the scope of the task clear. Avoid overstepping the subordinate's "area of acceptance".
4. Assign authority proportionate to the task.
5. Make the subordinate clearly understand the limits of his authority and deadlines.
6. Give the subordinate some positive incentives for accepting responsibility. The subordinate will appreciate if you give him some of the work which you find particularly enjoyable.
7. Train the subordinate properly. First be in front of him for check-up and guidance and then be at his back to follow his performance.
8. Create a climate of mutual trust and goodwill. The subordinate will work much better if he has the freedom to commit honest mistakes.
9. Do not make the subordinate accountable to more than one superior.
10. Let there be no overlaps or splits in delegation which usually result from the superior's desire that the authority over a given situation should be shared by individuals or units.

    Overlapping takes place when responsibility for the same task is assigned to more than one individual. *Splitting* occurs when responsibility for the same task is assigned to more than one organisational unit. This should, however, be distinguished from *splintered* authority which exists whenever a minor problem under consideration concerns more than one unit and cannot be solved without pooling the authority delegations of two or more managers. Thus, when the manager of branch A sees an opportunity to reduce his costs through a minor modification in the procedures in branch B, both managers can pool their splintered authority and agree upon the change and merely refer the decision upward to their common superior. This saves the common superior from being swamped with minor problems. However, if pooling of splintered authority has to be done too often it may indicate that the authority delegations have not been properly made.
11. Learn to manage time. Avoid unexpected visitors, telephone interruptions, extended meetings of minor importance, needless reports, etc. Also remember that work has the habit of expanding on time and people.

DECENTRALISATION OF AUTHORITY

Meaning

The delegation of authority by an individual manager is closely related to an organisation's decentralisation of authority. Every organisation has to decide as to how much decision-making authority should

https://rbigradeb.com/

be centralised in hands of the chief executive and how much should be distributed among the managers at lower levels. In a centralised set-up, the decision-making authority is concentrated in a few hands at the top and in a decentralised set-up, it is delegated to the levels where the work is to be performed. Ernest Dale[11] mentions four criteria to measure the extent of decentralisation in an organisation. He states that whenever decentralisation is greater.

1. The greater is the number of decisions made at lower levels;
2. The more important are the decisions made at lower levels;
3. The more is the number of areas in which decisions can be made at lower levels; and
4. The fewer are the people to be consulted and less is the checking required on the decisions made at the lower levels.

In the words of Fayol,[12] "Everything that goes to increase the importance of the subordinate's role is decentralisation and everything that goes to reduce it is centralisation."

It may also be noted that the terms "centralisation" and "decentralisation" are not absolute but are relative. Absolute centralisation is not possible, except in a one-man enterprise. Consequently, it can be said that some decentralisation characterises all organisations. Similarly, there cannot be absolute decentralisation of authority because the manager cannot delegate all his authority without surrendering his position as a manager.

Distinction between Delegation and Decentralisation

The terms delegation and decentralisation appear to mean the same thing, but in reality there is considerable difference between the two. The main differences are as follows:

1. Delegation is a *process,* while decentralisation is *the end result* of delegation and dispersal of authority. Delegation mainly refers to the granting of authority and the creation of responsibility as *between one individual and another;* decentralisation is the situation which exists as a result of the systematic delegation of authority *throughout the organisation.*
2. In delegation, a superior continues to be responsible for the work delegated to his subordinates, while in decentralisation the superior is relieved from his responsibility for the work decentralised and the subordinate becomes liable for that.
3. Delegation is vital and essential to the management process. Only through delegation, subordinates can be involved in the organisation and the management can get things done. Decentralisation is optional, in the sense, that it may or may not be practised as a systematic policy.

The Trade-offs of Centralisation and Decentralisation

Certain advantages are associated with decentralisation that tend to be the corresponding limitations of centralisation. The reverse is also true with centralisation having certain benefits that decentralisation does not have. The trade-offs constituting advantages of each approach, are briefly explained below.

[11]Ernest Dale, *Planning and Developing the Company Organisation Structure,* Research Report 20, (N.Y.: AMA, 1952), p. 118.
[12]Henri Fayol, *op. cit.,* p. 34.

https://rbigradeb.com/

Advantages of Decentralisation

The important advantages of decentralisation are as follows:

1. ***Decentralisation reduces problem of communication and red tape*** As an organisation grows larger, it takes longer for top managers to get the information necessary to make decisions. Decentralisation unclogs the communication process and improves the organisation's efficiency.

2. ***Decentralisation permits quicker and better decision-making*** The employees who are close to the work and are, therefore, most knowledgeable about the specific details and circumstances of problems that arise in their departments have the authority to take action. As a result, they often make swift and better decisions than their superiors who are not in touch with the specifics of the situation.

3. ***Decentralisation recognises and actually capitalizes on the importance of the human element. Under decentralisation, employees are able to exercise more autonomy*** This gives them power, prestige and status. They feel more motivated and satisfied in their jobs. Autonomy of subordinate units permits greater experimentation and flexibility to meet new conditions. Ideas do not have to be sold to top management before they can be tried.

4. ***Decentralisation leads to a competitive climate within the organisation*** Where each division is made into a distinct profit centre its head is encouraged to exercise greater initiative and ingenuity since he is being compared with his peers on various performance measures.

5. ***Decentralisation ensures the development of employees*** Because employees in a decentralised structure often have to adapt and deal with difficult situations, they are assumed to be excellently trained for promotions into positions of greater authority and responsibility.

6. ***Decentralisation facilitates diversification of products, activities and markets*** This has been amply demonstrated by Alfred D. Chandler[13] in his study of such large American industrial enterprises as Du Pont, General Motors, Standard Oil and Sears Roebuck. Chandler found that these companies in their initial stages had a centralised organisation structure that was best suited for the limited products they offered. But as companies expanded their operations and diversified production, their centralised structure started proving inefficient and impractical. The different operations and product units now needed a greater measure of independence in order to be able to respond quickly to the changing demand of their special markets. Some centralised control was maintained, but in general, these companies had to shift to a decentralised structure, with several near-autonomous divisions, in order to remain successful. In recent years some organisations in India have attempted to capitalise on the virtues of being small and decentralised. For example, Crompton Greaves (an electrical goods manufacturing company) is known to have 8 independent profit centres, BHEL is fragmented into 3 units viz., stainless steel plant, the welding research institute and valves division. LIC has been split into 5 units.

Advantages of Centralisation

1. Coordination of activities of subordinates is better achieved.
2. There is no duplication of efforts or resources.
3. Decisions take into account the interest of the entire organisation.
4. Strong central leadership develops which may be required in crisis.

[13]Alfred D. Chandler, Jr., *Strategy and Structure* (Cambridge, Mass.: The MIT Press, 1962).

https://rbigradeb.com/

How Much Decentralisation? (Contingency View)

In recent years, decentralisation has become the golden calf of management philosophy. Both, those who write about and those who practice management extol the virtues of decentralisation. However, decentralisation is not an unmixed blessing. Under total decentralisation, with no coordination and leadership from the top, every division or unit may try to optimise its performance at the cost of other units and this may lead to disintegration of the enterprise into isolated sub-units. For this reason, the question for managers is not *if* an organisation should be decentralised but *how much* should it be decentralised.

In determining the amount of decentralisation appropriate for an organisation, the following situational factors are usually considered.

1. **Size of the Organisation** The size of the organisation in terms of rupee-volume of sales, number of plants, and number of employees is the strongest single factor determining the extent of decentralisation. It appears that the speed and adequacy of decision-making, flexibility and efficiency are enhanced through decentralised operations in case of very large, multi-product, diverse and complex organisations.

2. **History and Age of the Organisation** If the organisation has started out as family business and has grown primarily from within then it might have built up a very centralised structure. On the other hand, if it has grown by acquisitions and mergers, it is likely to be decentralised for political or human relations reasons. Similarly, a relatively high degree of centralisation may be needed at the start, when new values and viewpoints are being established and the top leadership cannot depend on the sweet will of its members for adherence to those values and viewpoints. But when the rationale and meaning of official viewpoint are well understood and widely accepted, centralisation is more readily dispensable.[14]

3. **Philosophy of Top Management** Some managers pride themselves in making all decisions themselves. Others take equal pride in confidently delegating authority to their subordinates. Generally speaking, owner-managed enterprises tend to be more centralised than the professionally managed ones.

4. **Abilities of Lower-level Managers** Talented executives are often unwilling to accept centralisation from their superiors. They want to run their department or divisions independently so that they may give expression to their abilities and may be rewarded for what they are able to accomplish in their own units. On the other hand, the scarcity of talented executives limits the extent of decentralisation at a given time.

5. **Strategy and the Organisation's Environment** The strategy of an organisation influences the types of its markets, its technological environment, and its competition with other organisations. These factors, in turn, influence the degree of decentralisation of the organisation. Alfred Chandler[15] found, for example, that companies operating in industries in which markets are less uncertain, production processes technologically less dynamic and competitive relationships more stable, tend to become more centralised.

6. **Nature of Management Function** Some management functions are more amenable to decentralisation than others. In a large multi-plant company such functions as purchasing, traffic, cost accounting, quality control, plant engineering and personnel tend to be decentralised, yet financial planning and resource

[14]Philip Selznick, *Leadership in Administration*, (N.Y.: Harper and Row, 1957), p.113.
[15]Ibid.

https://rbigradeb.com/

allocation may be reserved for the very highest level of decision-making and control. Marketing may or may not be decentralised, depending upon the nature of the markets and the variety of products.

7. **Available Controls** A good manager will delegate his authority if he has means of assuring himself that delegation will be used in the general manner that he had intended. Absence of effective control and coordination devices may not only make uniform application of policies concerning wages, layoffs, promotions, etc. difficult but may even endanger the very existence of the enterprise.

8. **Costliness and Significance of Decisions** Generally speaking the costlier and more significant the decisions, the greater is the tendency to keep authority for these decisions centralised at a relatively high level in management.

EMPOWERMENT

Empowerment is the authority of an employee to make decisions in his area of responsibility, without first having to get approval from someone else. Empowered employees are given not only the authority to make decisions, but also financial resources to implement their decisions. However, the strategic choice of the *extent* to which empowerment should be given must be based on the type of industry or service, sense of responsibility of people, environment, etc. Thus, Union Carbide involves its shop-floor employees only in developing their own 'work instructions' and standard operating procedures. At Federal Express, which has stringent customer-service standards, empowerment goes to the extent that an employee handling an order can charter an aeroplane to deliver an important shipment. Field officers in Indian Railways are now empowered to reduce the number of coaches in trains that are not so popular, and to add the same in popular trains that have long waiting lists. At Motorola, employees are authorised to spend upto $5000 to handle customer-related problems.

Empowerment is *operationalised* through participation, innovation, access to information and accountability/responsibility. Employees participate in decision-making, try out new ideas, have access to any information they need to do their jobs and improve productivity and are held accountable and responsible for results. This accountability is not intended to punish mistakes. Instead the intent is to ensure that employees are giving their best effort working towards agreed upon goals and behaving responsibly towards each other.

Merits of Empowerment

1. **Speed** When employees are liberated from dependency, they can seize opportunities that are too local, too fleeting or too many, to permit a centralised decision-making process. Nordstrom's customer service stories are legendary, and include employees who have ironed a new shirt for a customer who needed it that afternoon, one who warmed customers' cars in winter while they shopped, and even one who refunded money for a set of tyre chains, even though Nordstrom does not sell them.

2. **Morale** Employees feel better about their work because they know they have greater control over it. They feel that what they do has meaning and significance, and that their decisions make a difference to the success of the organisation. Empowering employees raises the level of trust in the organisation.

3. **Full use of Employees' Potential** Empowerment brings out people's hidden potential, self-help and self-reliance. They use their indigenous knowledge and talent, not only in solving problems, but also in generating new ideas.

https://rbigradeb.com/

4. **Non-financial Incentive** Many employees in organisations now face the prospect of limited promotions, given the recent tendency toward flatter organisations. If promotion is unavailable, companies need to find other ways of motivating employees. Empowerment is one way to accomplish this. It is a sort of compensation for limited career paths.

De-merits of Empowerment

1. **Greater Potential for Chaos** Excessive competition among employees may lead to different levels of customer service, which in turn may give conflicting message to customers. Moreover, instead of seeking solutions of their problems from their superiors in the hierarchy, employees may make horizontal cross-functional links, which may signal the break-down of the formal hierarchy. "Who is responsible for what" may become unclear, and job descriptions may become less useful.

2. **Role Conflict** Managers with ultimate authority and responsibility for functional units may experience role conflict between two cultures: one to relinquish control and the other to maintain control.

Requisites for the Success of Empowerment

1. *There should be strong ideological commitment of the head of the organisation.* He should be clear as to what he means by empowerment. Is it an improved consultative process? Is it for developing people's skills, or for improving the bottom line? Is it extended responsibility, with authority for problem solving and decision-making? If it is the last one, he should not fear losing control.

2. *The web of relationships should be increasingly horizontal.* It should replace the rigid vertical stratification. Formation of important cross-functional horizontal links enables employees to seek solutions for their many operational problems from their counterparts in other departments, instead of from their superiors in the hierarchy.

3. *The scheme should be designed after identifying employees' real needs and with their participation.* Even though many workers prefer an empowered workplace to the old style of narrowly defined tasks, empowerment is not for everyone. Some workers hate the idea of being their own boss and its associated responsibilities.

4. *There should be transparency, openness, trust and greater error tolerance in administering the scheme.* Distrust is a major disruption in any change, including empowerment. Mutual trust means that managers believe in their employees and employees feel that the boss will never let them down. In organisations where failure is not considered a stigma, employees feel more relaxed and truly empowered.

5. *There should be enhanced communication.* Decision-making requires information, and an organisation in which decision-making is widely distributed should likewise have widely distributed information.

6. *There should be variable rewards with some group component.* In other words, a part of individual's reward should depend upon the performance of the group as a whole. This is necessary to discourage intra-group competition.

7. *There should be 360 degree feedback to get a complete picture of employee's performance.* The employee should participate in setting standards that are to measure his performance, so that he can understand and accept them.

8. *There should be periodical evaluation of the scheme.*

https://rbigradeb.com/

SUMMARY

- Authority is the right to give orders and to exact obedience. There are two views about the source of formal authority. According to the classical view, formal authority originates at the top and then flows downward to subordinates. According to the second view, authority is legitimatised by subordinates.
- Power is different from authority. Power rests in the individual. Authority rests in the position. There are five types of power: reward, coercion, reference, expertise and legitimacy.
- Responsibility is the obligation of a subordinate to obey the commands of his superiors. Responsibility may be specific or continuing. Authority and responsibility should be coextensive. Although authority can be delegated, responsibility cannot be delegated.
- There are three types of authority in most organisations: line, staff and functional. Line authority is represented by the standard chain of command, from the top of every department to every position below. Staff authority is advisory. Functional authority is the right of a superior to govern the activities of people in departments other than his own on certain matters.
- Delegation of authority is the downward pushing of authority to make decisions. Barriers to effective delegation usually involve the reluctance of managers to delegate and the reluctance of subordinates to accept delegation. To overcome these barriers, managers can clearly specify subordinates' responsibilities, motivate and train subordinates.
- Delegation is closely related to decentralisation in that the greater the amount of delegation, the more decentralised the organisation. The appropriate amount of decentralisation for a particular organisation will depend on a number of factors, such as the size of the organisation, its history, age, philosophy, the nature and the ability of its management.
- Under empowerment employees are authorised to take decisions at their own level without pushing them up the ladder to higher management. This increases employees' morale, their speed of accomplishing a task, their capacity to generate new ideas and their problem-solving potential.

KEY TERMS

Authority It is the formal right of the superior to command and compel his subordinates to perform a certain act.

Power This is the ability to influence or to cause a person to perform an act.

Responsibility It is the obligation of a subordinate to obey his superior's commands.

Line Authority This is the authority of a superior to exercise *direct* command over a subordinate.

Staff Authority This authority of an individual is merely advisory.

Staff Functional Authority This is the authority of the staff to exercise direct command on line, in their area of specialised competence.

Delegation of Authority This is assignment of necessary authority by the superior, to his subordinate, to enable the subordinate to carry out specific activities.

Decentralisation This refers to the extent to which authority has been passed down to lower levels.

https://rbigradeb.com/

Review Questions

1. Define the concept of "authority" and explain the difference between delegation and decentralisation of authority.
2. Discuss the essentials of an effective delegation of authority. Explain its difficulties.
3. "Delegation of authority is not loss of power, it is enhancement of power." Examine this statement clearly.
4. Define authority. What is the difference between authority and power?
5. "Authority is an all inclusive principle of management from which all other principles are derived." Do you agree? Give your reasons.
6. Differentiate between line, staff and functional authority.
7. Write a brief note on the nature of line and staff conflict.
8. The degree of decentralisation often varies from department to department in the same organisation. Why does this happen?
9. Cite two situations where centralisation would be more effective than decentralisation.
10. What situational factors should an organisation consider in determining the amount of its decentralisation?
11. Write short notes on:
    (a) Advantages of decentralisation
    (b) Empowerment
    (c) Guidelines for effective delegation
    (d) Influence
12. Fill in the blanks:
    (a) According to Human Relations view, the authority of a superior depends on the _____ of his subordinates to accept it.
    (b) According to Max Weber, the three major bases of legitimacy are tradition, rationality and _____.
    (c) According to Herbert A. Simon, a subordinate will _____ an order outside his zone of acceptance.
    (d) Delegation is a _____ while decentralisation is the end result.
    (e) There are three types of authority in most organisations: line, staff and _____.
    (f) Power rests in the individual. Authority rests in the _____.
    [(a) Willingness (b) Charisma, (c) Reject, (d) Process, (e) Functional, (f) Position.]

Projects

1. Interview some managers of local firms to find out the type of power they have. Is it effective? Is it their preferred category?
2. Give examples of jobs that would benefit from the use of specific type of power.

https://rbigradeb.com/

Cases

Unprepared Change, I can do it better myself, and Bases of Power

1. Unprepared Change

Sigma Appliances Limited was in the business of trading of various home appliances. For this purpose, the company entered into agency agreement with different leading manufacturers. The agency business was doing quite well. About ten years back, it was diversified into manufacturing some of the appliances like electric iron press, electric oven, electric heater and other electrical gadgets. For this purpose, the company hired a team of technical personnel led by Khempal who was a diploma holder in Electrical Engineering but had considerable experience in the relevant field. The marketing was looked after by personnel of agency division with the addition of some more hands.

With increased business activities, the company was facing the problem of integrated information system, as this could not be built up since the company graduated from a small-scale level. Whatever information system was developed, it was based on the needs felt rather than based on planning. In order to develop its management information system based on computerised processing, the company decided to recruit an MIS manager and advertisement was put in leading national newspaper inviting the applications for the post. After receiving the applications, the company appointed a selection committee consisting of three members—managing director of the company, manager of agency division and an outside consultant. The committee interviewed applicants and selected Narayanan with three years' experience in MIS in a large company. Narayanan was very happy on this appointment as he was offered very profitable emoluments.

On one day, Khempal had an informal chat with the Agency Manager (Rajnish), which proceeded this way:

Khempal: I have heard that you have appointed a new manager who will provide us information about how we should do.

Rajnish: I have not appointed him but the management has done this. I was just a spectator in the selection committee meeting. Further, Narayanan will not provide us information about how we should work. Rather he will collect information from us regarding how we are working.

Khempal: I do not see any need for that. We are working alright and management has wasted the money in appointing Narayanan. With this money, I could have three more engineers who could have done something meaningful. Well, it is their money. If they want to waste it in this manner, what we can do.

The chitchat ended as both departed. After joining the company, Narayanan decided to meet the senior personnel to understand their information need and the information that could be generated from different parts of the organisation. In this process, he met Khempal in his factory office, which was adjacent to the administrative block and the conversation took place as follows:

Narayanan: Good morning sir.

Khempal: Good morning. How do you do?

Narayanan: I am fine sir. Sir, I want to know what information your department needs.

https://rbigradeb.com/

Khempal: If you want to enjoy a cup of tea with me, you are welcome. But if you want to ask such a silly question, I am sorry.

At this Narayanan looked visibly upset and left the factory office after saying, "Sir, I will meet you later."

Discussion Questions

(a) Discuss the nature of problems involved in this case.
(b) What kind of perception was formed by Khempal about the role of MIS manager? What could have been the probable reasons for this?
(c) Advise Narayanan about how he should proceed.
(d) What methods should the chief executive adopt to overcome the problem?

2. I can do it better myself

Bharat Products Ltd. is a big factory with a turnover of Rs 10 crore and with 400 workers. You have been in the office of its Factory Manager, Mr Kaushik, for nearly 40 minutes. During this short period you have found that your conversation with him has been interrupted several times. First, it was the Office Manager who rang him to get his approval for samples of office stationery. Mr Kaushik sends for the samples. Then comes the ring from a supplier who informs Mr Kaushik that a particular part of machinery, which is otherwise not available in the market, can be had from him. Mr Kaushik rings the Storekeeper to purchase this part immediately from the supplier and to cancel the order, if any, which the Purchase Manager might have placed. Then there is a ring from a customer requesting Kaushik to allow a higher percentage of discount than that promised by the company's Sales Manager. Kaushik not only turns down the request but also expresses his surprise at the high percentage already allowed by the Sales Manager. Finally, a foreman enters and complains that a certain part of one machine is broken and it not being available in the stock, the production may suffer. Mr Kaushik asks the foreman to tell the Purchase Manager to order the part immediately.

Discussion Question

Is Kaushik performing the job of a manager? What are your suggestions to improve his managerial style?

3. Bases of Power

Max Stillwell is a senior professor in the College of Applied Sciences at the State University of New Hampton. He has been on the faculty for more than twenty years and served as Dean of the Colleges for ten of those years. After his "retirement" from the dean's job five years ago, he went back to full-time teaching.

As a Dean, Max exercised considerable monetary control over his own and other college budgets. Nevertheless, he never thought of himself as particularly powerful. He continues to serve on a number of university-wide committees and is frequently called on for advice in his area of expertise—training and development. In fact, colleagues in the College of Extended Learning (CEL) frequently ask him to serve as a committee member on graduate student's committee.

One of Max's friends, who is a CEL faculty member, John Dickinson, asked Max to serve as a speaker at a summer conference sponsored by CEL. John made it clear initially that there would

https://rbigradeb.com/

be no honorarium or other remuneration, but Max still agreed to give the talk. One of the reasons Max accepted was that he wanted to learn more about the particular subject that he was asked to talk about. He rationalised that this experience would give him the opportunity to learn. In fact, he did conduct research and learnt quite a bit about the subject before giving the talk, which was acclaimed successful by both John and the participants at the conference.

Another reason that Max accepted was that he and John, among others in CEL, were friends. He wanted to maintain that friendship. He told John he was accepting for the friendship reason but he also knew that John might be able to repay the favour at another time.

Discussion Questions

1. What kinds of power has Max had in the past?
2. What kinds of power did Max exercise in giving the talk?
3. What kinds of power did John exercise in asking Max to give the talk?
4. Do you see the different sources and types of power at work?
5. Do you see an example of the norm of reciprocity at work?
6. Do you think most of Max's power is from personal or organizational sources and informal or formal sources?

https://rbigradeb.com/

CHAPTER

9

COORDINATION

Learning Objectives

This chapter will enable the reader to:

- **Know** the meaning of coordination and its difference from cooperation and control
- **Relate** the need for coordination
- **Describe** the requisites for excellent coordination
- **Explain** the types of coordination
- **Present** the techniques of coordination
- **Identify** the difficulty of coordination
- **Present** the systems approach to coordination
- **Examine** the coordination of global operations

https://rbigradeb.com/

The management of a modem enterprise is based on the principle of specialisation or division of labour. Jobs are broken down into single repetitive tasks and are entrusted to individuals either working in the same department or in different departments of the enterprise. But the mere application of the principle of specialisation does not enable an organisation to attain the desired results. With jobs specialised and divided among units, coordination becomes necessary. *Coordination is the management of interdependence in work situations.* It is the orderly synchronisation or fitting together of the interdependent efforts of individuals, in order to attain a common goal. For example, in a hospital, the activities of doctors, nurses, ward attendants, and lab technicians must be properly synchronised if the patient is to receive good care. Similarly, in a modem enterprise, which consists of a number of departments, such as production, purchase, sales, finance, personnel, etc. there is need for all of them to properly time their interdependent activities and to efficiently reunite the sub-divided work. To coordinate is to keep expenditure proportionate to financial resources, equipment and tools to production needs, stocks to rate of consumption, sales to production, and so on. It is to build the house neither too small nor too big; adapt the tool to its use, the road to the vehicle, the safety precautions to the risks. It is to relegate the secondary to second place after the principal. It is in a word, to accord things and actions their rightful proportions and to adapt means to ends.

In a well-coordinated enterprise, the following facts are to be observed:

1. Each department works in harmony with the rest. Stores know what has to be supplied and at what time; production knows its target: maintenance keeps equipments and tools in good order, and so on.
2. Each department, division and sub-division is precisely informed as to the share it must take in the common task.
3. The working schedule of the various departments is constantly attuned to circumstances.

Some writers in the area of administration and management (e.g., Henri Fayol, L.A. Allen and Ordway Tead) consider coordination as a separate managerial function. However, coordination might best be considered not as a separate function, but as an essential part of all the managerial functions of planning, organising, directing, and controlling. If a manager performs these functions efficiently and expertly, coordination is generated automatically and there remains no need for special coordination as such. For example, as the manager performs his function of planning, he first thinks of coordination and tries to achieve it by properly interrelating the plans of various departments. Similarly, in organising, that is, grouping and assigning various activities to subordinates and in creating departments, the manager constantly bears in mind the need for coordination. He defines relationships between departments in such a manner and sets them in such a way that coordination will result. He also makes certain that he has the right number and quality of people at various positions. In directing, the manager always takes into account the effect his particular action (giving orders, instructions, etc.) will have on the other departments and executives. In other words, as the manager performs his directing function, he invariably coordinates. Last, but not least, the very nature of the controlling function is one that brings about coordination. In controlling, the manager evaluates operations and checks whether performance is in conformity with the desired standards. If he finds deviations he takes remedial action. By doing this, he assures coordination at least from then on.

https://rbigradeb.com/

DISTINCTION BETWEEN COORDINATION AND COOPERATION

Team work requires both coordination of the work and cooperation of the persons involved. Members in a team are expected to show their voluntary willingness to work together for certain common goals. They are expected to orient their behaviour with respect to these goals. This is cooperation. Two important characteristics of voluntary cooperation are its *emotional context* and its *need for continuing attention.* Voluntary cooperation between a supervisor and a subordinate is predominantly an emotional response based largely on the subordinate's feelings toward the boss, the job and the company. He cooperates because he wants to. Rarely does he decide to cooperate by rationally balancing required effort and possible reward. Further more, voluntary cooperation needs to be continually nurtured because a subordinate's earlier enthusiasm may wane over time when other duties and obligations begin competing for a limited supply of his energy. But cooperation in any organisation will usually be ineffective—will not reach its goal, whatever the intentions of the members—unless each one of them is informed of the behaviours of the others, upon which he can base his own decisions. This information-giving is coordination. For instance consider a group of men attempting to move a heavy object. They are sufficient in number, willing and eager to cooperate with each other and trying to do their best to move the object. They are fully aware of their common purpose. However, in all likelihood their efforts will be of little avail until one of them coordinates them. That is, he gives proper directions to all members of the group to apply the right amount of effort at the right place, at the right time. Thus, coordination is superior in order of importance to cooperation.

DISTINCTION BETWEEN COORDINATION AND CONTROL

Control should be distinguished from coordination. Control is *direct intervention* in the operations of an enterprise to ensure conformity with organisational goals. Coordination provides the *appropriate linkage* between different task units within the organisation. It is associated with integrating activities dispersed across the enterprise and is less direct, economical and has a longer time span than control.

NEED FOR COORDINATION

The need for coordination arises because of the following factors:

Division of Labour

When managers divide work into specialised functions or departments, they, at the same time create a need for the coordination of these activities. Generally, the greater the division of labour, the greater the need for coordination. If all the work of an organisation is done by two people in one unit, it is clear that there is little need for coordination. But if the work has been divided into 10 units with 100 employees, the need for coordination is much greater. Coordination ensures proper synchronisation between activities of different units, avoids interruptions in operations due to reasons such as delay in the supply of materials, tools, or vague directions or omissions, or wrong allocation of duties, and eliminates overlapping or duplication of work.

Let us take an example. A car is equipped with accelerator, brake and clutch. Operate them all simultaneously and to their limit, you will generate a lot of noise but no movement. Coordinate them and manage their interactions, and you progress.

https://rbigradeb.com/

Interdependence of Units

The need of coordination in an organisation also arises because of the interdependence of various units. The greater the interdependence of the units, the greater the need for coordination. This is illustrated by James Thompson's typology of interdependence. Thompson[1] points out that units can be linked in any of three ways.

1. **Pooled Interdependence** Units linked by pooled interdependence make contributions to the total organisation but are not directly related. Hindustan Zinc smelter plants in Udaipur and Visakhapatnam both contribute to the company's profits, but they are not directly interrelated. The need for coordination between them is minimal. All product-based departmentalisations, where there are separate self-contained units for the manufacturing and marketing of each product, are examples of pooled interdependence.

2. **Sequential Interdependence** In this kind of linkage, one organisational unit must act before the next can. For example, in a beer company its distribution unit will have nothing to distribute until the beer has been brewed and bottled. Similarly in a textile company having ginning, spinning, weaving and printing units later units depend on earlier ones. Greater coordination is necessary in sequential than in pooled-interdependence, though here also the dependence of units can be reduced by creating buffer inventories.

3. **Reciprocal Interdependence** In this relationship, the input of one unit becomes the output of the other and vice versa. The maintenance and production departments of a company provide an example of this kind of relationship. First of all, if the maintenance crew does not maintain the machines properly, the production department's output will suffer due to frequent machine breakdowns. Thus, the service provided by the maintenance department is an input for the production group. Now, if the production group misuses the machines so that they breakdown frequently, the record of the maintenance department will look bad. In other words, the latter too is partially dependent on the production department. Thus, in reality, the relationship is one of reciprocal dependence. (see Fig. 9.1).

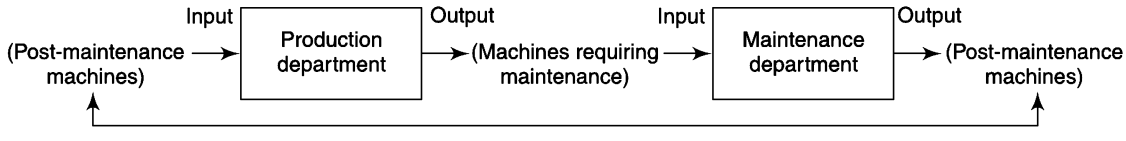


Fig. 9.1 Reciprocal dependence

Individual Interests versus Organisational Interests

The need for coordination is also felt to integrate the activities and objectives of the separate units of an organisation in order to efficiently achieve organisational goals. Without coordination, individuals and departments would begin to pursue their own specialised interests, often at the expense of the larger organisational goals. Coordination reconciles differences in approach, effort or interest of various departments by avoiding inconsistencies in their priorities, objectives and policies. It harmonises corporate and individual goals by making individuals see how their jobs contribute to the dominant goals of the enterprise. This implies knowledge and understanding of enterprise objectives, not just on the part of a few at the top but by everyone, throughout the enterprise.

[1]James D. Thompson, *Organisation in Action* (N.Y.: McGraw-Hill, 1967).

https://rbigradeb.com/

In short, if the efforts of employees are closely coordinated, their total accomplishment is far greater than the sum total of the individual achievements. In the words of George R. Terry[2] "Within any group, coordination makes possible a total accomplishment in excess of the sum of the individual parts making up that total. The total accomplishment of department *X*, consisting of ten employees whose efforts are closely coordinated, is far greater than that of the same ten employees working as individuals." This is the synergic effect of coordination.

REQUISITES FOR EXCELLENT COORDINATION

Good coordination attacks problems as they arise; excellent coordination anticipates them and prevents their occurrence. The following are some of the important requisites for excellent coordination.

Direct Contact

Mary Parker Follett[3] states that coordination can be more easily achieved by direct personal contact among the responsible people concerned. By direct personal contact, ideas, ideals, goals, views can be discussed and misunderstandings, if any, can be clarified much more efficiently than by any other method.

Early Start

Coordination can be achieved more readily in the early stages of planning and policy-making. For example, while preparing the plan itself, there should be mutual consultation. By this, the task of adjustment and integration in the process of implementation of the plan becomes easier.

Continuity

Coordination is a continuous process and it must go on all the time, starting from the stage of planning. Since coordination is the basis of the organisation structure, it will have to be continued so long as the enterprise functions.

Dynamism

Coordination should be continually modified in the light of changes in the internal and external environments. In other words, coordination should not be rigid.

Clearcut Objective

Clearcut objectives are essential for securing effective coordination in an enterprise. The department managers should be told of the objectives of the enterprise and be prevailed upon to work for the common goal of the enterprise. A clearcut objective and its effective teaching to the departmental heads is bound to produce uniformity of action.

[2]George R. Terry, *Principles of Management* (Homewood, III.: Richard D. Irwin, 1953).

[3]H.C. Metcalf and L. Urwick (Eds), *Dynamic Administration: The Collected Papers of Mary Parker Follett* (N.Y.: Harper & Row, 1941).

https://rbigradeb.com/

Simplified Organisation

Simplified organisation structure facilitates effective coordination. Rearrangement of the department may be considered in order to have better coordination among the departmental heads. Closely related operations and functions may be put under the charge of one executive as this would facilitate the taking of actions necessary for coordination. It is suggested that all interfacing departments may be entrusted to one common boss for ensuring better coordination. A "division" is an illustration of this type of grouping. It makes coordination easier and facilitates quick adaptation to environmental changes.[4]

Clear Definition of Authority and Responsibility

Another factor which facilitates coordination is the clearcut definition of authority and responsibility for each individual and department. The clearcut authority not only reduces conflict among the different officers but also helps in making them carry out their jobs with unity of purpose. Further, a clearcut authority helps the manager in holding subordinates responsible for violating the limits.

Effective Communication

Effective Communication is one of the prerequisites for proper coordination. Through continuous interchange of information, individual and departmental differences can be resolved and policy changes, adjustment of programmes, programmes for the future, etc. can be discussed. By effective communication, actions or operations which are contrary to the objectives of the enterprise can be avoided and the efforts of the entire staff can be harmoniously directed towards the realisation of the stated objective of the enterprise.

Effective Leadership and Supervision

Success of coordination is largely influenced by the nature of leadership and supervision. Effective leadership ensures coordination of the activities of people both at the planning and the implementation stage. An effective leader creates confidence in his subordinates and also keeps up their morale. In fact, effective leadership is the best method of coordination and no other method can replace it.

TYPES OF COORDINATION

Coordination may be variously classified as internal or external, vertical or horizontal and procedural or substantive.

Coordination among the employees of the same department or section, among workers and managers at different levels, among branch offices, plants, departments and sections is called *internal* coordination. Coordination with customers, suppliers, government and outsiders with whom the enterprise has business connections is called *external* coordination.

Vertical coordination is what exists *within* a department where the departmental head is called upon to coordinate the activities of all those placed below him. On the other hand, *horizontal* coordination takes place sideways. It exists *between* different departments such as production, sales, purchasing, finance, personnel, etc.

[4]Pradip N. Khandwalla, *The Design of Organisations* (N.Y.: Harcourt Brace Jovanovich, 1977), p. 493.

https://rbigradeb.com/

By *procedural* coordination is meant the specification of the organisation itself—that is, the generalised description of the behaviours and relationships of the members of the organisation. Procedural coordination establishes the lines of authority, and outlines the sphere of activity and authority of each member of the organisation. *Substantive* coordination is concerned with the *content* of the organisation's activities. In an automobiles factory, an organisation chart is an aspect of procedural coordination, while blueprints for the engine block of the car being manufactured are an aspect of substantive coordination.

TECHNIQUES OF COORDINATION (APPROACHES TO COORDINATION)

The following are some important techniques of coordination or approaches to coordination:

A. Basic Coordinating Techniques

Rules, Procedures and Policies The specification of rules, procedures and policies is a very common device to coordinate sub-units in the performance of their *repetitive* activities. Standard policies, procedures and rules are laid down to cover all possible situations. But as some critics point out, this device leads to a *"vicious cycle syndrome"* in which the dysfunctional consequences of this device lead to a still stronger reliance on it. That is, the breakdown of rules and procedures begets more rules and procedures to take care of the breakdown.

Planning Planning ensures coordinated effort. Under planning, targets of each department dovetail with the targets of all other departments. For example, by fixing the target of 10,000 units of additional production and sales for the production and sales departments respectively, the head of the organisation can be fairly sure that the work of the two departments would be coordinated since their targets so demand. Strategic planning does the task of relating the organisation to the environment so as to reduce uncertainty and the need for strict coordination.

Hierarchy The oldest as well as the simplest device for achieving coordination is hierarchy or chain of command. By putting *interdependent* units under one boss, some coordination among their activities is ensured. For example, several aspects of materials management, including inventory control, purchasing, receiving, stores, inspection, etc. may be put in one executive department for purposes of coordinated administration. But the manager responsible for coordinating the various sub-units can become overloaded with information and forced to make too many decisions.

Coordination may become a major problem when an executive decides where to place miscellaneous activities called "*orphan operations*" such as telephone operators, receptionists, chauffeurs, etc. He can decide to assign such employees to the department that makes the *most use* of their work.

B. Increasing Coordination Potential

Direct Contact In order to prevent top executives from becoming overloaded with problems, as many problems as possible are resolved by the affected employees at lower levels by informal contacts. Strong cross-functional links at multiple levels may be established for this purpose.

https://rbigradeb.com/

Task Force This is a temporary group made up of representatives from those departments which are facing a problem. It exists only as long as the problem lasts. When a solution is reached each participant returns to his normal tasks.

Committees As certain decisions consistently arise the task forces become permanent. These groups are labeled committees. This device greatly eases the rigidity of the hierarchical structure, promotes effective communication and understanding of ideas, encourages the acceptance of the commitment to policies and makes their implementation more effective. But this wholly positive estimate of committees has been criticised by several classical writers (see Chapter 7).

Induction Inducting the new employee into the new social setting of his work is also a coordinating mechanism. The device familiarises the new employee with the organisation's rules and regulations, its dominant norms of behaviour, values and beliefs and integrates his personal goals with the organisational goals.

Indoctrination Indoctrinating organisational members with the goals and mission of the organisation—a device used commonly in religious and military organisations is still another coordinating device. According to Gulick[5], the leader should develop in the minds of his followers the desire and will to work together for a purpose. Not merely cognitive faculties but emotions need to be enlisted. According to Selznick[6], the major task of a leader is not only to make a policy but "to build it into the organisation's social structure"—a situation where everybody in the organisation spontaneously protects or advances its official aims and methods. This can be achieved when the leader succeeds in transforming, by indoctrination and other means, the neutral body of men into a committed body.

Incentives Providing interdependent units with an incentive to collaborate, such as a profit-sharing plan, is another mechanism. Ardent advocates of profit-sharing claim that it promotes team spirit and better cooperation between employers and workers, between superiors and subordinates and between workers and workers. Mutuality of interest reduces strife and ensures better coordination.

Liaison Departments In some cases where there is a large volume of contact between two departments, a liaison department evolves to handle the transactions. This typically occurs between sales and production departments. For example, a packaging company that is processing a particularly large order of containers might have a liaison department to make sure that the production department is meeting the clients' specifications and that delivery will take place on time.

Workflow A workflow is the sequence of steps by which the organisation acquires inputs and transforms them into outputs and exports these to the environment. It is largely shaped by technological, economic, and social considerations and helps in coordination.

C. Reducing Need for Coordination

Some new forms of organisation structures such as autonomous work teams and matrix organisations reduce coordination needs.

[5]L. Gulick and Urwick (Eds). *Papers* on *the Science of Administration* (N.Y.: Institute of Public Administration, 1937).
[6]Philip Selznick, *Leadership* in *Administration—A Sociological Interpretation* (N.Y.: Harper & Row, 1966), pp. 61-64.

https://rbigradeb.com/

DIFFICULTY OF COORDINATION

Large business enterprises consist of a number of departments, such as production, purchase, sales, finance, personnel, etc. These departments often find it hard to collaborate with each other due to the differences in their attitudes and working styles. Paul R. Lawrence and J.W. Lorsch[7] have identified four such differences.

Differences in Orientation Towards Particular Goals

Members of different departments develop their own views about how best to advance the interests of the organisation. To sales people, product variety may take precedence over product quality. Accountants may see cost control as most important to the organisation's success, while marketing managers may regard product design as most essential.

Differences in Time Orientation

Some members of an organisation, such as production managers, will be more concerned with problems that have to be solved immediately or within a short period of time. Others, like members of a research and development team, may be preoccupied with problems that may take years to solve.

Differences in Interpersonal Orientation

In some organisational activities, such as production, there may be relatively more formal ways of communicating and decision-making. In other activities such as R&D, the style of communication and decision-making may be informal. Everyone may be encouraged to have a say and to discuss his ideas with others.

Differences in Formality of Structure

Each unit in the organisation may have different methods and standards for evaluating progress towards objectives and for rewarding employees. In a production department, for example, where quantity and quality are rigidly controlled, the evaluation and reward process might be quite formal. Employees will be judged quickly on how they will meet or exceed well-defined performance criteria. In personnel department, on the other hand, standards of performance may be much more loosely defined.

From the above description, it is clear that howsoever desirable the division of work and specialisation are in helping the organisation use its resources most efficiently, they do make it more difficult for managers to achieve effective coordination.

Systems Approach and Coordination

We have suggested above that coordination implies the adjusting of the efforts of a number of individuals, and/or of materials or machines, so that they come together in the right quantity, in the right quality, in the right place, at the right time. By coordination we balance a number of different parts of

[7]Paul R. Lawrence and J.W. Lorsch, *Organisation and Environment: Managing Differentiation and Integration* (Homewood, Ill.: Richard Irwin, 1967).

https://rbigradeb.com/

an organisation, harmonising their interaction, so that the total organisation moves towards an agreed or defined objective. This idea of looking at an organisation as a single integrated machine is known as the systems approach. In this approach, it is believed that the effectiveness of an organisation depends not so much on the quality of individual efforts as on the logic of the organisation's total design and the way in which each individual's contribution has been geared to the organisation's overall objectives. In this approach, it is imperative for the manager to provide for a system of built-in coordination in his organisation and to subordinate all individual and departmental goals to the general goals of the enterprise.

The distinctive feature of the systems approach is its integrating nature. It treats an organisation as a network of mutually dependent parts. Coordination among various parts is achieved by seeking answers to the following questions:

What are the strategic parts of the system? For example, the strategic parts of every enterprise are the individual, the formal organisation, the informal organisation and the physical setting in which the job is performed. Under the systems approach these parts are woven into a configuration called the organisation system.

What is the nature of mutual dependency of various parts? In the absence of coordination, the various parts of a system may function as "island kingdoms", perceiving only vaguely any mutuality of interests with other parts. Coordination works like an orchestra where each player knows not only his own part in the total symphony but also the parts of other players.

What are the main processes in the system which link the parts together and facilitate their adjustments to each other? The processes through which the various parts of a system are linked together are the communication process, decision-making, controlling, rewarding and punishing. All these are of crucial importance largely because they are used to define or to implement goals, or to keep the different parts of the system operating as much as possible in line with the overall objectives of an enterprise.

What are the goals sought by the system? According to Mary Parker Follett, you cannot integrate or coordinate the parts of your business successfully unless you have your purpose clearly defined; you must unify policies and purposes before you can really unify activities. The chief executive, she believed, should be able to define the whole complex of purposes of a plant. He should see the relation of the immediate purpose to the large purpose, the relation of every separate plan to the general purpose of the company. According to her, the best leader is the one who does not ask people to serve him, but the common end; he is the man who wants to arouse not so much attitudes of obedience as attitudes of cooperation, and no one can do that effectively unless he is working for a common purpose, understood and defined as such.

COORDINATING GLOBAL OPERATIONS

MNEs need coordination mechanisms to deal with *breadth* (the number of units in the coordination network) and *diversity* (the number of functions coordinated). We describe below three integration techniques peculiar to global operations.

1. *Maintaining a higher ratio of expatriates in the top management teams of those units that play a bigger role in the MNE's global integration* This is because the host country managers generally have a stronger identification with and commitment to the local unit than the parent MNE. By contrast, expatriate managers are likely to have a more comprehensive understanding of the MNE's overall global strategy.

https://rbigradeb.com/

2. *Corporate socialisation* It is the process through which the unit manager's values and norms are aligned with those of the parent MNE. Two key processes through which such socialisation is brought about are job rotation across foreign units and management development programmes involving participants from several other units.

3. *Selection of entry mode aligned with the MNE's needs for organisational control and global integration* The manner in which a firm chooses to enter a foreign market through foreign direct investment is referred to as entry mode. Examples of entry mode include franchising, branches, contractual alliances, equity joint ventures and wholly foreign-owned subsidiaries. Some of these modes enable the MNE to maintain greater control and integration than others.

SUMMARY

- The division of work and departmentalisation in organisations make coordination necessary. However, coordination is not a separate activity of a manager, for it underlies all managerial functions.
- There are several coordinating mechanisms that can be used to achieve effective coordination. But the different working styles and attitudes that develop among specialised personnel and departments complicate the task of coordination. The systems approach to organisation, in which all parts of the organisation are woven into a configuration called the organisation system, makes coordination easy. There are also some requisites for effective coordination. They are: direct contact, early start, continuity, dynamism, clear-cut objectives, simplified organisation, etc.

KEY TERMS

Coordination It is the management of interdependence in work situations. Interdependence may be between persons of a department, or between different departments, or between organisation and outsiders. It may relate to procedures or content of the organisation's activities.

Indoctrination This is a coordination technique which aims at developing, in the minds of people, the desire and will to work together, for a purpose.

Cooperation This occurs when two or more parties work together to achieve mutual goals. It has an emotional content and needs continuing attention to sustain it over time.

Review Questions

1. Discuss the need and importance of coordination. Why is it considered the essence of management?
2. What is coordination? What are the techniques of achieving effective coordination?
3. "Coordination and communication are the *sine qua non* of management." Comment.
4. What is the role of coordination in management? How can you achieve effective coordination?
5. Describe the chief requisites of coordination in an enterprise.
6. Explain coordination. State its difficulties.
7. "Coordination is the orderly arrangement of group effort to provide unity of action in pursuit of a common purpose." (McFarland). Elucidate this statement.

https://rbigradeb.com/

8. What is the difference between coordination and cooperation? Is coordination a separate function of management? Explain.
9. Explain the importance of coordination in modem management. What are its various types? Discuss the techniques of coordination.
10. Fill in the blanks:
    (a) According to Thompson, there can be three types of interdependence of units: pooled, sequential and _____.
    (b) Coordination that exists sideways i.e., between different departments of an organisation is called _____ coordination.
    (c) The process through which a unit manager's values and norms are aligned with those of the parent MNE is called _____.
    (d) _____ is a temporary group to solve a problem. It is made up of representatives from those departments which are facing it.
    (e) _____ means that as separate departments within an organisation coordinate, they become more productive than if each had acted in isolation.
    [(a) Reciprocal, (b) Horizontal, (c) Corporate socialisation, (d) Task force, (e) Synergy.]

Project

An age-old question that people have faced as long as they have participated in joint communal activities is: How much regulation of individual action is desirable? Every time a law is enacted it limits someone's freedom. In business management, the problem with making plans is that of coordinating the action of people. Unfortunately no plan is perfect for resolving the conflict between each person's own preference of degree of detail (based on his own dependency needs), which the organisation should provide in its standing plans and coordination. Discuss.

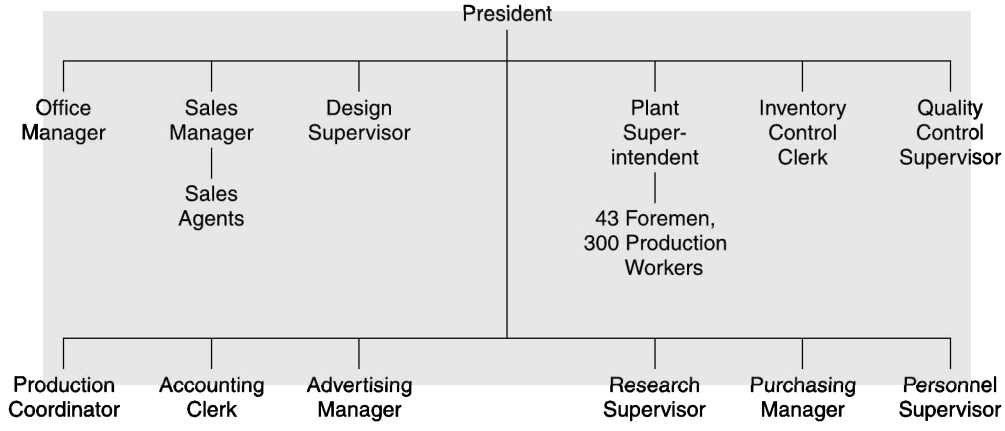
Case — The New Organisation Chart

XYZ Pen Company was organised about ten years ago by Goverdhan Lal, an engineer who simultaneously became its C.E.O. Initially, the company had about a dozen employees engaged in the manufacturing and assembling of high-quality ballpoint pens designed by Goverdhan Lal. As the business expanded, Goverdhan Lal added additional plant facilities and employees.

In 2008, Goverdhan Lal sold XYZ Co. to ABC Industries. XYZ Co. was thereupon reorganised and Goverdhan Lal was elected CEO of the new company. At that time, ABC Industries also recommended that he develop an organisation structure. Goverdhan Lal never felt one was necessary, as he was accustomed to manage his own shop on an informal basis.

Nevertheless, he grudgingly set up the following organisation chart without consulting the ABC Co. management.

https://rbigradeb.com/



This chart was put into effect and seemed to work successfully for about a year due to the frantic efforts made by Goverdhan Lal. He worked twelve to fourteen hours a day, with much of the time out in the plant supervising the production line. And when not supervising the manufacturing process, he would move from department to department solving one problem after another.

On one such typical day, Goverdhan Lal:

(a) Told purchasing to change suppliers of the basic plastic stock for pen barrels,
(b) Hired a new accounts receivable clerk to work in the office,
(c) Reviewed and made corrections on advertising copy for a trade journal, and
(d) Expedited a shipment of pens for a long-time account.

After a year of continuing with this kind of managing, Goverdhan Lal realised that his structure was not functioning properly. There were continual production breakdowns, sales were down, less profits were off and to complicate things, his family physician cautioned him not to work so hard.

The problem, Goverdhan Lal felt, was the friction between the department heads. They were just not cooperating. Goverdhan Lal felt that there was just one solution—dismiss the "trouble makers" in charge of several departments and hire new and more cooperative ones.

Discussion Questions

1. Do you agree with Goverdhan Lal's diagnosis and solution?
2. It you were the consultant of this company, what specific recommendations would you make including bringing about change in the organisation chart?

https://rbigradeb.com/

CHAPTER

10 INFORMAL ORGANISATION

Learning Objectives

This chapter will enable the reader to:

- **Define** informal organisation
- **Identify** the reasons which account for the formation of informal organisation/groups
- **Explain** the types and the stages of informal group development
- **Identify** the differences between formal and informal organisations
- **Examine** the benefits of informal organisation to its members and to management
- **Examine** the dysfunctional effects of informal organisation and the ways in which they can be minimised
- **Define** group dynamics
- **Describe** basic elements of group behaviour

https://rbigradeb.com/

The formal organisation structure of a company which we discussed in Chapter 7 is merely the official picture of how authority is *intended to flow.* To obtain a total picture of any organisation, we must also consider the informal organisation. This is found in those groups of individuals and their interrelationships which, while not intended by formal authority, supplement or modify the formal structure and substantially alter its *de facto* functioning. The Hawthorne experiments were the first to call attention to the existence of these groups. In analysing their results, the experimenters came to the conclusion that any industrial organisation has two aspects: the *technical*—money, machines, tools and the like—and the *human*. The latter consists of groups with which the individual identifies himself. These groups, called "informal organisation", come into being to satisfy those needs of individuals which the more rigid formal organisation is unable to satisfy.

WHY DO INFORMAL GROUPS FORM?

Reasons which account for the formation of informal groups are legion. A number of theories have been advanced by social and organisational psychologists to explain the formation of informal groups. These are as under:

1. **Propinquity Theory** The most basic theory explaining the formation of groups is propinquity. This means that individuals affiliate with one another because of spatial or geographical proximity. In an organisation, employees who work in the same area of the plant or office or managers with offices close to one another would more probably form into groups than those who are not physically located together.

2. **Similarity or Balance Theory** According to Theodore Newcomb[1] "birds of a feather flock together". People with similar attitudes, interests and work-related needs are attracted to one another. Thus, employees may form a union for fighting indiscrimination or unilateral treatment of the employer.

3. **Complementarity Theory** According to Winch[2], "opposites attract each other", i.e., people with complementary needs and/or abilities are attracted to one another.

4. **Social Comparison Theory** According to Festinger[3], an individual joins a group because he suffers from the need for self-evaluation, i.e., he wants to "test" himself against other members to determine whether or not his opinions, ideas, and judgements correspond to those of others in the group.

5. **Interaction Theory** According to George Homans[4], group formation is the result of activities, interactions and sentiments. The more activities persons share, the more numerous will be their interactions and the stronger will be their sentiments (how much the other persons are liked or disliked) the more interactions between persons, the more will be their shared activities and sentiments; and the more positive sentiments persons have for one another, the more will be their shared activities and interactions. We will read more about this concept under the section "Group Dynamics" in this chapter.

6. **Exchange Theory** According to Thaibaut and Kelley[5], group formation is based upon reward-cost outcomes of interaction. A minimum positive level (rewards greater than costs) of an outcome must

[1]Newcomb, T. *The Acquaintance Process* (N.Y.: Holt, Rinehart and Winston, 1961).
[2]Winch, R.F., *Mate Selection: A Study of Complementary Needs* (N.Y.: Harper and Row, 1958).
[3]Festinger, L., "A Theory of Social Comparison Process", *Human Relations,* 1954, 7, pp. 114–140.
[4]Homans, G.C., *Social Behaviour: Its Elementary Forms* (N.V.: Harcourt Brace, 1961).
[5]J.W. Thaibaut and H.H. Kelley, *The Social Psychology of Groups.*

https://rbigradeb.com/

exist in order for attraction or affiliation to take place. Rewards from interactions gratify needs while costs incur anxiety frustration, fatigue or boredom.

Besides the above theories of group formation, there are some very practical reasons for forming a group. Thus, workers may form a group to defend or improve their wages or to collectively resist certain actions of management.

TYPES OF INFORMAL GROUPS

John M. Pfiffner and Frank P. Sherwood[6] have identified five types of informal groups that function outside the formal organisational structure. They call these groups *"overlays"*. These are as follows:

(i) *Social overlays,* comprising employees with similar work-related needs that bring them together.

(ii) *Functional overlays,* comprising employees who exert influence and affect the course of action on account of an extra-ordinary amount of knowledge and know-how which they possess. People respect them and solicit their assistance outside of formal channels. They assume no responsibility when operating in this way but nevertheless affect the course of action.

(iii) *Decision overlays,* comprising employees who are respected and consulted on account of their old age, mature judgement and wisdom over and beyond their position or function in the formal hierarchy.

(iv) *Power overlays,* comprising employees who have power as distinct from authority. Thus, an executive's confidential secretary may wield power far in excess of his actual authority. The kitchen cabinet of a boss may be far more powerful than the more visible and formally established executive. (Simon maintains that the best way to analyse an organisation is to find out where the decisions are made and by whom).

(v) *Communication overlays*, comprising employees who occupy central positions on channels of communication. Location of desk and machines, partitions, common facilities, relationship is social or religious organisations outside the plant, etc. all affect communications, so that certain persons communicate with one another more than with others.

If these overlays are superimposed on a formal organisation chart, it can be easily seen that there are three patterns of contact between individuals, namely horizontal, vertical and random. Horizontal contacts develop among members who are more or less at the *same* level of management and work in more or less the *same* area. Vertical contacts are among individuals on *different* levels in the same line of command. These individuals may be in superior-subordinate relationship with each other. Random contacts encompass members of different departments at different levels of hierarchy and from different physical locations. What unifies them is a common support for some "cause". The cause may simply be to get the group's member promoted or to promote the group's belief about what the company should do or should not do. Such groups are known as *cliques*.

STAGES OF GROUP DEVELOPMENT

There have been many descriptions and studies of the formation and development of informal groups. According to Tuckman,[7] the typical evolution of an informal group includes 4 definite stages as described below:

[6]John M. Pfiffner and Frank P. Sherwood, *Administrative Organisation* (Englewood Cliffs, N.J.: Prentice-Hall, 1960).
[7]Tuckman, B.W., "Developmental Sequence in Small Groups", Psychological Bulletin, 1965, p. 63, 384–399.

https://rbigradeb.com/

1. **Forming** During this stage, the group members try to reach a consensus on various issues, such as the purpose, definition, title, composition and life span of the group, members' roles and norms of behaviour, leadership pattern, and so on.

2. **Storming** During this stage, intragroup conflict develops when the preliminary and often false consensus, reached on various issues during the first stage, is challenged and re-established. At this stage, a lot of personal agendas are revealed and a certain amount of inter-personal hostility is generated.

"Storming" stage may, however, become almost perfunctory, or go underground, if the task is very important, or the members are highly committed, or the individual and group objectives are identical.

3. **Norming** During this stage, uniformity develops in the behaviour of members of a group. Members begin to think and work alike. Their behaviour becomes standardised. This is the result of 3 important factors: (i) norms, (ii) group pressure on individual judgments and (iii) similarity of environment.

(i) ***Norms*** Norms of a group lay down the desired behaviour of a group. Hare[8] calls them "rules of behaviour which have been accepted as legitimate by members of a group." They specify the "oughts" which have to be followed under specific circumstances. "Oughts" are not the "actuals". They tell us what the members of a group ought to do, not necessarily what they actually do most often (the mean average, for example). A group of 10 members may have a norm that each member ought to produce 500 pieces a day. If we were to count each person's production, we could very well find a range in which some workers may be closest to this norm—called "regulars", some others may be much above this norm—called "rate busters" and a few others may be much behind this norm—called "isolates".

Most groups develop a number of norms which they find useful in guiding the members' behaviour. They coin new jargon, with a meaning unique to their group. They introduce games, hold parties and invent rituals. In fact, these are very powerful in standardising group behaviour. Anyone who fails to meet these norms within the accepted range of variation is "attacked" and isolated from the group if his undesired behaviour continues.

One cannot see norms. One can only infer them by observing a group's activities. If one sees members of a group borrowing tools from one another or helping one another, one infers that the group has a norm about sharing tools or helping others.

(ii) ***Group pressure on individual judgements*** Experiments conducted by Asch provide evidence of group pressure generated on individual judgements (Chapter 5). Researchers have shown that this tendency is stronger in a person in respect of whom the following conditions exist:

- the object to be judged is ambiguous;
- the subject's confidence in the correctness of his own perception is low;
- the subject has a high need for social approval;
- the subject is required to express his opinion publicly rather than privately;
- the group is highly cohesive; and
- the quality of the evidence presented by others is compelling. The existence of unanimity among others is of crucial importance. If the subject finds even one other person who agrees with him, he is much less likely to yield to the majority.

(iii) ***Similarity among members' environments*** Membership in a group determines for an individual many of the things he will see, hear, think about, learn and do. The nature of the stimuli in the

[8]Hare, A. Paul, *Handbook of Small Group Research,* N.Y. 1962, p. 24.

https://rbigradeb.com/

environment of a person is in a large part affected by his group membership. All members of a labour union, for example, are likely to be exposed to similar environment in terms of data, knowledge and facts pertaining to their own union and organisation. This similarity of exposure makes people know, perceive and do things in a similar fashion.

4. **Performing** This is the last and the most advanced stage of group development. During this stage, a hierarchy of informal ranks (called *internal social structure*) develops. People in the group silently observe each other and determine their hierarchy *inter se.* Five important determinants of this hierarchy are: adherence to group norms, external status of member, his position in the group's communication network, importance of his role and his personality. Group norms become the bench-mark by which the behaviour patterns of every individual member are measured. Those who follow the group norms closely or enjoy high external status or play a valuable role in achieving the group's objectives or occupy strategic positions in the group's communication network or possess affable and charming personalities are acclaimed as informal leaders. Others in the group position themselves in a hierarchy in terms of the decreasing degrees to which they meet these determinants. In this way, the group comes to acquire sufficient stability and capacity for collective performance.

DISTINCTION BETWEEN FORMAL AND INFORMAL ORGANISATION

Formal organisation	*Informal organisation*
1. It is a prescribed structure of roles and relationships consciously coordinated towards a common objective.	1. It is natural and spontaneous structure, arising out of the social tendency of people to associate and interact. In other words, management has no hand in its emergence, evolution and functioning.
2. Its values, goals and tasks are predominantly oriented towards productivity, profitability, efficiency, growth and so on.	2. Its values, goals and tasks predominantly centre around individual and group satisfaction, esteem, affiliation, friendship, etc.
3. It is well-defined in shape. Majority of formal organisations are pyramid-shaped. Ranks of individuals are made clear by the use of titles. Communication is simple. One can easily chart all relationships.	3. It is shapeless. There are a number of multi-directional, intricate relationships which cannot be easily charted. Sociograms which depict the attraction, repulsion and indifference among members do not present any well-defined shape. Ranks of members are implicit.
4. There is a prescribed, mostly written system of reward and punishment. Rewards can be both monetary and non-monetary.	4. There is an unwritten system of reward and punishment. Rewards take the form of continuous membership, social esteem, satisfaction, group leadership, etc. Punishments are isolation, censure, harassment, etc.
5. This organisation is usually very enduring and may grow to any size.	5. This organisation is not very enduring, being dependent on the sentiments of members, which often change. It also tends to remain small within the limits of personal relationships.

https://rbigradeb.com/

BENEFITS OF INFORMAL ORGANISATION TO ITS MEMBERS

Informal organisation arises and persists because it yields certain benefits to its members. These are as follows:

Sense of Belonging

If the worker is to get satisfaction from his job, he must come to feel that he is some body important to his task and to the organisation. However, the de-skilling of jobs which is the inevitable concomitant of technical change has made it harder for the worker to feel that he himself is essential on the job—that his skills and know-how are required. To the management he is just another unit of labour. Under these circumstances, the worker finds his work unsatisfactory. An informal organisation fills this void by constantly emphasising and reinforcing each member's individual personality. It gives to each member that human consideration which boosts his self-image and personality. With his group, the member is somebody, though in the formal structure he is only one of 500 workers.

Safety Valve for Emotional Problems

In the daily work routine of a worker, there are many occasions loaded with tension and frustration. For example, his supervisor might have reprimanded him or an overbearing customer might have harassed him. In all such situations, he seeks a sympathetic ear of a friend in the informal organisation. His friend is mostly the person who has had similar experiences and can thus share and understand his trouble.

Aid on the Job

In case of accidents or illness, members of an informal organisation may *help* one another. If a member breaks a company rule they may *cover up* for him. They may protect one another from authoritative action. They may *increase* the group's efficiency by changing work assignments or by increasing the specialisation of their tasks beyond what is prescribed in the job description.

Breeding Ground for Innovation and Originality

By enabling members to modify the job situation more to their liking, the informal group creates the necessary environment for individual innovation and originality. Protected by his group, the individual can experiment with his novel ideas without having to persuade the boss before trying them out.

Important Channel of Communication

News travels quickly via informal organisations. It is the clandestine transmitter and receiver of information before it is officially released. After the news is received by the informal organisations, they amend, amplify and interpret it. Thus each person gets a larger, more detailed and meaningful but possibly distorted and erroneous picture of what is going on in the organisation.

Social Control

The informal organisation provides all its members a set of norms—"guides to correct behaviour". These guides serve as dividing lines between good and bad behaviour, between moral and immoral

https://rbigradeb.com/

acts, between legitimate and illegitimate activities. Members are expected to conform to these norms. A deviant may be ostracised, condemned or censured.

Check on Authority

Informal organisation forces the manager to plan and act more carefully than he would otherwise. Every manager knows that it is a check and balance on his unlimited use of authority.

BENEFITS OF INFORMAL ORGANISATION TO MANAGEMENT

The following are the advantages of informal organisation cooperating with the management.

Is Often an Efficient Means for Team Work

R&D departments of several companies, which need to communicate effectively not only within the R&D function but also between R&D and other functional activities, such as marketing, manufacturing and sales, effectively use informal networks comprising supply customers and research institutions.

Self-policing

This relieves the management of much of the burden of supervision. When the manager knows that the group is cooperative among itself, he feels less compelled to check on them frequently and is encouraged to delegate and decentralise his authority.

Highlights Deficiencies or Weaknesses in the Formal Organisation

If there are areas of duties or responsibilities not covered in job descriptions or outdated systems and dilatory procedures, the informal organisation brings these to the notice of the manager.

Gives the Manager Feedback about Employees and their Work Experiences

This increases the understanding of the manager as to what he needs to do to be a supportive manager. It also helps *interpret management to the workers,* so that they may be more supportive. It makes up for any management failures in communication. Management, in fact, often depends on it to *convey certain types of information* which the formal system does not wish to carry and purposely leaves unsaid. For example, a manager cannot announce his bad mood officially to his subordinates. The best way to do this would be to put this information on the grapevine so that it reaches the subordinates informally. Some managers use the grapevine additionally as a tactical manoeuvre. As an example, one company which had reached a stalemate in negotiations with its union dropped a rumour that the company's wage offer would be withdrawn at the end of the week if the union continued to ignore it. Needless to say, this word reached the union quickly, and the parties were back at the bargaining table the next day.

https://rbigradeb.com/

DYSFUNCTIONAL EFFECTS OF INFORMAL ORGANISATION

Informal organisation is not an unmixed blessing. If uncooperative with the management, it may create serious problems. These are as under:

Resistance to Change

Although there are no charts or blueprints to bind an informal organisation, there are customs, conventions and culture which bind it. Therefore, the group resists those management demands which are perceived by it as detracting from its culture or threatening the existing relationships among the members.

Suboptimisation

In the large formal organisation, everyone is supposed to be working towards the same objectives. But when informal groups, with different interests and needs, develop the quest for achieving group goals, it may lead members away from organisation objectives. Members are likely to put their own group-need satisfaction ahead of the needs of other groups and of the total organisation's objectives. The result is that the organisation suffers. This is known as the sub-optimisation problem where small group objectives conflict with or take precedence over the larger organisation's goals.

Rumour[9]

One undesirable characteristic of informal communication, called the *"grapevine",* is its function as a carrier of rumour. Research shows that the story given at the origin of a rumour is filtered, elaborated, and assimilated. Each person chooses a few basic details of interest to him which he can conveniently remember and pass on to others. This subtraction of details is called filtering. The story becomes worse when people add new details according to their feelings, and reasonings. This is elaborating. People may amend some existing details according to their psychological framework. This is assimilation.

Group-think Philosophy

Some members begin to worship the group. They come to believe that what they seek must be "good" because the group has decided so. Thus, there develops a delusion of righteousness. Conformity is induced, in which an individual loses his identity and becomes subject to willful control of an informal leader, who may manipulate the group toward selfish or undesirable ends.

HOW TO MINIMISE THE DYSFUNCTIONAL EFFECTS OF INFORMAL ORGANISATION?

(A) Harmonise the informal organisation with the formal organisation. Since management can neither order the informal organisation out of existence nor circumvent it by industrial engineering or directives, the logical course is to harmonise it with the formal organisation. A number of steps can lead towards this result. These are as under:

[9]For further details read Chapter 16.

https://rbigradeb.com/

1. *Where informal rules are acceptable, they should be institutionalised.* Similarly, that informal pattern of relationships which serves the company well should be incorporated into the formal structure.
2. *If informal lines of communication exist, they should be used by the management.*
3. *When informal leaders develop, they should be appointed to positions of formal authority.*
4. Employees should be made to know that the management not merely tolerates but *willingly* accepts the existence of an informal group.

(B) Break cliques espousing unworthy causes. All major cliques, comprising the informal organisation should be *catalogued and information collected* about what they stand for. Cliques found espousing causes unworthy of support should be broken up and the rest made to feel that they can achieve their aim best through "legitimate" company plans and actions.

(C) Follow project group concept *in designing a formal organisation structure*. In project groups of temporary duration, relatively permanent informal associations are more difficult to maintain than in the traditional functional organisations.

GROUP DYNAMICS

In the preceding paragraphs, we have seen how people in every organisation are divided into two types of groups: formal and informal. This all-pervasiveness of groups has made group behaviour a specialised subject of study and the phrase "group dynamics" has, of late, become very popular. The word "dynamics" comes from the Greek word meaning force. The phrase "group dynamics" thus means a study of cohesive and disruptive forces operating within a group.

Traditional management thinkers did not give much importance to the study of groups. They thought mainly in terms of the individual. The importance of groups as an independent subject of study was for the first time recognised by the behaviouralists. Elton Mayo and his associates at Harvard Business School laid the foundation for group study in the 1920s and 1930s. Mayo showed that individual workers tend to establish informal groups which affect morale and productivity. Later on, it was Kurt Lewin (1890–1947) who popularised the phrase "group dynamics".

The importance of group dynamics to a manager lies in the fact that many people tend to behave differently as individuals and members of a group. The manager must thus study them both as individuals and as groups, as these are two interrelated elements of a motivational situation. He can thus equip himself better to anticipate the actions and reactions of others and can thereby ensure smooth interpersonal relationships.

Our discussion of group dynamics will be structured around the following topics:

1. Basic elements of group behaviour.
2. Group cohesiveness.
3. Group structure.

Basic Elements of Group Behaviour

The three basic elements which are generally of use in understanding the behaviour of a group are *activities, interactions* and *sentiments.*

https://rbigradeb.com/

By activities we mean the physical movements which people make and which can be observed by an outsider; for example, talking, day dreaming, dictating a letter, making a sale or running a machine. When we look at the activity of a group, we should observe the *nature* of its members' actions, compare the *similarity* of one action to another, evaluate the *output* of the activity and measure its *efficiency.*

By interaction we mean the mutual response of people participating in an activity. The stimulating activity may be either verbal or non-verbal. Two men talking to each other is an example of the former; two men simply shaking hands is an example of the latter. When we observe interactions, we should look for three aspects, namely, (a) frequency, (b) duration, and (c) order. When we look for frequency, we wish to know how often people interact. Ten times a day? Once a month, or so on. When we look for duration, we wish to know how long the interaction goes on, when it does go on. Do people interact for 10 minutes or for an hour? The *order* of an interaction has to do with who initiates it. Does X always approach Y or does Y always approach X or do they share the initiative to some extent?

By sentiments we mean all the internal feelings, attitudes and drives that exist within a person about his work and others involved in it. Unlike most activities and interactions, they are not directly observable but must be inferred from the activities and interactions which express them. We infer that someone is angry from how his face looks, what he is saying and how he is saying it. We infer from his observable behaviour that which lies within him. When we analyse sentiments, we should look at the *number* of people who share them, the *degree of conviction* they have and the *intensity* they feel. For example, a group of 10 men may share the feeling that a certain management practice is wrong. They may be absolutely convinced that they are right but still may not feel very intensely about the matter personally.

An understanding of the basic elements of group behaviour helps a manager to draw interaction charts or informal organisation charts, which can be superimposed on the formal organisation chart in order to show variations between the two.

Group Cohesiveness

The cohesiveness of a group refers to the degree to which its members are attracted to the group, are motivated to remain in the group, and mutually influence one another. Researches have shown that members of highly cohesive groups are more energetic in group activities, are less likely to be absent from group meetings, and are happy when the group succeeds and sad when it fails, whereas members of less cohesive groups are less concerned about the group's activities. Studies have also shown that members of highly cohesive groups are more likely to conform to group pressures than are members of low-cohesive groups.

The individual's attractiveness to the group is determined to a very large extent by the several incentive properties of the group, such as the attractiveness of group members, similarities among members in interests, attitudes, values and beliefs, style of leadership and opportunity to participate in decisions, etc.

Group Structure

By group structure is meant the nature and characteristics of the interrelationships among the members of a group and the roles they play in it. As a member of a group, the individual is assigned certain duties or activities; he is given a certain position or status, and he assumes certain functions. These duties,

https://rbigradeb.com/

positions and functions may be termed as his role in the group. Clearly, there are many kinds of roles an individual can assume as a member of a group. But we can broadly classify these roles into three categories: task roles, building and maintenance roles, and individual roles.

Task roles are related to the achievement of the purposes of the group. They are concerned with the facilitation and coordination of the group's efforts, and with the definition and solution of the problems facing the group in connection with its purposes. Examples of roles of this kind are the "energiser' who prods the groups to greater activity and the "orienter" who tries to define the position of the group with respect to the achievement of its goals.

Building and maintenance roles are related to the regulation and perpetuation at the group. These roles save the group from disintegration. Examples of these roles are the "encourager" who praises the contributions of others' the "clarifier" who clarifies and summarises the discussion so that there is a common awareness of all that has happened and the "compromiser" who seeks to obtain concessions from disputing members of the group, so that its existence is not endangered.

Individual roles are those which are directed towards satisfaction of the individual's needs. Their object is to facilitate the achievement of some individual goal that has no particular relevance either for the group task or for the functioning of the group, as a group. They are manifest in group behaviour merely because the group is a means for facilitating or impeding the achievement of personal goals by the individual.

SUMMARY

- Relationships within an organisation are seldom restricted to those officially described by the formal organisation chart. Managers have realised that alongside the formal organisation exists an informal one, growing inevitably from the personal and group needs of organisation members.
- There are several constructive aspects of an informal organisation. It provides a sense of belonging to the worker. It acts as a safety valve for his emotional problems. It helps him on the job. It is an important channel of communication and is a check on superior's authority. Among the benefits of this organisation to management are: (a) it reduces the need for close supervision; (b) it supplements the manager's abilities; and (c) it helps him to know in advance about the reaction of employees on a proposed managerial action.
- The dysfunctional aspects of an informal organisation are that it resists changes, spreads rumours, fosters groups philosophy and overlooks overall organisational goals. It often acts as a protective device against the management when its aims run counter to the objectives of the enterprise A manager should, however learn to live with the informal organisation. This is because even if he would like to destroy it he could not do so. He should, therefore, try to harmonise the informal organisation with his formal organisation.

KEY TERMS

Informal Overlays Overlay means something lying over something else. Thus, informal overlays are the various types of informal groups lying over the formal organisation structure, and causing modifications in it.

https://rbigradeb.com/

Group Dynamics The word "dynamics" comes from the Greek word meaning "force". Hence "group dynamics" refers to the study of disruptive and cohesive forces operating within a group.

Group-think Philosophy This means a decrease in the objectivity and individual judgment of a member due to group's drive for consensus and compromise.

Suboptimisation The goals of subsystems or groups which comprise the organisation are often interdependent, so that optimisation of the objectives of one subsystem or group may result in lower attainment of the goal of other subsystems or groups and of the total organisation. This is referred to as suboptimisation.

Review Questions

1. Why do you think informal groups emerge in organisation? What organisational needs do they serve? What member needs do they serve?
2. Describe the difference between a formal and an informal organisation.
3. Describe the positive and negative aspects of an informal organisation. What should a manager do to harmonise informal organisation with the formal organisation?
4. Describe the various stages of development of an informal group.
5. Write short notes on:
   (a) Basic elements of group behaviour
   (b) Types of informal groups
   (c) Theories of formation of informal groups
6. Fill in the blanks:
   (a) _____ is a study of cohesive and disruptive forces operating within a group.
   (b) The_____ of a group denotes the degree to which its members are attracted to the group and are motivated to remain in it.
   (c) As a member of a group an individual can, broadly speaking, assume three kinds of roles: individual, task and _____.
   (d) The informal group's communication system is called_____.
   (e) Groups made up of those persons with whom specific individuals identify and compare themselves are called _____ groups.
   [(a) Group dynamics, (b) Cohesiveness, (c) Building and maintenance, (d) Grapevine, (e) Reference.]

Project

"Why should I take time to figure out how my policies and decisions are accepted by informal groups? I pay people to do a job and if they do not like what I ask them to do, let them resign. If I find that such groups are undermining my authority, I will fire the people responsible! I am running a business, not a bridge club, and I do not have to put up with all this informal group humbug." How would you reply to this comment made by the president of a medium-sized paint company?

https://rbigradeb.com/

Case The Informal Organisation

Set up almost 50 years ago, Laxmi Department Store is situated in a small town in Rajasthan, which has a population of five lakhs. Laxmi Lal is the *president and treasurer* of this store. Trained in drawing and painting, he wanted to be a trained painter. However, being the only son he was forced into the presidency upon his father's death. Though more interested in painting, Laxmi Lal does take interest in the Store to the extent of making personnel and work changes on the "spur of the moment". Being authoritative, his decisions are to be followed by everybody. Keshav Lal is the *vice-president* and *general manager* of the store.

Some other people involved are as under (See the organisation chart):

Anil Pande, a graduate, is the *chief accountant* and office manager. He has an easygoing nature, gives no orders or supervision unless specifically requested to do so. He assumes more and more duties without complaint and has been with the store for 19 years.

Asgar Ali, a graduate hired by Laxmi Lal only six months ago on being introduced by an old friend in a party, is working as an *accountant*.

Office Staff There are about fifteen female employees. Most of them are young and get along very well with their seniors. Most of the senior women have been with the store all their work-life. Most of them are classmates of Anil Pande. These women often see one another after office hours, particularly in their temple, because all of them belong to the same religion. Pande frequently meets them in the temple.

The general offices of the Laxmi Store are located on two different floors: the rear of the second floor and the rear of the third floor. Rear of the second floor has the credit department (three older women), cashiers (two younger girls) and Pande. Rear of the third floor has general accounting offices (eight older women, three younger girls), the administrative offices, Laxmi Lal and Asgar Ali.

On Asgar Ali's first day in the office, Laxmi Lal introduced him to everybody with the comment "Ali is going to assist us in the accounting office by providing us reports on time". Ali spent most of the first week with Pande, learning the various accounting procedures and knowing from Laxmi Lal the type of information that he and the departmental managers needed.

Over the next few months, Ali and Pande became quite friendly. On many occasions, they would go out with their wives for an evening of bridge.

As Ali got into the routine, he found that it required him to work closely with most of the women in the two offices, because nearly all of them performed some part of book keeping.

Ali worked at his job intensively and submitted all his reports right in time which pleased Laxmi Lal and Keshav Lal. But he did have many minor problems. Below are some representative experiences which Ali had during the first six months of his work:

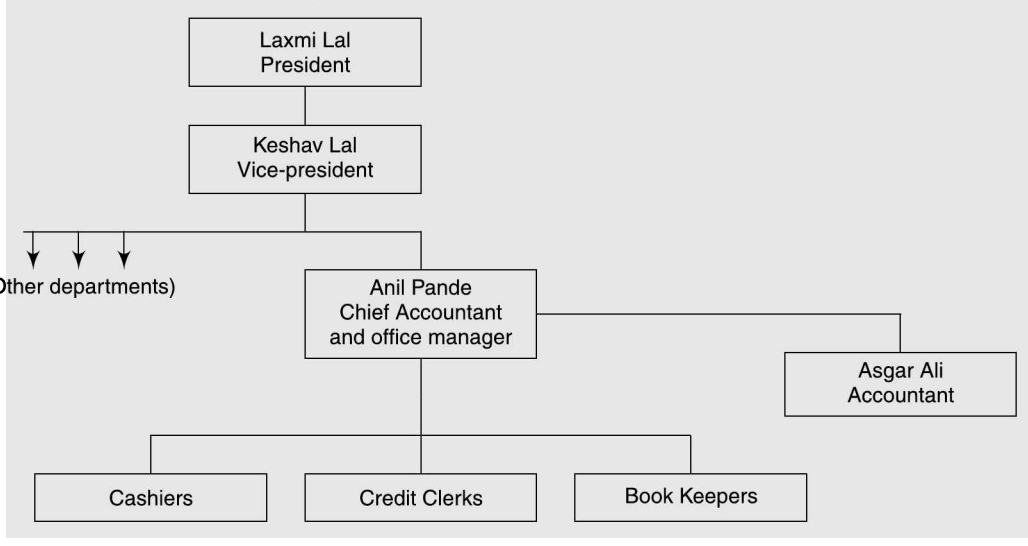
1. Upon asking for data from one of the older women, Ali was told "What is the hurry? Pande never bothered us with asking for this information. We always gave it to him when we were ready."
2. Many younger girls in the third-floor began to bring to Ali the errors made by clerks.
3. Ali heard by the grapevine that the clerks he had corrected often complained that he was trying to "run the store."

https://rbigradeb.com/

4. Keshav Lal told Ali to instruct the girls not to stay out for coffee for long in the morning—a practice which had existed for a number of years without any objection from the management.
5. Older female employees, by their actions, manners and words made Ali feel uncomfortable and out of place.
6. Laxmi Lal asked Ali to prepare a job analysis on each of the girls in the office to know just what each one is doing.

Prepare, for contrast with the formal organisational chart, a chart of the informal organisational relationships which exist. What significant differences appear between them? Has management in any way encouraged these differences?

Partial Organisation Chart of Laxmi Department Store



https://rbigradeb.com/

CHAPTER

11 STAFFING

Learning Objectives

This chapter will enable the reader to:

- **State** the importance of and need for proper staffing
- **Define** manpower planning
- **Describe** job analysis as the method to know the kind of people needed
- **Describe** the short-term and long-term manpower planning to know the exact number of people required
- **Discuss** the sources of recruitment
- **Explain** the steps in the selection process
- **Describe** placement and induction
- **Relate** manpower planning in India
- **Examine** staffing from a global perspective

https://rbigradeb.com/

It is important to have a good organisation structure, but it is even more important to fill the jobs with the right people. A company may be successful with an organisation structure that is very far from the best, but it will never be able to get off the ground if the people who run it and those who do the actual work are incapable.

Filling and keeping the positions provided for by the organisation structure filled with the right people is the staffing phase of the management function. It includes several sub-functions:

1. Recruitment, or getting applicants for the jobs as they open up.
2. Selection of the best qualified from those who seek the jobs.
3. Training those who need further instructions to perform their work effectively or to qualify for promotions.
4. Performance appraisal, since it serves as the basis for job change or promotion.
5. Administration of compensation plans, since it is an important factor in both getting and holding qualified people.

This chapter deals with the first two sub-functions only. The remaining three sub-functions are discussed in Chapters 12, 13 and 14.

All managers have a responsibility for staffing. The board of directors performs the staffing function by selecting the chief executive. The chief executive discharges this function when he selects a production, finance or a marketing manager and the manager does likewise when he selects his subordinates. Even the foreman or first level supervisors have a staffing responsibility when they select the rank and file workers.

IMPORTANCE AND NEED FOR PROPER STAFFING

It is estimated that the labour costs constitute from 25 per cent of the production costs to 40 per cent of the selling costs in manufacturing enterprise. Therefore, a business cannot be successful for any length of time unless it is capable of bringing in and developing the right kind of people. There are a number of advantages of proper and efficient staffing. These are as under:

1. It helps in discovering talented and competent workers and developing them to move up the corporate ladder.
2. It ensures greater production by putting the right man in the right job.
3. It helps to avoid a sudden disruption of an enterprise's production run by indicating shortages of personnel, if any, in advance.
4. It helps to prevent under-utilisation of personnel through overmanning and the resultant high labour cost and low profit margins.
5. It provides information to management for the internal succession of managerial personnel in the event of an unanticipated turnover.

MANPOWER PLANNING

Manpower planning is the *sine qua non* of all successful staffing. According to Geisler[1], manpower planning is the process by which a firm ensures that it has the right kind of people and the right number

[1]E.B. Geisler, *Manpower Planning: An Emerging Staff Function* (N.Y.: AMA, 1967).

https://rbigradeb.com/

of people at the right places at the right time, doing work for which they are economically most useful. From this definition it is clear that manpower planning is a vital tool in the hands of management to control labour costs by avoiding both shortages and surpluses of personnel in an organisation. In large organisations, this function is performed by the personnel department.

Right Kind of People

The process of manpower planning begins with *decisions on right kind of people*. In order to be able to determine the qualifications needed to meet the requirements of jobs, the organisation first of all has to analyse the jobs, write job descriptions and prepare job specifications.

Job Analysis Job analysis is the process by means of which a description is developed of the present methods and procedures of doing a job, physical conditions in which the job is done; relation of the present job to other jobs; skill, knowledge and experience requirements of the job; performance standards expected on the job and health hazards, if any, in the job.

Nowadays, work is increasingly getting organised around cross-functional teams which require employees having a diverse set of competencies to be able to move easily from one job to another, shoulder new responsibilities and be flexible in their behaviour. Organisations pay employees for their competencies and not just for performing a specific job. There is, therefore, a shift in the focus of job analysis. *It is now more worker-focused than work-focussed*. It tries to know more about the competencies of an employee than about his work-specific skills. This new trend has come to be known as *competency-based job analysis*.

Job analysis is intended to reveal what is *actually* done as opposed to what should be done. Therefore, if a man is found doing some activity not required of that job, it should still form part of the job analysis. The purpose of job analysis is not to describe the ideal, but to show the management how at the moment the constituent parts of its business are being carried out.

The information concerning the job can be obtained from a number of sources such as observation of workers, interviews, questionnaire responses, published manuals, etc., knowledge of the materials of work and actual performance of work. It has been found that whereas the questionnaire is best suited to clerical workers, interviewing is best suited to shop workers. Observation is particularly desirable where manual operations are prominent and where the work cycle is short. Working conditions and hazards are better described when viewed personally by the analyst.

Job Description The *results* of a job analysis are set down in the job description. The lower level job descriptions centre directly around tangible duties and day-to-day assignments, while higher level descriptions are more closely related to organisation planning and so naturally are descriptions of intangible interrelationships, overall responsibilities and lines of authority. They say little about the more subtle and informal expectations of the role. For example, they may not provide for the discretionary aspect of a manager's job. The result is, therefore, to give the individual an uncomfortable feeling that there are things left unsaid. To overcome this shortcoming, Prof. Ishwar Dayal[2] suggests the use of the *Role Analysis Technique*, which includes the following steps:

1. The manager lists his activities consisting of the prescribed and discretionary elements. Other role incumbents, and his immediate superior question him on the definition of his task and if there is confusion in their perceptions, the ambiguity is cleared.

[2]Ishwar Dayal, *New Concepts in Management* (Bombay: Lalvani Publishing House, 1970)

https://rbigradeb.com/

2. The manager lists his expectations from each of those other roles in the group which he feels most directly affect his own work. Others in the group also state their expectations and after a discussion, all of them arrive at an agreement among themselves in their mutual expectations.
3. The manager then writes up his role which consists of *all* aspects of his work.

This technique allows the managerial group to work out interpersonal problems more effectively than is otherwise possible through a job description.

Job Specification A job specification (also called *man specification*) is a statement of the minimum acceptable human qualities necessary to perform a job satisfactorily. Making job description as its base, it lays down the abilities and qualities that a worker should possess in order to hold the job in question. The exact list of these abilities and qualities varies according to the company and the uses to which the job specification is to be put. The American Ritz-Carlton Hotel Company which identifies the traits and qualities of its successful employees in a range of specific job categories uses this information for preparing behavioural profiles that become its hiring criteria.

Right Number of People In

(a) Short-term Manpower Planning This planning relates to a period of 2 years or less and is done to find a *temporary* match between the existing individuals and the *existing* jobs. It aims at quick removal of anomalies in postings and placements. The following are the steps involved in this planning:

1. The first step is to identify the weak and strong incumbents. Weak incumbents are those whose skills fall short of their job requirements. Similarly, strong incumbents are those whose skills far exceed their job requirements.
2. The second step is to set the above anomalies right. In the case of weak incumbents this can be done by:
   (i) assigning difficult parts of their jobs to others;
   (ii) improving them through short-term training or counselling; and
   (iii) replacing them by other individuals.
   In the case of strong incumbents the anomaly may be set right by giving them more skilled and difficult jobs. But in no case should their higher skills become a curse for them.
3. The final step is to think of persons who can be given additional charge of posts falling unexpectedly vacant due to sudden death, resignation or transfer of the original incumbent.

(b) Long-term Manpower Planning This is done by making forecasts. Forecasts of future manpower demand and supply can be made for a period of two to five years. If the periods selected are too long, it is difficult to have an accurate manpower forecast in view of the inability to predict effectively the likely changes in the economic, social and technological spheres.

For forecasting the number of rank and file workers needed at the end of a particular period, it is better first to make a forecast of sales. On the basis of the sales forecast, we know the schedule of production for various products and the total quantity required to be produced during the particular period. When the output of various departments is ascertained, the requirements of manpower to enable the various departments to attain the required output can be very easily estimated on the basis of average productivity per worker. Productivity increases due to technology or other factors may result in the requirement for fewer workers. Similarly, a firm's policy to keep some workers in reserve may increase the number.

https://rbigradeb.com/

For forecasting, the supply of rank and file workers at the end of a particular period, first of all, their current number should be known from the Human Resource Inventory, which stores information relating to each worker's knowledge, skills, experience, work history, potential for promotion and so on. A computerised human resource inventory is called a Human Resource Information System. Next, the following factors should be considered to reach the final estimate:

- Employee movement within the firm from current job into other jobs due to promotion, lateral transfers, etc.
- Employee movement out of the firm due to resignations, retirements, turnover, etc.
- Employees' possible deaths and absenteeism
- Changes in employee productivity and utilisation as a result of training and development

Once an organisation has forecast human resource demand as well as human resource supply, the next step is to compare the two. This may result in one of the following conditions:

- Human resource supply = Human resource demand
- Human resource supply < Human resource demand (deficit)
- Human resource supply > Human resource demand (surplus)

A discrepancy between demand and supply requires that action plans should be developed to eliminate it (see Fig. 11.1). In case the supply is more than the demand, the action plan would consider how to get rid of the excess hands, i.e., whether through *derecruitment* (which includes premature retirement, discharge and lay-off) or attrition (which means not filling up the vacancies caused by resignations and retirements and giving the extra work load to existing employees) or outplacement or reduced work hours. In out/placement the organisation helps employees in several ways (such as career counselling, resume preparation, interviewing workshops, and retraining for other jobs) in finding alternative employment.

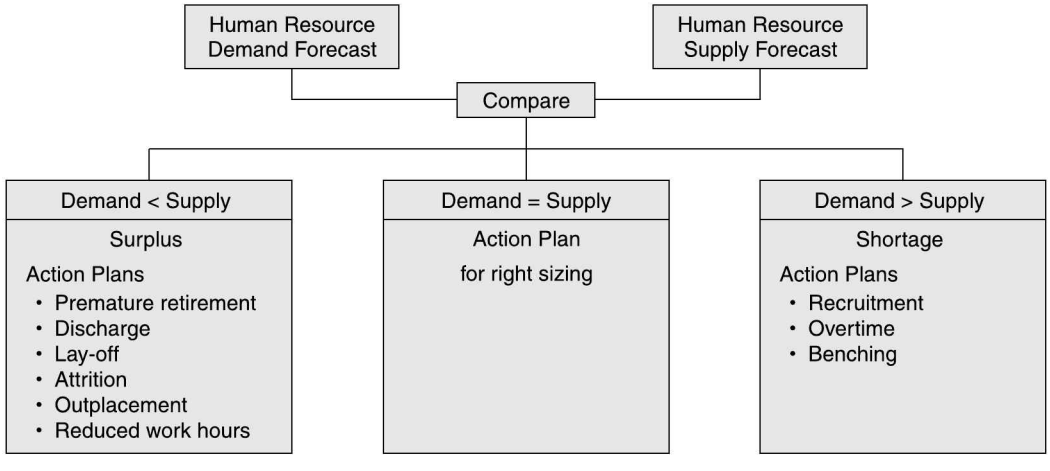


Fig. 11.1 Demand Supply Comparison and Action Plans

Sometimes, although the demand is equal to supply yet there may be need for an action plan to reduce hands in some parts of the organisation and at the same time add to some other parts. This is called *right sizing*.

https://rbigradeb.com/

In case the demand is more than the supply, action plans would provide for meeting the shortage through recruitment, overtime, benching and so on. Benching is maintaining a large number of employees as reserve. Some IT companies which maintain such reserves draw employees from these reserves as soon as they win large contracts.

RECRUITMENT

Once the requirement of manpower is known, the process of recruitment starts. It can be defined as the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs. In other words, recruitment is the generating of applications or applicants for specific positions. According to Dalton E.McFarland[3], it is the process of attracting potential employees to the company.

The management should have a proper plan of recruitment regarding the quantity and quality of personnel required and the time when it is needed. The process of recruitment and the cost involved in it depends on the size of the undertaking and the type of persons to be recruited. In the case of small concerns the process of recruitment is simple and inexpensive, while in the case of large concerns the process is complicated and expensive particularly if technical and managerial personnel are to be recruited.

Sources of Recruitment

The sources of recruitment can be broadly classified into two categories: *internal* and *external*. Internal sources refer to the present working force of a company. Vacancies other than at the lowest level may be filled by selecting individuals from amongst the existing employees of the company. Among the more commonly used external sources are the following:

1. ***Re-employing former employees*** Former employees who have been laid-off or have left for personal reasons may be re-employed. These people may require less initial training than that needed by total strangers to the enterprise.

2. ***Friends and relatives of present employees*** Some industries with a record of good personnel relations encourage their employees to recommend their friends and relatives for appointment in the concern where they are employed.

3. ***Applicants at the gate*** Unemployed persons who call at the gates of the factories are interviewed by the factory representative and those who are found suitable for the existing vacancies are selected. This is an important source in countries where there is a lot of unemployment.

4. ***College and technical institutions*** Many big companies remain in touch with the colleges and technical institutions from where young and talented persons may be recruited.

5. ***Employment exchanges*** An employment exchange is an office set up by the government for bringing together those men who are in search of employment and those employers who are looking for men. Employment exchanges register unemployed people and maintain the records of their names, qualifications, etc. The employers on their part intimate the exchange about the vacancies which occur in their factories and types of employees they require for filling up these vacancies. Whenever any vacancy is intimated, the exchange selects some persons from among the registered employment seekers

[3]Dalton E. McFarland, *Personnel Management: Theory and Practices* (N.Y.: Macmillan, 1968).

https://rbigradeb.com/

and forwards their names to the employers for consideration. Employment exchanges are considered a useful source for the recruitment of clerks, accountants, typists, etc.

6. ***Advertising the vacancy*** One more source that is tapped by the companies is advertising the vacancy in leading papers. This source may be used in case the company requires the services of persons possessing certain special skills or if there is an acute shortage of labour force.

7. ***Labour unions*** In companies with strong labour unions, persons are sometimes recommended for appointment by their labour unions. This may also be done in pursuance to an agreement between the union and the management.

Evaluation of Alternative Sources

A company cannot fill all its vacancies from one single source. It must carefully combine some of these sources, weighing their cost and flexibility, the quality of men they supply, and their effect on the present work force. Following are some of the measures which can be used to assess how good or how poor various sources have proved to be:

1. Time lag between requisition and placement
2. Recruitment ratio, that is, the number of persons actually hired, per 100 applicants
3. Employee attitude studies to discover the reactions of present employees to both external and internal recruiting
4. Correlation between different sources of recruitment and factors of success on the job
5. Data on turnover, grievances, and disciplinary action, tabulated according to different sources of recruitment to throw light on the relative merits of each source.
6. Gross cost per hire. This is arrived at by dividing the total cost of recruitment by the number of individuals hired.

Internal vs External Sources of Recruitment

From the point of view of its impact on motivation, recruitment from external sources is not desirable, particularly when an adequate number of qualified persons is already available inside the organisation. Similarly, if the management wants its workers to improve their prospects by participating effectively in the company's programmes and in the process of production, it is desirable to follow a policy of recruitment from within. This is because an outsider who lacks knowledge of products and processes of production cannot participate effectively. Again, if the training and specialisation needed for a job are of a level possessed by its own employees, the organisation may decide to recruit people from within.

On the other hand, when the internal candidates are too advanced in age, it may become imperative for the management to tap outside sources for recruitment. The need for originality and initiative may also determine this policy. If the management feels that this originality and initiative can be had only by recruiting people from outside, it will naturally not like to recruit people from within.

Advantages and Disadvantages of Internal Recruitment

We give below the advantages and disadvantages of recruiting from "internal" and "external" sources.

Advantages Some of the advantages of internal recruitment are as under:

1. A sense of security develops among the employees

https://rbigradeb.com/

2. Employees remain loyal to the organisation
3. People recruited from within the organisation do not need induction training
4. Employees in the lower ranks are encouraged to look forward to rising to higher position in the concern
5. Labour turnover is reduced
6. People are motivated to become efficient
7. Valuable contacts with major suppliers and customers remain intact
8. A better employer-employee relationship is established.

Disadvantages The method of internal recruitment suffers from certain disadvantages. These are:

1. This method limits the choice of selection to the few candidates available within the enterprise.
2. It may encourage favouritism and nepotism.
3. It may lead to "inbreeding", resulting in promotion of people who have developed a respect for the tradition and who have no new ideas of their own. It is generally the new blood which brings in new ideas.
4. If a concern is extending its activities into new lines, internal candidates may prove unsuitable for new positions. This may involve extra expenditure in imparting necessary training to them.

Advantages and Disadvantages of External Recruitment

Advantages Some of the advantages of making recruitment from outside sources are as follows:

1. Under this method, new blood brings with it a fresh outlook, originality and new ideas. Old habits are replaced by new ones and the concern becomes more dynamic.
2. The field of choice becomes very wide. Hence there is the possibility of selecting people with rich and varied experience.

Disadvantages This method also suffers from certain disadvantages.

1. If a concern makes recruitment from external sources, its employees generally feel frustrated and their morale is adversely affected.
2. The present employees may lose their sense of security and become disloyal to the employer.
3. There is a greater turnover of labour.
4. There is deterioration in the employer-employee relationship, resulting in industrial unrest, strikes and lock-outs.

SELECTION

Importance of the Selection Process

Whereas under recruitment the manager identifies the sources for prospective candidates and stimulates them to apply for various openings in his organisation, under selection he compares their qualifications with the requirements of a job and eliminates all those who do not stand up to this comparison. There are several advantages of a proper selection procedure. As the employees are placed in the jobs for which they are best suited, they derive maximum job satisfaction and reap maximum wages. Labour turnover is reduced and the overall efficiency of the organisation is increased. And finally, a good relationship develops between the employer and the employees.

https://rbigradeb.com/

Steps in the Selection Procedure

Though there is no standard procedure adopted by all organisations, the following is an example of a popular sequence of steps:

1. Application blank
2. Initial interview of the candidate
3. Employment tests
4. Checking references
5. Physical or medical examination
6. Final interview

1. Application blank Filling of the "application blank" by the candidate is the first step in the process of selection. In this form, the applicant gives relevant personal data such as his qualification, specialisation, experience, firms in which he has worked, etc. The application blanks are carefully scrutinised by the company with reference to the specifications prescribed for the jobs to decide the applicants who are to be called for interview.

2. Initial interview Those who are selected for interview on the basis of particulars furnished in the application blank are called for initial interview by the company. This interview, according to Mandell.[4] is the most important means of evaluating the poise or appearance of the candidate. It is also used for establishing a friendly relationship between the candidate and the company and for obtaining additional information or clarification on the information already on the application blank. The interview must be properly planned and the interviewers, consisting of specialists in different fields, must make the applicants feel at ease, discount personal prejudices and note their opinion about the applicants interviewed.

3. Employment tests For further assessment of candidate's nature and abilities, some tests are used in the selection procedure. Psychologists and other experts have developed certain tests by which a candidate's particular traits or abilities, his likes and dislikes, his intelligence, manual dexterity, his capacity to learn and to benefit from training, his adaptability, etc. can be estimated. There are several types of tests that are used in selection procedure. The more commonly used are:

(i) Aptitude test This test measures the applicant's *capacity to learn* the skill required for a job. It helps in finding out whether a candidate is suitable for a clerical or a mechanical job. His test helps in assessing before training as to how well the candidate will perform on a job after he is given the necessary training.

(ii) Interest test This is used to find out the *type of work in which the candidate has an interest*. For example, whether a candidate has a liking for a sales job requiring contact with other people can be assessed by means of this test. An interest test only indicates the interest of a candidate for a particular job. It does not reveal his ability to do it. Interest tests are generally used for vocational counselling. Usually, well-prepared questionnaires are used in interest tests.

(iii) Intelligence test This test is used to find out the *candidate's intelligence*. By using this test, the candidate's mental alertness, reasoning ability, power of understanding, etc. are judged. Some examples

[4]M.M. Mandell, *Selection Process: Choosing the Right Man for Right Job* (Bombay: Taraporevala, 1964).

https://rbigradeb.com/

of intelligence tests are: reading and summarising a paragraph in the allotted time, writing 10 to 15 words that begin with the same letter in one minute, adding up of some figures in the allotted time and so on.

(iv) Trade or performance or achievement or job-specific test This test is used to measure the *candidate's level of knowledge and skill* in the particular job in which he will be appointed, in case he is finally selected. It may be of 3 types:

(a) Performance work sample test
(b) Written work sample test
(c) In-basket test.

In the performance work sample test, the candidate is asked to do a simple operation which is a part of, or similar to his proposed job. For example, a candidate for a driver's post may be asked to drive the vehicle to assess his proficiency, or a typist may be asked to type out some letters to find out his speed and accuracy, or a candidate for a post of salesman may be asked to attend to a prospective customer who enters the shop.

In the written work sample test, the candidate is required to give answers to various questions in writing. In-basket test is a type of simulation applicable to management performance. It consists of an assortment of items such as a manager might find in an in-basket—letters, reports, memoranda, notes and related materials. The candidate is asked to note down what action he would take about them if in a manager's job.

(v) Personality test Personality test is used to measure those *characteristics of a candidate* which constitute his personality, e.g., self-confidence, temperament, initiative, judgement, dominance, integrity, originality, etc. Personality tests are very important in the selection process, particularly in the case of appointments to the posts of supervisors and higher executives. In a personality test, the candidate may be asked to answer a series of questions and from his response, his personality may be judged or in some special test situations, the candidate's reaction may be assessed, or the candidate may be asked to grade his own examination papers in order to know his honesty.

4. Checking references If the candidate has been found satisfactory at the interview and if his performance is good in employment or proficiency tests, the employer would like to get some important personal details about the candidate, such as his character, past history, background, etc. verified from the people mentioned in the application. For this purpose, the employer may also contact his friends residing in the locality where the candidate is residing or he may contact the present or former employers of the candidate. With the increase in the percentage of fake resumes, seeking the help of *external screening agencies,* which undertake verification of educational and professional qualifications, pre-employment status and past criminal records of job applicants, is gaining ground.

5. Physical or medical examination Physical or medical examination is another step in the selection procedure. The objectives of this examination are: (i) to check the physical fitness of the applicant for the job applied for; (ii) to protect the company against the unwarranted claims for compensation under certain legislative enactments, such as Workmen's Compensation Act; and (iii) to prevent communicable diseases entering the business concern.

6. Final interview This interview is conducted for those who are ultimately selected for employment. In this interview, the selected candidates are given an idea about their future prospects within the organisation.

https://rbigradeb.com/

PLACEMENT

The process of placing the right man on the right job is called placement. A worker should be placed on a position where there is full use of his strengths and all his weaknesses become irrelevant. A misplaced person is always a frustrated individual. His morale being low, he never gives his best to the organisation. Not only this, such an individual also hampers the work of his colleagues in the organisation. Proper placement reduces labour turnover, absenteeism and accidents.

It should be noted that placement is *not* a problem when people are selected for specific jobs. The problem arises only when the number of available jobs is large relative to the number of selected individuals, or when large scale transfers or promotions of already employed individuals are being made.

INDUCTION (ORIENTATION)

Induction is the process of acclimatising a new employee to the new social setting of his work. This should take into account two major objects: (i) familiarising the new employee with his new surroundings, and company rules and regulations; and (ii) developing in him a favourable attitude towards the company. To achieve these twin objects, the complete induction process is generally divided into two phases. In the first phase, induction is done by the personnel department which provides the employee all sorts of information relating to the company. This commonly relates to the following subjects:

- Company history, products and major operations
- Geography of the plant
- Structure of the organisation and functions of various departments
- General company policies and regulations regarding wages and payments, hours of work and overtime, safety and accidents, discipline and grievances, uniform and clothing, and parking
- Economic and recreational services available
- Opportunities for promotions and transfer, suggestions system, etc.

It is believed that the above information helps the new employee to become more effective in his job.

In the second phase (called the buddy system or the sponsor system), induction is done by the supervisor, or by some senior person who is known as the mentor. The aim here is to develop in the new employee, a favourable attitude towards the company. The following ten-step programme is followed in this phase:

- Greeting the newcomer cordially
- Displaying a personal interest in the newcomer
- Reviewing his terms of appointment
- Showing the newcomer around
- Giving additional information
- Explaining the importance of his job in relation to other jobs
- Introducing the newcomer to the rests of the work-team
- Telling the newcomer his duties
- Selecting a person who can assist the newcomer on the job
- Following up frequently

https://rbigradeb.com/

Some indicators of faulty induction are: low morale, low productivity, more accidents, quits, requests for transfer, absenteeism, and various sorts of complaints.

MANPOWER PLANNING IN INDIA

Barring only few big organisations manpower planning has never been seriously done by Indian organisations in the past. In recent years, however, focus on manpower planning is increasing due to the following reasons:

1. Widespread organisational restructuring and rapid change in production technology is causing redundancies in certain skills and necessitating retraining and redeployment of personnel.
2. There is shortage of talented and skilled manpower in several sectors such as chemical industry. To insure against a possible future shortage of talented workers, some companies in the IT sector hire workers preemptively in excess of their actual needs at any point of time. These workers are kept in reserve for 6 to 9 months and this time is referred to as the "*bench time*".
3. There is change in the profile of the work force in terms of age, sex, education and social background. It has become highly diverse with a need to customise strategies for hiring, retaining and motivating employees belonging to different groups.
4. There is demand for change in recruitment procedures from various pressure groups such as unions, politicians and sons of the soil.
5. New laws are being enacted with regard to working conditions, weaker sections, women and children, casual and contract labour, handicapped and scheduled castes. Legislation regarding reservation is likely to affect the choice of careers and also affect the supply of workforce in certain sectors.
6. Enormous increase in the number of applicants per vacant post is, on the one hand increasing the expenditure on recruitment and on the other making the lead time between receiving applications and recruiting individuals longer.
7. Number of misfits who are unable to adjust in the new environment is increasing. Their dissatisfaction is usually finding expression in high rates of absenteeism and turnover. Call centres with a turnover rate of more than 30% are an instance in point.
8. There is greater demand for internal promotions and career planning.
9. Under the existing laws incompetent employees cannot be easily dismissed. Once recruited they become a permanent liability of the organisation.
10. Many organisations are reducing employee costs and increasing their flexibility by converting many jobs into temporary or part time work. This has resulted in the growth of contingent workforce, i.e., workers who can be easily added or taken off.

A brief description of how Hindustan Lever—a private undertaking—performs this function, is given below.

First, with the help of a detailed organisation chart it is determined how many people, at what level, at what positions and with what kind of experience and training would be needed to meet the business objectives during the optimum planning period of five years.

Second an audit of internal resources is carried out. This indicates the number of persons who possess different or higher levels of responsibilities. It also reveals the overall deficit or surplus of personnel for different levels during the planning period.

https://rbigradeb.com/

Finally, taking into account the actual retirements and estimated loss due to death, ill-health and turnover, based on past experience and future outlook in relation to the company's expansion and future growth pattern, the final figures are arrived at.

The planning is done every year for the coming five years. For instance, a plan is made from the beginning of 2008 to the end of 2012, and the next year plan covers the beginning of 2009 to the end of 2013. This reduces inaccuracy in forecasting.

The overall responsibility for manpower planning lies squarely with the Board of Directors. Management at other levels is also involved in this process as they supply adequate data regarding their manpower requirements. The personnel department's function is to recommend relevant personnel policies in respect of manpower planning and devise methods and procedures for determination of the quantitative aspects of manpower planning.

This planning when done in respect of managerial categories in the company is called "management review".

Sources of Recruitment in India

The different sources from which labour is recruited in India are as follows:

Internal Sources In many organisations in India, at the time of new vacancies, preference is given to people from within the organisation. Thus, at the Tata Engineering and Locomotive Company and at Hindustan Lever, outside recruitment is resorted to only when the requirements for trained personnel cannot be met from the resources generated by the company's training scheme or by internal promotion or when the vacancy has to be filled quickly. This ensures that in the company there is always a ladder by which men with the right qualities can climb to higher levels.

External Sources

1. Badli workers Many organisations keep *badli* lists or a central pool of personnel from which vacancies can be filled. This has the advantage that the personnel can be tested out in different jobs and listed according to the type of job for which they are best fitted. The disadvantage is that the pool may create disputes regarding wages, holidays, permanency, etc. In this connection, it is significant to remember that any person employed for 240 days in a year is deemed to be in continuous employment for one full year which entitles him to claim compensation on being retrenched by the employer under Section 25C of the Industrial Disputes Act.

2. Employment exchanges The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 which applies to all establishments, including factories employing 25 or more persons casts an obligation on the employer to notify all vacancies but does not impose any obligation upon him to recruit any person through the Employment Exchanges. Further, the Act does not apply to temporary vacancies of less than three months' duration and to vacancies involving unskilled office work or to vacancies proposed to be filled by promotion or absorption of surplus staff. This source is losing its popularity with each passing year.

3. Advertisement in newspapers Senior posts are largely filled by this method. Box number advertisements sometimes do not draw good candidates who feel that it is not worthwhile to apply without knowing the employer's name. In ports and docks, advertisement is the normal mode for recruiting skilled and semi-skilled workers.

https://rbigradeb.com/

4. Labour contractors and outsourcing Contract Labour Regulation Act prohibits use of temporary workers if the work performed is core to the industry, or the process is of perennial nature. But there is no clear definition of core or perennial work. As a result temporary staffing is fast growing in India though mostly in the service sector. Companies in manufacturing, oil exploration, automobile, fast-moving consumer goods, banking and IT now ask external staffing companies to provide them temporary workers. Following are the advantages of employing temporary workers:

- Their number can be quickly adjusted to needs.
- They are cheaper than the regular ones.
- They do not involve training costs.
- They are immediately replaced by the staffing company if they leave before the stipulated period.
- This enables the management to focus on core activities.

5. Technical and other institutes Some establishments make arrangements with the Industrial Training Institutes of the Director General of Employment and Training under which the ITIs supply their trainees in accordance with the specifications of the employing agency. For managerial positions, the practice of recruiting MBAs through campus interviews is increasing in India. Young persons showing promise are tapped with the help of the faculty members.

6. Relations of existing employees Some companies have agreements with recognised unions to give prior consideration to relatives of existing or retired employees if their qualifications and experience are suitable for the vacancies. For example, the collective agreement between union and management of the Tinplate Co. of India Ltd. Jamshedpur reserves 25 per cent of the total number of vacancies for the dependents of deceased or medically unfit employees. In another 20 per cent of the vacancies suitable ex-employees or relatives or dependents of the existing employees may be given preference.

7. Walk-in interviews Some companies advertise in newspapers details of positions to be filled, required qualifications, date and venue of interview and advice candidates to come for interview with their bio-data, testimonials, photograph, etc. This avoids shortlisting of applications and accelerates the hiring process.

Walk-in interview is becoming popular among many companies in the services and BPO sectors, where there is a huge demand-supply mismatch in quality. These companies are popularising this source through several techniques, such as:

- by setting up kiosks at important points for screening candidates;
- by announcing surprise gifts to every 50th or l00th applicant;
- by giving cash incentives and expensive gifts to the selected candidates; and
- by hiring even borderline candidates, and imparting to them 2–8 weeks' training, after which they have to clear a round of interviews, before they are appointed.

8. Employee referrals This source is also becoming popular among many Indian companies (such as Hewlett Packard, Citi Bank, Hughes Software, etc.) for recruiting people at junior or middle levels. The way a referral works is simple: if a job opening is advertised, the company's employee can recommend a friend or an ex-colleague. If the candidate is hired, the referring employee gets a reward.[5]

[5]*Business Today*, Aug 22–Sept. 6, 2000, p. 24.

https://rbigradeb.com/

9. Bureau of public enterprises One important agency in respect of first and second class employees of public sector undertakings is the Bureau of Public Enterprises which makes direct recruitment to various positions in these categories. Recruitment to class III and class IV positions is generally undertaken by the heads of concerned departments because centralised recruitment is difficult in view of the numbers involved.

10. Poaching or head-hunting This method is becoming very common now-a-days for tracking people for key positions. Under this method a leading executive-search firm employs number of ploys to obtain the bio-data of candidates who are already working on senior positions in certain organisations and are rather unwilling to move to other organisations. After a careful evaluation of the fit between the candidates and the positions the firm persuades them to accept the positions in the new organisations. Most executive search firms act on "contingency basis", i.e., they get their fee on a candidate joining the client organisation. Some firms also act on "retainer basis" where they get their fee irrespective of the outcome of the search.

11. Advertisement on the net Following their counterparts around the world a number of Indian companies have now started looking at the web as a means of recruiting professionals. Companies like Hindustan Lever have a website of their own, which not only provides complete information on the company, but also has an application form which can be filled and sent directly to the company through the net. This method has the following advantages:

(a) It is possible to give more information at a lower cost about the company on the net than in a conventional advertisement.
(b) It is possible to easily reach those professionals abroad, mainly in the U.S., who are planning to come back to India in the near future and are looking for good job opportunities here.

Notwithstanding the above advantages this method is still in its infancy. The percentage of our target audience who surf the net is very low. One reason which has hindered the growth of this medium is the lack of proper infrastructure. Another reason is fear of disclosure. Candidates fear that by posting applications on the net they will not be able to maintain confidentiality of their curriculum vitae.

Use of Trade and Psychological Tests by Indian Companies

Generally those seeking work as unskilled labourers are selected by the personnel officer or by his representative on the basis of experience and personal judgement. In the selection of skilled and semi-skilled workers, companies use some kind of trade tests. The tests range from highly developed methods in a few foreign-owned companies to a mere testing of the employee on the machine to see whether he knows how to operate it. Indian organisations prefer to measure the applicant's performance on the job instead of relying on an indirect measurement of his skills through different kinds of tests.

Psychological tests which are extensively used in the United States are rarely applied in India. It may be noted that as between the public and private sector industries the support for psychological selection processes in Indian industries comes mostly from the former. In one survey[6] conducted in 1965 it was found that 50 per cent of the government and only 14 per cent of private units were making use of psychological tests to some extent.

[6]N.R. Chatterjee, *A Study of Some Problems in Indian Industry*, Department of Business Management and Industrial Administration, University of Delhi, 1965.

https://rbigradeb.com/

Some important reasons which account for the unsatisfactory use of psychological tests in Indian industries are as under:

1. To this day, there are few tests in use in the Indian industry which are standardised by Indian psychologists for Indian subjects with national or atleast regional norms. Most of the tests used are foreign which have been adapted to Indian conditions on the basis of insufficient data. Several tests developed by Indian researchers at the Psychological Research Wing of the Ministry of Defence lie unpublished.
2. Tests are sometimes devised by persons who have inadequate knowledge of psychology. This always proves disastrous to the enterprise and detrimental to the subject.
3. There being an unusually high number of applicants for every vacancy, the main problem facing an employer in India is how to reject a majority of them without opening himself to the charge of favouritism. The *raison d' etre* of employing psychological tests in such cases is very often to have a device for rejection rather than a device for scientific selection on the principle of the best man for the job. This emphasis on rejection has prevented an appreciation of the positive virtues of psychological tests.
4. The rise of trade unions and the gradual realisation that for most skilled and semi-skilled jobs in factories, the group factors rather than variations in individual abilities and aptitudes are largely responsible for worker productivity, have dealt practically a death blow to the psychological selection procedure in India.

STAFFING FROM A GLOBAL PERSPECTIVE

An MNE can draw its rank and file employees either from the country in which it is headquartered (parent country nationals or PCNs, who are by definition *expatriates*), or from the country where its overseas operation is located (host country nationals or HCNs), or from a third country (third country nationals or TCNs).

Expatriates create a global perspective and are essential for knowledge and technology transfer. Yet most rank and file employees of the MNEs are HCNs or foreign employees because of the following factors:

- They are the most widely available.
- They know more about the local environment, e.g., and HCN has a better feel for the best way to market the sweaters or jeans of an international manufacturer.
- They are cheaper than home country nationals who involve problems of high cost or training and relocating. The expatriates' failure cost when they fail to adjust in the new culture is also substantial.
- They satisfy the local laws which may require that a certain number of HCNs must be employed for every parent country national granted working papers.

Alternative philosophies of staffing are followed for filling *key positions* abroad. These are ethnocentric, polycentric, regiocentric and geocentric. In *ethnocentric staffing*, PCNs are selected regardless of location. Japanese and Korean firms follow this mode. In *polycentric staffing*, HCNs are hired for key positions in subsidiaries but not at corporate headquarters. In *regiocentric staffing*, recruiting is conducted on a regional basis (e.g., recruit within Asia for a position in Thailand). In *geocentric staffing*, the best managers are recruited worldwide regardless of their nationalities.

https://rbigradeb.com/

Expatriates Selection

Among the attributes that MNEs look for in an expatriate are cultural empathy, adaptability and flexibility, language skills, education, leadership, maturity and motivation. A number of instruments have been developed to assess the potential of aspiring international executives on the above dimensions. Role-based simulations have become especially popular in recent years as a selection tool. These simulations are either generic or country-specific.

SUMMARY

- The most important resources of an organisation are its human resources—the people who supply the organisation with their work, talent, creativity, and drive. Thus, among the most critical tasks of a manager is the staffing function. This includes manpower planning, recruitment, selection and placement of organisation members.
- *Manpower planning* means planning for the future personnel needs of the organisation. Once the requirement of manpower is known, the process of *recruitment* starts. Job recruits can be drawn from within or outside the organisation. However, before recruitment can take place, *a job analysis* should be made. This must be followed by job description and job specification.
- The *selection* process follows a six-step procedure: completed job application, initial screening interview, testing background investigation, checking references, physical examination and final selection interview.
- *Placement and orientation* help the new employee and the organisation to accommodate each other.
- Manpower planning has not yet become popular in India. The external sources from which employees are recruited in our country are *badli,* employment exchanges, advertisement in newspapers, labour contractors, technical and other institutes, relations of existing employees, walk-in interviews, poaching or head-hunting, employee referrals, Bureau of Public Enterprises and advertisement on the net. For selecting skilled and semi-skilled workers, companies use some kind of trade test. Psychological tests for recruitment are rarely used

KEY TERMS

Manpower Planning It is the process by which a firm ensures that it has the right number and kind of people, at the right place, at the right time.

Recruitment It is the process of generating applications from prospective candidates for specified positions, from identified sources.

Selection It is the process of comparing the qualifications of candidates with the requirements of a job, and eliminating all those who do not stand up to the comparison.

Induction It is the process of acclimatising a new employee to the new social setting of his work.

Outsourcing of Recruitment This is an important method of recruitment under which companies ask outside agencies to provide them temporary workers of specified qualifications and for specified time.

https://rbigradeb.com/

Poaching and Head-hunting This refers to secretly enticing an executive working in another company, away from that company, to work in one's own organisation.

Review Questions

1. What is staffing? Describe the importance and need for proper staffing. What difference do you see in the problem of staffing for managers and non-managers?
2. Differentiate between recruitment and selection. Describe the steps involved in the selection process.
3. You have been asked to organise the recruitment and selection of the office staff for a new branch office. Indicate the possible sources of manpower supply. How can the relative merits of alternative sources of manpower supply be measured objectively?
4. Describe the various types of tests used for the selection of personnel.
5. Write short notes on:
   (a) Job Analysis
   (b) Job Description
   (c) Job Specification
   (d) Staffing from a global perspective.
6. Describe the advantages and disadvantages of recruiting temporary employees as a pool from which to select permanent employees. Are there advantages from the employee's standpoint?
7. What do you understand by manpower planning? Describe the steps involved in short-term and long-term manpower planning. If a company does its long-term manpower planning well, will its need for short-term manpower planning change or disappear?
8. Give ten reasons for the increase in importance of manpower planning in recent years.
9. Fill in the blanks:
   (a) The results of a job analysis are set down in _____.
   (b) _____ technique is used to describe various roles in a manager's job.
   (c) _____ test is used to find out the type of work in which the candidate has an interest.
   (d) _____ test is used to measure the candidate's capacity to learn the skills required for a job.
   (e) When an organisation secretly tries to lure to itself an employee working in another organisation, it is called_____.
   [(a) Job description, (b) Role analysis, (c) Interest, (d) Aptitude, (e) Poaching or head-hunting.]

Project

Interview managers at two or three local organisations about their recruitment and selection practices. Report on your perceptions of how well their practices support a high-performing workplace.

https://rbigradeb.com/

Cases

Hiring Right Person, Job Analysis and Getting Well-qualified Employees

1. Hiring Right Person

Ramoji Rao is incharge of a bindery in Vijayawada, which employs fifteen people, five of whom work in the factory. Three of these employees run machines, one supervises and the fifth moves the blank paper and finished print by handcar. This fifth position, which demands no skill other than driving a handcar, needs to be filled, and three applicants have responded.

The first is Mr Matti Anjaiah who is thirty-five, unmarried, and a Navy veteran. Anjaiah has poor work record. During his five years in Vijayawada he has worked only as a seasonal labourer on occasional odd jobs. He drove a forklift in the Navy, while working at Visakhapatnam. He has a strong build, which could help, although the work is generally light.

Mr Nehal Singh, age twenty-two, came to Vijaywada two years back from Punjab. He has done farm labour for many years and assembly-line work for one year. His command of English is poor (but can speak the regional language, Telugu, fluently). He resides with his mother and seems certain to remain in the area for some time. After having run farm equipment he should have no trouble steering a handcar.

Mr Vandaveeti Raja is a local boy who finished high school two years ago. Subsequently he got a diploma from a local institute and is currently employed as an assistant in Savani Transport Company, Vijayawada. His character references are excellent. Mr Raja is small, but he seems quick and was track star in high school.

Discussion Questions

(a) How much consideration should be given to Mr Anjaiah's poor work record? Should Mr Ramoji Rao check to verify it?
(b) How important is a command of English to the job? How quickly could Mr Nehal Singh learn enough English to be effective?
(c) Should Mr Nehal Singh be passed over because of his status as a recent migrant?
(d) Should Mr Raja get the job? Should his excellent character references be given more weight than his inexperience?
(e) Who should be hired? Why?

2. Job Analysis

A manufacturing company is encountering difficulty in its job analysis programme. A new personnel manager who joined less than a year ago, began the programme by asking employees to fill out a job questionnaire. When answers came in, he asked supervisors to comment. Some supervisors insisted that employees were not actually doing all they claimed. In some cases, supervisors admitted that employees were doing what they claimed but said that they should not be doing some of the tasks.

The new personnel manager now finds himself faced with a difficult problem. He intended only to find out what each job involved. Now he is being asked to settle arguments as to what should

https://rbigradeb.com/

be expected of jobholders and, even more difficult, what to do about employees who insist they have long been expected to do more than their supervisors think they are doing.

Discussion Question

How should the personnel manager resolve the differences?

3. Getting Well Qualified Employees

RaGold India Ltd (RIL) is one of the fast-growing manufacturers of electronic goods in Hyderabad (Andhra Pradesh). Because of the recent downsizing in most state-level public sector undertakings in Andhra Pradesh, each job opening in the state attracts five times more applications than it did just a few years ago. An engineering position (thanks to over 225 engineering colleges in the state) is likely to generate as many as 500 applicants. You would think that under such circumstances, finding employees would be easy, but the widespread lay-offs made during the downsizing and the need for people to seek new career paths, have created a glut of less-than qualified applicants.

Discussion Question

What selection tools can RIL use to get the most qualified employees from its vast pool of job seekers? In general, which selection tools do you think are the best predictors of job performance?

https://rbigradeb.com/

CHAPTER

12 TRAINING AND DEVELOPMENT

Learning Objectives

This chapter will enable the reader to:

- **Present** the Human Resource Development concept and its difference from personnel management
- **Identify** the distinction between training, education and development
- **Summarise** the advantages of training
- **Explain** the steps in setting up a training porgramme. These include assessment of training needs, identification of the areas requiring training, designing and developing the programme and evaluating the programme
- **Describe** the executive training practices in India and the institutional and governmental efforts for training operatives
- **Choose** the expatriate training method
- **Present** the related concepts of mentoring, learning and knowledge management

https://rbigradeb.com/

After the selection of people for various jobs, the next function of management is to arrange for their training and development. This is because a person, however carefully selected is not moulded to specifications and rarely meets the demands of his job adequately. Formerly, it was thought that the training of personnel was unnecessary on the ground that the new employees would gradually pick up all the particulars of the job. But as the processes and techniques of production are becoming more and more complicated, it is being increasingly realised that the formal training is important not only for new recruits but also for existing employees. Training function, in fact, has become the comer stone of sound management.

In all big organisations, like manpower planning and staffing, training is also the function of the personnel manager. In recent years, however, there has been a growing dissatisfaction with the functioning of personnel departments because in many cases they have failed to achieve the twin goals of increased productivity and employee satisfaction. As a result a new concept of dealing with the human resource known as *Human Resource Development* (HRD) has come into being. This concept differs from personnel management at least in three ways. *One,* whereas the personnel management merely reacts to the organisation's training needs as and when they arise, HRD emphasises the need for every organisation to continuously develop its employees' competencies in a planned way. *Two,* whereas personnel management relates all its functions (such as recruitment, training, performance appraisal, etc.) to employees' positions, HRD relates them to employees' roles. The principal tasks of a human resource development manager are to understand these roles, match the roles and the person and develop persons in their roles. *Three,* whereas personnel management does not give much weightage to the procedural aspect of a training technique, HRD considers this aspect as crucial for achieving lasting development of human competencies.

DIFFERENCE BETWEEN TRAINING, EDUCATION AND DEVELOPMENT

Training is different from education. Training is the act of increasing the knowledge and skill of an employee for doing a *particular* job. It is concerned with imparting *specific* skills for particular purposes. On the other hand, education is a broader term concerned with increasing the knowledge and understanding of the employees—beyond those required for a particular job. Thus, when we teach a person how to assemble two objects and tighten a nut, we are training him to do a specific job but when we are giving him a course in engineering, it is education. The distinction between the two is like the distinction between applied and pure sciences.

Training is also different from development in the following ways:

1. Training carries the narrow implication of imparting to an individual some specific skills only. In contrast, development emphasises on development of total personality of an individual called growth.
2. Training is a *one-shot affair.* Development is a *continuous process.*
3. The initiative for training usually comes from management. The initiative for development comes from the individual himself. To put it differently, training is mostly the result of some *outside motivation.* Development is the result of *internal motivation.*
4. Training is mostly a preparation to meet an individual's present needs. It can thus be seen as a *reactive process.* Development is a preparation to meet his future needs. It is thus, largely a *proactive process.*

https://rbigradeb.com/

ADVANTAGES OF TRAINING

Systematic training offers the following advantages:

1. It helps in improving the quality and quantity of a worker's output.
2. It enables the worker to make the most economical and best use of materials and equipment. This reduces spoiled work and damage to machinery.
3. It develops in the worker effective work habits and methods of work, thereby reducing the accident rate and the need for close supervision.
4. It gives a sense of satisfaction to the worker and makes him feel that he is being properly cared for. As a result, a worker's morale and his relations with superiors improve.
5. It instructs the worker toward better job adjustment and reduces the rate of labour turnover and absenteeism.
6. It helps management to distinguish between efficient and poor workers. The worker who needs a longer time to learn may be considered inferior to one who learns in a relatively short time.
7. It facilitates promotion of workers to higher jobs and increases their market value and earning power.
8. It makes the worker committed and loyal to the organisation by educating him about the culture, philosophy and policies of the organisation.
9. It helps in creating a pool of trained personnel from which replacements can be drawn to fill the loss of key personnel at any time.
10. It trains the worker in indigenous and alien cultural values.

STEPS IN SETTING UP A TRAINING AND DEVELOPMENT PROGRAMME

The setting up of a strategically aligned training and development programme involves the following four steps:

1. Assessment of training needs
2. Identification of the areas in which training is needed
3. Design and development of the training programme
4. Evaluation of the training programme

Assessment of Training Needs

A training need arises when employees' current knowledge, skills, attitudes and behaviours, which correlate with their performance on various jobs, are less than those required. There are a number of *early hints* of this situation such as standards of work performance not being met, accidents, excessive scrap, frequent need for equipment repair, high rate of transfers and turnover, too many low ratings on employee evaluation reports, many people using different methods to do the same job, excessive fatigue, fumbling, struggling with the job, bottlenecks and deadlines not being met, etc.

Evidence of training needs may also be *systematically gathered* from the following sources:

1. Informal observation
2. Performance appraisals
3. Suggestion system
4. Group discussion

https://rbigradeb.com/

5. Questionnaire to trainees or to supervisors
6. Morale surveys
7. Interviews with union officials
8. Selection or exit interviews
9. Analysis of reports relating to costs, turnover, grievanees etc.
10. Employee counselling
11. Analysis of organisational climate and strategies
12. Job descriptions and job specifications

Identification of the Areas in which Training is Needed

Once the need for training has been established, the second step is to state the area in which the training is to be given. The following are the examples of some typical areas.

Induction or Orientation Training

As described in the previous chapter, it is a training programme mostly used to induct a new employee into the new social setting of his work. The new employee is introduced to his job situation, and to his co-employees. He is also informed about the rules, working conditions, privileges and activities of the company, what the company does, how it serves the community and other particulars pertaining to the company. At senior levels, orientation may be brief and focused more on company history, mission, goals, strategies and meeting with key employees.

Job Training

The object of job training is to increase the knowledge of workers about the jobs with which they are concerned, so that their efficiency and skill of performance are improved. In job training, workers are enabled to learn correct methods of handling machines and equipment, avoiding accidents, removing bottlenecks, minimising waste, etc.

Promotional Training

When the existing employees are promoted to superior positions in the organisation, they are required to shoulder new responsibilities. For this, training has to be given to them so that they may not experience any difficulty to shoulder the responsibilities of the new position to which they have been promoted.

Refresher Training

At the time of initial appointment, employees are formally trained for their jobs. But with the passage of time, they may forget some of the methods which were taught to them or they may have become outdated because of technological development and improved techniques of management and production. Hence, refresher training is arranged for existing employees in order to provide them an opportunity to revive and also to improve their knowledge. According to Dale Yoder,[1] refresher training programmes are designed to avoid "personnel obsolescence."

[1]Dale Yoder, *Personnel Management and Industrial Relations* (New Delhi: Prentice-Hall, 1972), p. 371.

https://rbigradeb.com/

Corrective Training

This training is arranged to correct employees who violate company rules or policies, such as by being absent often or by smoking in a "No Smoking" area.

Training in Emotional Intelligence Many executives are emotionally unintelligent i.e., they do not know how to handle their emotions (such as anger, fear, love, happiness, sadness, etc.) intelligently. They express their emotional unintelligence in a number of ways such as arguing a lot, being mean to fellow workers, disobeying the boss, talking too much, using violence, being too nervous to concentrate, having many fears and worries, being secretive, being overly dependent and so on. To quote Daniel Goleman, best-selling author of *Working with Emotional Intelligence,* these individuals may be imparted direct training in controlling their impulsivity. One of the key skills developed is to monitor one's feelings, becoming aware of one's body sensations, such as flushing or muscle tensing as a cue to stop and consider what to do next rather than leap frog to action. Individuals are taught that emotions like anger, sadness, anxiety, etc., do not just descend on them without their having control over them but they can change the way they feel by what they think.

This training makes people emotionally intelligent in the following five major dimensions:

- Self-awareness: Knowledge of true feelings at the moment
- Self-management: The ability to control oneself, and think before one acts
- Self-motivation: The ability to stay on course towards the desired goal
- Empathy: The ability to understand other people's viewpoints
- Social skills: The ability to read social situations

Behavioural Training

This training is given to employees to develop their interpersonal skills and creativity. In knowledge-based and service–oriented organisations, the behaviour of the employees is in itself a competitive factor.

Training for Global Assignments

In order to be successful in overseas assignments, this training is given to individuals who need cultural adaptability, language skills, understanding of customs and codes of conduct of the foreign country and so on.

DESIGN AND DEVELOPMENT OF THE TRAINING PROGRAMME

After identifying the areas in which training is needed, the next step is to design the necessary learning environment and to develop the training programme.

This includes:

- Establishing the *desired outcomes* of training in measurable terms
- Selecting the required *number of trainees* who are both able and willing to learn
- Deciding the type of group of trainees to be formed. It may be a *family group* (consisting of members of the same work group), a *cousin group* (consisting of people working on various hierarchical levels or in sub-units chosen from diagonal slices of the organisation) or a *stranger group* (consisting of people working in other organisations). See Fig. 12.1.

https://rbigradeb.com/

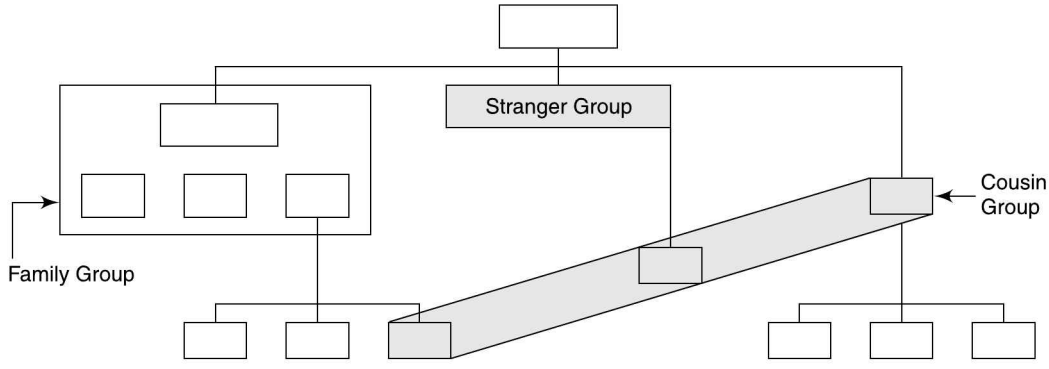


Fig. 12.1 Family Group, Cousin Group and Stranger Group formations

- Selecting competent *trainers*
- Selecting the appropriate training method, tools and processes.

Training Methods

All training methods can be grouped into two categories: (a) Training methods for operatives; and (b) training methods for managers. A brief description of some of these methods now follows.

Training Methods for Operatives

1. On-the-job Training This is by far the most important method used for training the rank and file workers in a factory. Under this method training takes place in the normal work location. The new employee is assigned to a specific job at a machine. He is instructed by an experienced employee or by a special supervisor who explains to him the method of handling tools, operating the machines, etc. Under this method, the worker not only learns the work under the guidance of a supervisor but also produces goods in that process. As this method does not require any special arrangement such as having a training school, it is inexpensive and has become a very popular method of training for the employees. Further, it enables the workers to learn in the environment of the job. Another feature of this method is that it takes less time to provide training to the worker and also directly adds to the production. Further, this method has the advantage of simplicity because there is no division of responsibility between a staff training department and line supervision. However, the effectiveness of this training method depends primarily on the experience and competence of the supervisor and his interest in giving proper training to the worker. In the words of Betty[2], "On-the-job training, for its success needs a properly trained instructor; otherwise an inefficient instructor can produce a number of inefficient offsprings." There are several methods in vogue which make use of on-the-job training concept. Some of them are described below.

Vestibule Training This method involves the creation of a separate training centre within the plant itself for the purpose of providing training to the new employees. An experienced instructor is put in charge of this training. Machines and tools are also arranged in the training centre so as to create working conditions similar to those in the workshop. This method has several advantages. As the trainee

[2]J. Betty, *Industrial Administration and Management* (London: Macdonald and Evans, 1974), p. 249.

https://rbigradeb.com/

remains free from the confusion and the pressure of the work situation, he is able to concentrate on learning. Further, while training is being imparted, there is no interference with regular production. The method also saves costly machines from being damaged by mishandling of untrained workers. The disadvantages of this training are that it is relatively costly, it adds nothing to the production during the training period and the artificial atmosphere usually associated with this type of training does sometimes create adjustment problems for trainees.

Apprenticeship Training This method of training is meant to give the trainee sufficient knowledge and skill in those trades and crafts in which a long period of training is required for gaining complete proficiency. Generally, the trainees work as apprentices under the direct supervision of experts for long periods of say, two to seven years. This programme consists of providing actual work experience in the actual job as well as imparting theoretical knowledge through classroom lectures which may be arranged either in the plant or in the institution attached to the concern. Before accepting a person as an apprentice, an agreement is entered into by the employer with the trainee or his guardian, stating the terms and conditions of training. This method of training enables the trainees to become allround craftsmen. But this method is very expensive and also there is no guarantee that a trained worker will continue to work in the same concern after the training is completed.

Internship Training This method of training is generally provided to the skilled and technical personnel. This method involves a joint programme of training in which enterprises and the vocational and the training institutions cooperate. The object of this type of training is to bring about a balance between theoretical and practical knowledge. Under this method, students from a technical institution possessing only theoretical knowledge are sent to some business enterprise to gain practical work experience. Similarly, the employees of business enterprises are sent to technical institutions to gain the latest theoretical knowledge on a subject.

2. Simulators and Training Aids Simulators are used to provide trainees with physical equipment that resembles, to some degree, the equipment that is to be used on the job. Usually, such devices are used when it is impractical, for some reason, to use the actual equipment (such as possible injury to the trainees or others), or when cost of the actual equipment is excessive. Thus, trainees in the aeronautical department may be made to learn in the "wind tunnel" and needless experimentation with the "real" people, machines, and facilities may be eliminated.

Training aids such as video discs, films and television, charts, black-boards, etc. are particularly appropriate in those situations where individuals cannot be assembled, for example, in demonstrating surgical techniques. Such aids are more economical than several other aids, as they can be used over and over again.

3. Programmed Instruction Under this method, all the material related to a subject is divided into small parts called frames. The operative can master each frame at his own pace without the help of a teacher. He gets immediate feedback on his grasp or lack of grasp of the material as he reads it. Mainly, this programme is of two types: *linear* and *branching*. In linear programming, one has to learn various frames in a given sequence. In branching, on reaching specific points, one can move on to other frames of his choice, breaking their strict sequence.

Training Methods for Managers

Executive talent is the most important asset which a company can possess. Although it does not appear on the company's balance sheet, but it produces more important effects on the company's progress,

https://rbigradeb.com/

its profit and the price of its stock than any other asset in its possession. Research, experimentation, testing and experience have yielded a great variety of training methods which are used in executive development programmes. Some of these methods are meant for newly recruited executives only, their aim being to generate in these trainees a deeper understanding of managerial functions. Some other training methods aim at increasing the problem solving skills of managers. Still others aim at changing their attitudes. A brief description of these methods is given below:

Observation Assignment Under this method, the newly recruited executive called "understudy" is made an assistant to the current job holder. He learns by experience, observation and imitation. If decisions are discussed with him, he is informed on the policies and theories involved. But if he is neglected by the current job holder, the understudy does not learn much by this method. Moreover, the method tends to perpetuate mistakes and other deficiencies characteristic of existing managerial practice.

Position Rotation Under this method, the trainee executive is rotated among different managerial jobs. This not only broadens and enriches his experience as a manager but also enables him to understand interdepartmental relations and the need for coordination and cooperation among various departments.

Serving on Committees Another important method of training an executive is to make him serve on a committee. While serving on a committee, the executive comes to learn not only the various organisational problems and views of several senior and experienced members but also learns how a manager should adjust himself to the overall needs of the enterprise.

Assignment of Special Projects Sometimes, as a method of training some special project is assigned to a trainee executive. For example, he may be asked to develop a system of cost allocation in the production of certain goods for which an order has been received by the company. While working on such projects, the trainee not *only* acquires knowledge about them but also learns how to work with and relate to other people holding different views.

Conferences and Seminars Often an executive is deputed to attend a conference, seminar or workshop to receive a quick orientation in various areas of management with which he might be unfamiliar. One advantage of this type of training is that all the participants coming from different organisations get an opportunity to pool their ideas and experience in attempting to solve mutual problems. The attitude is one of joint exploration. This encourages cross fertilisation of ideas.

Case Study A case is a written account seeking to describe an actual situation. A good case is the vehicle by which a chunk of reality is brought into the classroom to be discussed over by the class and the instructor. Discussion on a case requires a capable instructor who can evoke and guide intelligent discussion and analysis, so that meaningful learning experiences occur. There is no "right" answer or simple explanation in the comprehensive case. The advantages of this method are more depth of thinking, more perception in a situation, greater respect for and consideration for the opinion of others. What may happen to a business student who has not gone through this method is brought out by the following limerick:

A student of business with tact
absorbed many answers he lacked.
But acquiring a job
he said with a sob
"How does one fit answer to fact"

The number of published cases is so large that an enormous selection is available. In addition, some companies write their own cases to make them relevant to their own industry or to specific problems.

https://rbigradeb.com/

Incident Method Developed at the Massachusetts Institute of Technology, this method is an outgrowth of dissatisfaction felt by Paul and Pigors with the case method. In the usual case method the entire problem is presented to the students, whereas in the incident method only a brief incident is presented to provoke discussion in the class. The group then puts questions to the instructor to draw out of him the salient facts and additional information, needed to arrive at a reasonable solution, or resolution of the case. This method draws the participants into discussion with greater emotional involvement. A unique advantage of this method over the case method is the procedure of obtaining information by questions, one that often must take place in actual business situations.

Role Playing In this method, the instructor assigns parts taken from case materials to group members. The situation is usually one involving conflict between people. The role players attempt to act the parts as they would behave in a real life situation, working without a script or memorised lines and improvising as they play the parts. The development of empathy and sensitivity is one of the primary objectives of role playing.

Sensitivity training (or Laboratory Training) This type of training is designed to increase the manager's understanding of himself and of his own impact on others. The training takes the form of a group discussion, and though a leader trained in the technique is present, the group may decide on the subject of discussion or suggest changes in procedure. In the course of the discussion, conflict, hostility, stress and frustration may be purposely generated for they later on become motivations for growth as well as food for learning. As these experiences are worked through and the learnings internalised, participants soon begin to experience a deeper sense of self-awareness and acceptance. These, in turn, lead to an increased awareness and acceptance of others. For example, one of the participants may become disturbed at the apparent lack of purpose in the discussion and may remark that he is sick of wasting his time. His remark may generate a number of questions from other participants which may be difficult for him to answer, e.g., "What do you mean by saying this?" "What are you really mad at?" This may make him realise gradually that a large part of the group disagrees with him. In this way, he is learning something about people he has not known before. He is induced to examine his behaviour, values, needs, knowledge and feelings constituting his inner world and to integrate it with the expectations of his social environment. In short, the laboratory training aims at achieving behavioural effectiveness in transactions with one's environment.

According to Katz[3], this method depends for its success on the following conditions:

1. The trainee must sincerely want to improve his human relation skill.
2. He must be willing to face up squarely to his own inadequacies, without rationalising or minimising them.
3. He must be provided with a permissive atmosphere which shields out censure or ridicule when he exposes his weaknesses.
4. He must have someone whom he trusts, who is interested in helping him improve his performance, and who is himself sufficiently skilled so that he is able to help without imposing his values on the trainee.
5. He must be provided with direct experiences in working with others, where he can learn and practice the new skills he acquires.

[3]Robert L. Katz, "Human Relations Skills can be Sharpened", *Harvard Business Review*, Vol. 34, No. 4 July–Aug., 1956.

https://rbigradeb.com/

Management Games They present the trainees with the task of making a series of decisions in a hypothetical organisation. Each decision impacts some part of the organisation. The task of the trainees is to decipher how does the organisation react to several environmental and business factors that are built into the game.

In-basket The trainee is given materials that include items from a manager's typical workday. These include mail, e-mail and other pressing matters such as customer feedback, demand for a report from a senior, etc. The trainee is required to take a series of decisions on each item in the in-basket within a limited time period. The trainee is given feedback on the quality of decisions taken, the manner in which items were prioritized, and how well the time was utilised.

Outdoor-Oriented Training Programmes Also called wilderness or survival training, their purpose is to develop interpersonal skills, team skills, skills for handling conflict, interpersonal trust building, etc., through participation in adventure games, like river rafting, rock climbing, etc. These games challenge an individual's potential and reinforce the importance of working together and of succeeding as a group.

The Johari Window This is a conceptual model for increasing personal effectiveness. It was developed by Joseph Luft and Harry Ingham (the name Johari combines their first names). As shown in the following figure, this model divides an individual's personality into four parts. The part which is known both to the individual and to others is called *"Arena";* the part which is known to others, but not to the individual is called *"Blind";* the part which is known to the individual but is not known to others is called *"Closed";* and the part which is not known both to the individual and to others is called *"Dark"*. Data about different parts are collected by administering questionnaires.

	Known to self	Not known to self
Known to others	Arena (e.g., name, age, family, job, physical appearance etc.)	Blind (e.g., certain mannerisms about which the individual does not know but others know)
Not known to others	Closed (e.g., an individual may hide his anger and not let others know about this.)	Dark (unknown area)

Fig. 12.2 The Johari Window

The implication of this model is that in order to make oneself effective in interpersonal relations, one should expand one's arena. Alternatively, one should try to reduce the other three areas. Blind can be reduced by receiving feedback from others. Closed area can be reduced by self-disclosure. Nothing much can be done about the dark area. It can be reduced by special psycho-analysis techniques only.

Transactional Analysis (TA) This method concentrates on style and content of communication between people. It teaches people to send messages that are clear, and to give responses that are natural and reasonable. Transactional analysis attempts to reduce destructive communication habits or "games", in which the intent or full meaning of the message is obscured.

https://rbigradeb.com/

Autonomy Training One of the latest techniques of management training called "autonomy training" is aimed at developing the individual's ability to manage his own training. It involves leaving the trainee almost entirely on his own. He has first to work out what he would like to learn. and then teach himself. The concept on which this method rests is that with the tremendous speed at which new knowledge is replacing the old, it is impossible for a standardised course to cater to the mass of individual training needs. So managers must be trained to teach themselves new skills as they go along. In this training also, as in the sensitivity training, the situation is kept unstructured. There is no programme and the trainer refuses to direct the programme or give lectures. Instead, he merely indicates a vast array of resources such as books, films, articles, management games, psychological tests, etc. from which the participant must choose in order to build his own programme. Often, consultants are available for discussion or counselling, but only if the participant seeks them out. Participants can also consult with each other.

Selection of a Training Method

The selection of an appropriate training method depends upon the following six factors.

1. ***Nature of problem area*** The choice of a training method depends upon the nature of the problem area which may either relate to the manner in which the task is done or the manner in which people interact with each other. In other words, the problem may either be an operational problem or a human relations problem.

In 1972 three researchers Carroll, Paine and Ivancevich[4] asked 200 training directors of large American companies to rate the best and the worst training methods for meeting various training objectives. These are shown in Table 12.1.

Table 12.1 Best and Worst Training Methods for Various Training Objectives

Objective	*Best*	*Worst*
(a) Acquisition of knowledge	Programmed instruction	Lectures
(b) Changing trainees' attitudes	Sensitivity training	Television lectures
(c) Increasing trainees' problem-solving skills	Case method	Lectures
(d) Increasing trainees' interpersonal skills	Sensitivity training	Television lectures
(e) Increasing trainees' acceptance of the training methods	Conference	Television lectures
(f) Trainees' retention of knowledge.	Programmed instruction	Television lectures

2. ***Level of trainees in the organisation's hierarchy*** The choice of a training method also depends upon the level of the participants, that is, whether the participants are shopfloor workers, supervisors or managers. This is because the training needs of employees at different levels in the organisational hierarchy differ in the degree to which emphasis is to be placed on various training inputs. For example, managers at the top and middle levels need techniques which emphasise training in conceptual and interpersonal skills. Rank and file employees need techniques which emphasise training in technical skills and knowledge. This difference makes certain techniques better for one class of employees than for the other.

[4]S.J. Carroll, F.T. Paine and J.O. Ivancevich, "The Relative Effectiveness of Training Methods—Expert Opinion and Research", *Personnel Psychology,* 1972, 25: 495–509.

https://rbigradeb.com/

3. ***Method's ability to hold and arouse the interest of trainees during the training period*** A trainer has to consider alternative methods of presenting training material to participants also from the point of view of their ability to stimulate interest and facilitate retention of the matter. For instance, if traditionally the matter has been presented through lectures, audiovisual methods can perhaps be used. People remember things that they "see and hear" much longer than they remember information received through talks or reading alone.

4. ***Availability of competent trainers***[5] A competent trainer is one who can create a learning climate having the following conditions;

- The trainees feel personally close to the trainer;
- The trainees enjoy psychological safety, i.e., they have no fear of being underrated or laughed at on their failure;
- The trainees get opportunity to experiment with and practice new learning; and
- The trainees receive and give genuine feedback.

5. ***Availability of finance***

6. ***Availability of time***

EVALUATION OF TRAINING AND DEVELOPMENT

This is the last though not least important step in establishing a training and development programme. The four main *dimensions* of evaluation are as given below (See Fig. 12.3):

(a) Evaluation of the pre-training and post-training *contextual factors* such as proper identification of training needs, developing criteria of who and how many should be sent for training, building linkages between the training section and the line departments and helping line managers to plan to utilise the participants' training when they are back on their jobs.

(b) Evaluation of *training inputs* such as training curriculum and its sequencing.

(c) Evaluation of *training process* such as the climate of the training organisation, the relationship between participants and trainers, the general attitudes and approaches of the trainers, training methods, etc.

(d) Evaluation of *training outcomes* Measuring the carry-home value of a training programme, though very complex, is the main task of evaluation.

Benefits of training programme are not always obvious and they are not readily measurable. Pay-offs from training are intangible and rather slow to become apparent. A central problem is the absence of objective criteria and specific definitions of relevant variables by which to measure the effectiveness, either of specific programmes or of results in terms of general employee development or changes in employee behaviour. Nevertheless, good personnel managers do make an effort to systematically appraise the benefits and results of their programmes.

In job-related training, where the objective is to train people for specific job skills so that their productivity may increase, evaluation can be done either according to the direct criterion of increase in

[5]Despite the commendable efforts made by some professional bodies such as the Indian Society for Training and Development (ISTD) there is a dearth of professional trainers in India. This body is a national professional non-profit society registered under the Societies Registration Act. It came into being in April, 1970. It has a number of chapters throughout the country with the national headquarters in New Delhi.

https://rbigradeb.com/

output or according to the indirect criteria of decrease in costs, breakage or rejects. Even more indirect are measures that point out changes in absenteeism or turnover.

The most difficult problems of evaluation lie in the area of human relations skills training which is given to the supervisors and middle-level managers. Supervisory and managerial training programmes are, for this reason, less amenable to objective review procedures. Much subjectivity enters into evaluations of these programmes, since exact standards and criteria are hard to devise.

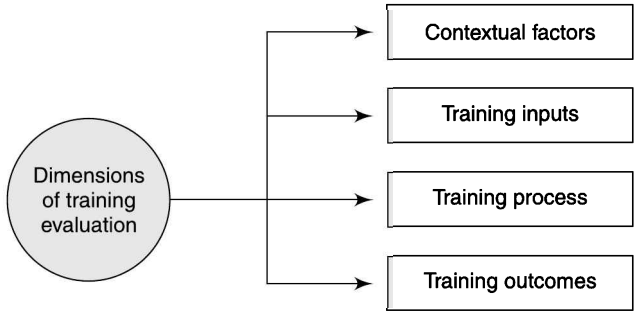


Fig. 12.3 Dimensions of Training Evaluation

How Evaluation is Done?

Most evaluation of training methods seems to fall into one of the following two categories: (a) reaction evaluation and (b) outcome evaluation.

Reaction Evaluation Opinion surveys of participants or of people who have seen the participants in action are reaction evaluations. There are several variations of this method:

1. Generally, a questionnaire is given to the participant at the end of the programme which asks him to rate in terms of his personal perceptions what he liked best, what he liked least and any other comments he might have about the programme.
2. Sometimes scalar ratings are also given against every question and the trainee is required to check off the degree of satisfaction which he found in each answer.
3. Participants are required to give daily rating for each segment of the programme. One advantage of this method is that it provides the manager of the training programme an immediate feedback which he can apply to the adjustment and subsequent improvement of the following day's programme.
4. Sometimes a management representative may drop around during a coffee break and by putting questions informally to one or two participants may collect information about the success of the training programme. Since such samplings are not scientifically designed, the results may not always be accurate.
5. Sometimes the participants may be asked to send their opinions by mail on reaching their organisations. The theory here is that opinions given immediately at the conclusion of the course cannot possibly have the objectivity which is desired in the appraisal of the programme.

Outcome Evaluation Reaction evaluations do not take one very far. The main object of evaluation is in fact served by outcome evaluation. Outcome evaluation may be done at three levels: immediate, intermediate and ultimate.

https://rbigradeb.com/

Immediate This form of evaluation measures improvement in the *learning* (knowledge, skills and attitudes) of trainees soon after they have finished training.

Intermediate This form of evaluation measures changes in the *behaviour* of trainees when they have returned to their jobs.

Ultimate This form of evaluation measures changes in the ultimate results achieved by trainees. For this purpose, indexes of productivity, labour turnover, absenteeism, accidents, grievances, cost, quality control, etc. are taken as the ultimate results achieved by trainees. Thus, for example, a training given to salesmen is successful to the extent that it has increased sales, a training given in cost reduction is successful to the extent that it has helped people in reducing costs and a training in work simplification is successful to the extent that the people have simplified their jobs.

There are three basic techniques followed under outcome evaluation. These are: (a) controlled experimentation, (b) "before-and-after" comparison, and (c) after the training study. Controlled experimentation requires the use of two groups of employees, namely, "training" group and a "control" group. Performance is measured of both the groups before training is started. The training group is then given the training, while the control group is not (the group continues to perform the job without training). After the first group is trained, performance of both the groups is again measured. A subsequent comparison is then made of the improvement in both groups to determine if the training group improves significantly more than the control group. The second method involves the use of a single training group with its performance being measured before and after the training. The third method also involves a single training group but with performance being measured after the training (not before).

Of these, the first technique (controlled experimentation) is considered to be the most scientific as it provides a solid basis for evaluation of the outcome. The second technique does not provide the basis for knowing how much improvement would have occurred without training. The third technique does not provide any basis for knowing how much improvement actually occurred during training.

If evaluation in any form is to be effective, it must be done in accordance with the following proven principles:

1. Evaluation must be planned. What is to be evaluated, when, by what means, and by whom must be determined in advance?
2. Evaluation must be relevant. It must be conducted in terms of purposes and objectives that are germane to both training and development and enterprise programmes.
3. Evaluation must be objective.
4. Evaluation must be verifiable so that its results can be confirmed by the same or different means.
5. Evaluation must be cooperative. It must involve all who are a part of or are affected by the training and development programme. It is not a contest between the evaluator and the subject of the evaluation.
6. Evaluation must be continuous.
7. Evaluation must be specific, that is, it should deal with specific strengths and weaknesses and not with vague generalisations.
8. Evaluation must be feasible. It must be administratively manageable.
9. Evaluation must be qualitative.
10. Evaluation must be cost-effective, i.e., the results must be commensurate with the costs incurred.

https://rbigradeb.com/

EXECUTIVE TRAINING PRACTICES IN INDIA

Several studies have been made in the past about the executive training practices in Indian industries. Some important features which these studies have revealed are as follows:

1. In the majority of Indian organisations executive training and development have remained a neglected and secondary function either because of the high cost involved or because of the belief that managers are born and not made.
2. In the majority of Indian organisations the procedure to select people for various training programmes is irrational. Not infrequently those persons are sent for training who either find themselves at a loose end (no suitable slot being readily available for their posting) or want a holiday at company expense.
3. In many organisations the fact of a particular employee having attended a specialised training course is not taken into account at the time of his subsequent postings. In these organisations one can come across hundreds of examples of square pegs sitting in round holes.
4. Many organisations treat the training of their employees as a single shot operation. They do not look upon training as an integral part of their employee career plans.
5. Only in a few big organisations in our country training programmes are conducted in terms of specific organisational needs and the peculiarities of the industry concerned. Most of the training institutes in the country assume these needs and develop some "free-size" programmes which the organisations try to fit among their executives.
6. Organisations in India have generally remained unconcerned about evaluative follow-up of their management development programmes. Results of some such studies done by outside researchers show that there is hardly any material evidence that management attitudes change as a result of training. At the most, managers take home a new vocabulary of management. Only semantic learning occurs. Even when learning does occur significantly, it is not retained over a length of time, largely due to disuse. Not only are the new learnings not used, but in organisational practice they are interfered with.

Some important *developments* which have taken place in this field in recent years are as under:

(i) Thanks to the emergence of a more competitive business environment, organisations, both big and small, are now waking up to the importance of executive training. In a recent survey[6] of 200 small scale enterprises in North India, representing a cross-section of industrial segments, the PHD Chamber of Commerce and Industry has found that over 64 per cent organisations feel that managerial training is very important for gaining competitive edge.

(ii) Shortage of specifically tailored training programmes has promoted several organisations (such as Hindustan Lever, Larsen & Toubro, Bharat Petroleum, Crompton Greaves, Voltas, ANZ Grindlays, Nirma and so on) to set up their own in-house training centres.

(iii) To meet a huge demand-supply gap for CEOs[7] in sectors as varied as manufacturing and engineering, health care, retail, real estate, bio-technology, financial services and even traditional sectors such as energy, IT and consumer goods, recruiting talent at lower rung:; and then grooming it internally is now considered as a better strategy than recruiting CEOs laterally from outside.

[6]*The Economic Times*, N.D. 19.3.2002.

[7]It is estimated that India needs nearly 4000 top executives over the next two years.

https://rbigradeb.com/

Experience shows that laterally recruited CEOs do not easily fit in the new working culture. The Tata Administrative Service (TAS) modelled after the Indian Civil Service and one of the oldest leadership development programme in the country has been a pool for creating leaders for the Tata Group. Grooming leaders is a tradition at Hindustan Unilever (HUL) as well.

(iv) Training is no longer looked upon as a single shot operation. It is now becoming an integral part of employee's career plan. Groups such as ICICI and Aditya Birla have started fast tracking careers of young managers.

(v) Nowadays learning over the internet without the constant involvement of any physical instructor (called e-learning) is becoming increasingly popular in India. In a recent survey of 130 companies conducted by FICCI it has been found that around 37 per cent of the companies use e-learning for skills upgradation and training of employees. Among the major users of e-learning are Maruti Udyog Ltd., Hero Honda, Hewlett-Packard, Whirlpool, Samsung and Indian Oil. This type of training, it is claimed, is very cost-effective because: (a) it is not tied to the availability of instructors and class rooms, (b) it can be shared by a wider audience, (c) it enables quicker training cycles, and (d) it avoids executive's productive time being wasted in travelling. However, one very important drawback of this type of training is that by avoiding person-to-person interactions it atrophies communication skills.

Institutional and Government Efforts for Training Operatives

1. There are over 4,000 Industrial Training Institutes in the country preparing hundreds of young men and women in different production jobs such as metal cutting, turning, fitting, electrical, etc. Of these, over 1,500 are in the government sector and the remaining are in the private sector.
2. There is the National Council for Training in Vocational Trades (NCTVT) whose function is to correlate training facilities with the requirements of industry.
3. Under the Apprentices Act the above programme of institutional training is supplemented by on-the-job training. The Act makes it compulsory for the employers to recruit apprentices in a notified ratio to workers in each designated trade.
4. There is the Central Board of Workers' Education (CBWE) which aims at developing among workers an understanding of:
   - the economy, industry and the business organisation of which they are a part;
   - the changes in technology and work processes;
   - alternative forms of organisation such as cooperatives;
   - the history of collective bargaining and team spirit and enthusiasm for the success of industrial growth and harmonious relations;
   - trade union leadership qualities.

The Board's programme of worker's education consists of three stages. In the first stage, the Board trains *education* officers and posts them at the regional centres. In the second stage, these education officers train selected number of workers as *worker teachers.* In the final stage these worker teachers train the *rank and file* or workers.

Choosing the Expatriate Training Method

The following *contingency approach* is generally suggested for choosing the expatriate training method:

https://rbigradeb.com/

(a) If the expatriate's interaction with host nationals is expected to be low and the cultural distance between his native and new culture is also low, the length of training should be less than a week and such methods as area or cultural briefings, films and books provide appropriate level of training rigour.
(b) If the expatriate is going overseas for a period of 2 to 12 months and is expected to have some interaction with host nationals, the training rigour should be higher and longer (one to four weeks), and role play would be appropriate.
(c) If the expatriate is going overseas for more than a year and the expected degree of interaction with host nationals is high, the level of training rigour should be high and the training should last as long as two months. Sensitivity training and some field experiences would be appropriate. (See also Chapter 21).

MENTORING

When a young person joins an organisation he needs some senior person for emotional and moral support and guidance. The senior person is called the **mentor** and the young person is called the **protege**. The relationship between them is called **mentoring**. This relationship can be either *formal* or *informal*.

Under formal mentoring, a young promising manager is *assigned* to a mentor who may be his buddy (peer), a mentoring team composed of members specialising in different areas or an external consultant. The immediate boss of the protege is not appointed as his mentor. Mentors are selected on the basis of their interest, availability and mentoring competence (image of competence, empathy and ability to provide emotional support). In some organisations (e.g., Mc Kinsey), newcomers are expected to seek out their own mentors. In some other organisations (e.g., Intel), the protege chooses one mentor from the list of available mentors in the organisation. Several organisations recognize or reward mentors for their services.

In organisations having informal mentoring programmes, when a newcomer is seen as having similar interests, hobbies or excellent job performance, a senior person may take the newcomer under his wing and become his mentor.

Mentoring, which was earlier viewed as *dyadic* in nature, that is, at one point of time there are likely to be only two people—the protege and the mentor, is now viewed as *multiple* in nature because an individual may receive mentoring assistance from multiple sources simultaneously at any one point in time, including senior colleagues, peers, family and community members.

Kram[8] classifies all *functions* of a mentor into two broad categories: (a) Career-related or career support functions and (b) psychosocial or emotional support functions. *Career-related* or *career support functions* include the following:

(i) *Sponsorship*, i.e., nominating the protege for promotion and other positions of responsibility
(ii) *Exposure and visibility*, i.e., assigning the protege to tasks that provide visibility in the organisation
(iii) *Coaching*, i.e., giving advice to the protege on how to achieve his objectives and gain recognition
(iv) *Protection*, i.e., shielding the protege from serious consequences when he commits an error

[8]Kram, 1985, in Kreitner, R. and A. Kinicki, 2001, *Organisational Behaviour*, 5th edn., Irwin McGraw-Hill, Boston.

https://rbigradeb.com/

(v) *Challenging assignments*, i.e., assigning the protege to challenging jobs and providing feedback to facilitate development of necessary competencies

Psychosocial or emotional support functions include the following:

(i) *Role modelling,* i.e., giving the protege a pattern of behaviour, attitudes and values to emulate
(ii) *Acceptance and confirmation*, i.e., encouraging the protege and providing mutual support
(iii) *Counselling*, i.e., helping the protege and facilitating his work to enhance the self-image of the protege
(iv) *Friendship*, i.e., interacting socially with the protege to gain mutual satisfaction

Mentor-protege relationships do not continue indefinitely and reach the point of termination at some stage. Short-term relationships generally focus on career-related functions and are called *secondary relationships*. Long-term relationships, which are characterised by psychosocial or emotional support functions, are called *primary relationships*.

According to Reece and Brandt,[9] a mentor may take on the following roles:

1. *Sponsor*, e.g., using his influence to facilitate the protege's advancement
2. *Teacher*, e.g., explaining the written and unwritten rules of the organisation to the protege
3. *Devil's advocate*, e.g., challenging and confronting the protege to provide him practice in asserting his ideas and influencing others
4. *Advocate*, e.g., representing the protege's concerns to higher level managers
5. *Coach*, e.g., teaching relevant skills
6. *Adviser*, e.g., giving suggestions for career-advancement strategies
7. *Counsellor*, e.g., encouraging the protege to evaluate career options
8. *Broker*, e.g., working to expand the professional network of the protege

A number of organisations having mentoring programmes such as Infosys, Intel, Microsoft, Cadbury, Modi Xerox, etc. report the following benefits of these programmes:

- Better job performance
- Longer stay with the organisation
- Leadership development
- Effective organisational communication
- Enhanced team spirit
- Greater job and career satisfaction

To be able to play the above roles successfully, it is essential that the mentor has:

- good listening skills,
- sophistication in using different forms of questions, which can elicit information, clarify matters and stimulate thinking,
- ability to give feedback in a proper way so that the protege is able to reduce his blind area and increase his self-awareness, and
- skill in prompting the protege to develop effective strategies, and act as the devil's advocate to challenge them.

[9]Reece, B.L. and R. Brandt, 1997, *Effective Human Relations in Organisations,* 6th edn, All India Publishers and Distributors, Chennai.

https://rbigradeb.com/

LEARNING ORGANISATION

There is incredible growth of knowledge doubling itself every five years. Every organisation that wants to remain competitive must not only learn more, it must learn faster and continuously. That is to say, it must change itself into a learning organisation. According to Prof. Peter M. Senge of Massachusetts Institute of Technology *the learning organisation is an organisation that has woven into its culture a continuous and enhanced capacity to learn, adapt and change*. Its values, policies, practices, systems and structures support and accelerate learning for all employees. This learning results in continuous improvement in several areas such as work processes, products and services, structure and function of individual jobs, team work, management practices and so on. More than any thing, however, it results in a more successful business.

Inherent in the above concept is the importance of *adaptive* learning as well as *generative learning*. Adaptive learning is merely adapting to environmental changes. An auto manufacturer is using adaptive learning when he redesigns a car to incorporate customer feedback about the current model. Generative learning, on the other hand, is going beyond just adapting to change, to being ahead of and anticipating change—what the customer could want. It is leaping ahead of customer's known needs. It involves creativity and innovation, and a significant change in the organisation's culture.

Three major *characteristics* of a learning organisation found from comprehensive review are:

(i) It continually raises its vision and challenges the *status quo*.
(ii) It is open to external environment, shares its vision with every employee and has systems thinking.
(iii) Its culture places a high value on the process of learning and goes beyond mere lip service by setting necessary mechanisms in place for suggestions, teams, empowerment, etc.

In actual practice a learning organisation is *operationalised* by cultivating in the organisation, a number of new cultural values, such as the following:

- Everyone can be a source of useful ideas, so there should be a *mechanism for rapid spread* of new knowledge throughout the organisation.
- The people closest to the problem usually have the best ideas regarding how to solve it, so *empowerment* should be promoted throughout the organisation.
- Learning flows up and down, so everyone should *share knowledge* with everyone.
- Creativity is the ability to develop new approaches to problem solving and decision-making rather than finding new ways to use old thinking. So people should break their current operating habits and think "outside the box."
- Fear of punishment for mistakes inhibits innovation and creativity, so mistakes should be viewed as *learning opportunities.*
- Genuine acknowledgement of suggestions and innovations motivates people, so they should be *properly rewarded.*
- People are generally unaware of their personal and organisational values and the link between these two. So they should be given the opportunity to identify and examine them.
- People generally see issues, events and data as a series of unconnected parts rather than as a whole. So they should be taught to develop systems thinking. For example, they should learn to identify the source of conflict and the substance of disagreement instead of wasting their energies in personality clashes and political fighting.

https://rbigradeb.com/

In a learning organisation the role of leader shifts from managing people to managing the process (culture) through which people at all levels use knowledge. Relentless reflection (*hansei*) and continuous improvement (*Kaizen*) become the essential features of the new process.

In India, companies such as Larsen & Toubro and Crompton & Greaves are trying to build learning organisations. Globally, Motorola, leading providers of electric equipment, systems and services, has been identified as one of the best learning organisations.

KNOWLEDGE MANAGEMENT

The fundamental building material of a modern enterprise is knowledge, which may be either explicit or tacit. *Explicit Knowledge* includes the *information* stored in documents such as guides, policies and procedures, patents, technical drawings, databases, etc., *Tacit Knowledge* is the *information* that is formed around intangible factors resulting from an individual's experience and is personal and content-specific.

Tacit knowledge can easily be lost in the quagmire of day-to-day activities of a firm if it is not documented or when individuals are promoted or leave the organisation. Knowledge management allows intangible/tacit knowledge to be managed as an organisational asset in a manner similar to explicit knowledge. It involves gathering knowledge from individual employees through interviews, training sessions and project reports and feed into an IT support system for later use. This has the following *advantages*:

1. It serves as a reference book for the company and helps in maintaining continuity in any thing that is being undertaken in the organisation.
2. It prevents duplication of work or the knowledge assets already created by the individuals.
3. It promotes knowledge-sharing culture and increases interaction between employees and departments, sometimes called *internal benchmarking*.
4. It provides the means to improve the organisation's competitiveness, profitability, efficiency and excellence in the execution of its projects.

Research has identified the following *barriers* to internal benchmarking:

- Organisational structures that promote "silo" thinking in which locations, divisions and functions focus on maximising their own accomplishments and rewards
- A culture that values personal technical expertise and knowledge creation over knowledge sharing
- The lack of contact, relationships and common perspectives among people who do not work side by side
- An over reliance on transmitting "explicit" rather than tacit information
- Not rewarding people for taking the time to learn and share and help each other outside of their own small corporate village.

SUMMARY

❖ Training is the act of increasing the specific knowledge and skill of an employee for doing a particular job. Education is increasing general knowledge. Development implies an employee's growth

https://rbigradeb.com/

and maturisation. A systematic training programme helps in improving the quality and quantity of a worker's output, makes the worker committed and loyal to the organisation, facilitates promotion and replacement and reduces spoiled work and accident rate. A training programme can be of anyone of the following types; induction or orientation training; job training; promotional training; refresher training; corrective training; behavioural training and global assignment training.

- All training methods can be grouped into two categories: (a) training methods for operatives, and (b) training methods for managers. On-the-job training method is by far the most commonly used method for training the rank and file workers in a factory. There are several methods, such as vestibule training, apprenticeship training and internship training which make use of the on-the-job training concept. Training methods used for managers are observation assignment, position rotation, serving on committees, assignment of special projects, conferences and seminars, case study, incident method, role playing, sensitivity training, autonomy training, Johari Window and interaction analysis.
- Selection of an appropriate training method depends upon the nature of the problem area, level of trainees, the method's ability to hold and arouse the interest of trainees during the training period, availability of competent trainers, finance and time.
- Evaluation of training methods can be done in two ways: first is reaction evaluation, second is outcome evaluation. Organisations in India have generally remained unconcerned about the evaluation of their training programmes.
- In recent years, many organisations have begun establishing mentoring programmes under which young managers are assigned to senior managers for coaching and emotional support. The senior manager is called a mentor and the young manager is called the protege.
- Nowadays some leading companies are weaving into their culture a continuous and enhanced capacity to learn. Prof. Peter M. Senge calls them learning organisations.

KEY TERMS

Vestibule Training In this method, training is given at a place separate from the regular work place.

Internship Training In this method, industry and management institutes collaborate with each other to complement theoretical knowledge with practical knowledge.

Incident Method In this method, instead of providing to the students full details of a problem in the very beginning, to provoke discussion, only a brief incident is narrated. This encourages students to ask questions to draw out additional information.

Review Questions

1. Distinguish between training and education. Are you trained or educated by a university?
2. Describe the advantages of a training programme and give an account of the training practices in Indian industry.
3. Why is executive development important? Describe some important methods used for this purpose.
4. Discuss the nature and value of sensitivity training. How can this training be made successful?

https://rbigradeb.com/

5. How would you determine the training needs in an organisation?
6. What criteria would you use to evaluate a training programme? Give reasons.
7. How does the training of operatives differ from the training of executives. Describe some important methods used in the training of operatives.
8. Write short notes on:
   (a) Learning Organisation
   (b) Training in emotional intelligence
   (c) Autonomy training
   (d) Mentoring
9. What factors need an organisation consider in selecting a training method?
10. Indicate whether the following statements are TRUE (T) or FALSE (F):
    (a) Controlled experimentation is considered to be the most scientific technique for evaluation of training.
    (b) Induction training is given to existing employees to revive knowledge.
    (c) In incident method the entire problem is presented to the trainees for resolution.
    (d) Reaction evaluation of a training programme is always accurate.
    (e) The CBWE educates workers at three levels.
    (f) Mentor is always the immediate boss of the protege.

    [(a) T, (b) F, (c) F, (d) F, (e) T, (f) F]
11. A restaurant manager noted: "Waitstaff skills are very trainable, human being skills are not. I can train anyone to be knowledgeable about our wine list or how to clear a table properly. But I cannot train people to care about how their actions affect others." Do you agree with the statement?

Project

Interview a few training managers at some local organisations about their training practices. Your report should provide answers to the following questions:

- Is the training uniform—common tools and processes are taught across all of the organisation, to all employees, creating a common language that fosters cohesive team functioning?
- Is the training conducted in family groups, with all members starting and finishing training at the same time to facilitate the change process?
- Does the training start at the top of the organisation with the C.E.O. and cascades downward to all employees?

Can the above approaches work in all organisations? What are the advantages and disadvantages of these approaches?

Case Specifying Training and Development Needs

As personnel manager of a large manufacturing organisation, Shyam Lodha, has been assigned the responsibility for determining training and development needs of employees in the organisation. His department contains three sections whose principal work concerns professional employee development, supervisory development and skilled trades training.

https://rbigradeb.com/

During Lodha's one of the regular weekly meetings with his section supervisors, the topic of department and section objectives came up for discussion. Specifically, some section supervisors defined their objectives in terms of providing *requested* training services, whereas others included the *discovery* of training needs in the objectives. As a result of the diversity of views expressed in the meeting, Lodha recognised the need to devote further departmental attention to this area, and, therefore, posed the following question to his section supervisors: "What are the objectives that guide the activities in your section?"

He has requested that the answer to this question be included in a report to be submitted to him by each supervisor within the next two weeks.

Discussion Questions

(a) In what respects is his request incomplete?

(b) What would be the most effective way of proceeding after the written reports are submitted by the section supervisors?

https://rbigradeb.com/

CHAPTER

13 PERFORMANCE MANAGEMENT

Learning Objectives

This chapter will enable the reader to:

- **Explain** the meaning of performance management and the purposes of performance appraisal
- **Describe** the steps in designing Performance Management Systems (comprising criteria and standards of appraisals, frequency of appraisals, appraisal methods and their limitations and post-appraisal interview)
- **Discuss** the appraisal of management
- **Explain** the essentials of good performance management
- **Describe** the performance management in Indian industries
- **Describe** the team-oriented performance appraisal
- **Present** the expatriate performance appraisal
- **Describe** career planning and development, Promotions, and Potential Appraisal; and Appraisal of Organisational Performance and the Balanced Score Card

https://rbigradeb.com/

Osborne and Gaebler[1] make three insightful observations:

1. If you do not measure results, you cannot tell success from failure.
2. If you cannot see success, you cannot reward it—and if you cannot reward success, you are probably rewarding failure.
3. If you cannot recognise failure, you cannot correct it.

Performance management or performance appraisal is one of the oldest and most universal practices of management. It refers to all the *formal procedures* used in working organisation to evaluate the personalities and contributions of group members. Modern management makes somewhat less use of the term "performance appraisal" than what was common in the earlier periods. In the past, the emphasis used to be on commonly assigning some score to an individual after comparing his current and/or past level of performance with a set of performance criteria. The approach resulted in an appraisal system which is generally seen as *subjective* (plagued by rating problems), *lacking focus* on individual's development and integration of his individual goals with organisational goals. More recently, emphasis has been given to managing employee's performance. The trend nowadays is in the direction of attempting to manage what the man does (performance management) rather than to appraise his performance (performance appraisal).

Performance management thus becomes a wider task than mere performance appraisal. The term denotes an integrated process that consolidates employee goal-setting, employee development, performance appraisal and rewarding performance into a single common system with the ultimate aim of contributing to organisational success. Students should, however, note that no such distinction has been made in the following discussion and the two terms have been used interchangeably.

PURPOSES OF APPRAISAL

Appraisal of employees serves several useful purposes:

1. It can serve as a *basis for job change or promotion.* By establishing whether the worker can contribute sill more in a different or a higher job, it helps in his suitable promotion and placement.
2. By identifying the strengths and weaknesses of an employee, it serves as a guide for formulating a suitable *training and development* programme to improve his quality of performance in his present work.
3. It serves as *a feedback* to the employee. By letting the employee know how well he is doing or where he stands with his superiors it tells him what he can do to improve his present performance and go up in the management hierarchy.
4. It serves as an important *incentive to all the employees* who are by the existence of an appraisal system assured of the management's continued interest in them and of their continuous possibility to develop. The employees realise that not only are they being continuously observed but that they have not been forgotten.
5. The existence of a regular appraisal system tends to make the supervisors and executives *more observant* of their subordinates because they will be expected periodically to fill out rating forms and would be called upon to justify their estimates. This knowledge results in improved supervision.

[1]D. Osborne and T. Gaebler, Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector, Reading, M.A.: Addison Wesley Publishing Co., 1992.

https://rbigradeb.com/

6. Performance appraisal often provides the *rational foundation for the payment of piecework wage, bonuses,* etc. The estimates of the relative contributions of employees or of their characteristics help to determine the rewards and privileges.
7. Performance appraisal serves as a means for *evaluating the effectiveness of devices for the selection and classification of workers.* Alternatively, a knowledge of the characteristics of superior and inferior workers can be helpful in selection and placement of workers.
8. Permanent performance appraisal records of employees help the management to give up sole reliance upon personal knowledge of supervisors who may be shifted.
9. Performance appraisal helps management to align performance with organisational strategies at different stages of the organisational life cycle. As the organisational life cycle moves from startup to growth to maturity there is change in strategy. Performance appraisal indicates whether or not there is need for a change in the characteristics of employees to successfully implement the new strategy.

STEPS IN DESIGNING PERFORMANCE MANAGEMENT SYSTEM

The specific design of a performance management system differs from one organisation to another. However, the following steps are common across all organisations:

1. Identifying the criteria and standards of performance appraisal
2. Determining the frequency of appraisals and the appraiser
3. Choosing appropriate methods of performance appraisal and
4. Conducting post-appraisal interview

CRITERIA AND STANDARDS OF PERFORMANCE APPRAISAL

Before conducting any appraisal it is important to identify on the basis of employees' job descriptions, various performance criteria which may be used to measure their performance. All performance criteria are usually of three types, viz., trait-based, behaviour-based or results-based.

Trait-based criteria seek information about the different characteristics of an employee such as his knowledge about corporate goals, attitude, creativity, initiative etc. **Behaviour-based criteria** seek information about certain behaviours of an employee such as his customer-service orientation, upward communication of ideas, contribution to social and cultural values etc. **Results-based criteria** seek information about various tangible aspects of a job such as profit, production, accidents, absents, etc.

It should be noted that whereas results-based criteria being objective in nature can be directly measured or counted, criteria of the other two types being subjective in nature cannot be directly measured or counted. They can only be rated according to human judgement and opinion. This subjects them to certain kinds of errors likely to be found in the rating process. Objective criteria can be easily laid down at the lower levels of an organisation where the jobs are generally specific and clearly defined. But they are difficult to be specified further up in the hierarchy where jobs become more complex and vague.

In practice, organisations do not place complete reliance on any one type of criteria. They incorporate all the three types in various degrees to measure performance completely. They also change these criteria as they move from one stage to another of their life cycle. Thus, during the startup stage when the organisation's competitive strength is low and there is need for employees to be innovative, the criteria may focus on their exploratory knowledge. But during the growth stage when the organisation's

https://rbigradeb.com/

competitive strength is high and there is need for employees to be exploitative the criteria may focus on their flexibility and cooperation.

After identifying various performance criteria for a job, we need to decide the *standards of performance* for each criterion. To specify "output" as the evaluation criterion for front-line supervisors is not enough. It is important to specify the standard by which performance on this criterion will be evaluated. Hence it is also necessary to specify the *number of units* which may constitute satisfactory, good or excellent performance. Once these standards are established it is necessary to communicate them to the employees.

FREQUENCY OF APPRAISALS

Appraisals can be either *summative* or *formative*. In a summative appraisal system, an individual's performance is evaluated at the end of a specified period of time, by summing his total achievements, of goals, objectives, strategies, etc. This type of appraisal *does not act as a stimulus* to improve performance standard because it provides feedback several months later. Formative appraisal system, on the other hand, sees appraisal as an ongoing, almost daily process in which individuals receive a constant feedback on their performance standard, to be used for their continued development. It should be remembered that a performance standard is a daily, ongoing skill or behaviour necessary for effectively accomplishing a job. A goal is a specific desired business result, to be achieved after a certain period.

Who can be the Appraiser?

It is possible for the appraisal to be done by one or a combination of the following:

1. The immediate manager.
2. Other managers familiar with the employee's work.
3. A higher-level manager.
4. Personnel department specialist.
5. The employee's peers.
6. Service users.
7. The employee himself.
8. The employee's subordinates.

360-degree Appraisal

This is a questionnaire-based appraisal of a person (mostly an executive) by his colleagues, above, below and to his side, and his service users. It is decided which sets of knowledge, skills and abilities are to be measured, and by whom. In order that the opinions may not be traced to individual respondents, someone who is widely respected for his fairness and honesty is nominated to receive the responses. The Internet or the Intranet of the organisation can be used for administering the whole process. Indian Oil Corporation (IOC) is an example. 360-degree appraisal has the following *advantages:*

1. Since people are appraising only those dimensions of which they are in a good position to make judgements combined opinion gives an accurate, objective and well-rounded view from different perspectives.
2. Some skills (such as leadership) are better judged by subordinates and peers rather than superiors.

https://rbigradeb.com/

3. A comment that is hard to accept cannot be brushed off or ignored when a number of colleagues have expressed it independently.
4. The technique can help *motivate* people who undervalue themselves. It also *empowers* juniors when they are asked to give feedback on their superiors. Perhaps, the biggest advantage is that if *encourages* people to work together as a team.

The *objections* to 360-degree appraisal are:

1. It is time-consuming and costly, so the technique is often restricted to management levels.
2. It can become an opportunity for subjective gripes, unless handled carefully.
3. It can generate an environment of "I scratch your back, you scratch mine" thus tailoring feedback to one's ambitions. *It is mandatory to create the right culture before introducing this appraisal system.*
4. Its results can be hard to interpret if too many appraisers are used.

PERFORMANCE APPRAISAL METHODS

When designing a performance management system, another important strategic decision relates to the choice of appraisal method. Performance appraisal methods have evolved over time and today there are several methods which generally differ from each other in '*what*' they measure, that is, personal traits, behaviour or results and '*how*'. Following is a brief description of some important appraisal methods.

Ranking Method

The oldest and simplest method of performance appraisal is to compare one man with all other men and place him in a simple rank order. In this way, ordering is done from best to worst of all individuals comprising the group. The method is both simple and natural but its disadvantages are:

1. It is highly subjective.
2. Comparison of the various personal characteristics and components of a person's performance is not done. People are compared *as a whole*.
3. The magnitude of differences in ability between ranks is not equal at different positions. For instance, the difference in ability between the fifth and sixth individuals may be much greater in absolute terms than the difference between the sixth and seventh. In terms of ranks, however, the difference between these individuals is the same.
4. Its use is difficult in large groups when the rater cannot compare several people simultaneously.

As an answer to the last problem, *the paired comparison technique* of ranking has been evolved. In this method the rater compares each man in his group with every other man, with the final ranking of each worker determined by the number of times he was judged better than the others. The number of comparisons involved in this method is thus very large and can be determined by the following formula:

Number of comparisons $= \dfrac{N(N-1)}{2}$, where N stands for the number of men to be rated.

https://rbigradeb.com/

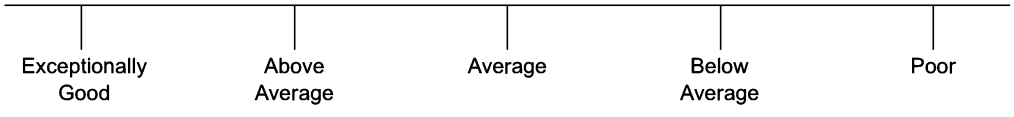
For a 50-men group, for example, there would be 1,225 separate comparisons, which are obviously far too many to permit expedient use of the method.

Rating-scale Method

We have seen how ranking methods are unsuitable, both where the number of persons to be appraised is large and where it is desired to gain information about the size of absolute differences between the rated individuals. In such cases, rating-scale method may be used. As the very name implies, these methods provide some kind of a scale for measuring absolute differences between individuals. The scales used are generally of two types:

Discrete Where two or more categories are provided, representing discrete amounts of ability or degrees of the characteristics, the rater can tick mark the category which he feels best describes the person being rated. Thus, for example, the characteristic "job knowledge" may be divided into five categories on a discrete scale: "Exceptionally good", "Above average", "Average", "Below average", and "Poor".

Continuous (or graphic) Where just above the category notations an uninterrupted line is provided, the rater can tick at any point along its length as shown below:



There are four kinds of standards used in rating scales, namely, numerical or alphabetical, descriptive-adjective, man-to-man, and behaviour sample. The major difficulty with numerical or alphabetical scale is that the numbers or alphabets which are used to describe the various categories of a characteristic do not convey the same meaning to all raters. This difficulty is overcome to some extent in descriptive-adjective scales.

In *man-to-man rating scales,* the standards are very concrete because these are neither numbers nor alphabets nor descriptive-adjectives, but are persons of varying ability whom the rater has selected and ranked in the ability under consideration. Thus, a scale of men is created for each trait. In rating other persons, the rater simply looks over this scale and compares them with the persons on the scale. The objections to this scale are that:

1. Its construction involves difficult and laborious procedure.
2. Persons used as standards by different raters are different. As a result, the rating by different judges are not always comparable. In fact, one rater cannot successfully use a man-to-man scale constructed by another.
3. Changes in standards occur when employees who have been used as models leave the department or company.

Scales employing actual description of behaviour as standards (called *behaviourally anchored rating scales* or BARS) are the most refined of all rating scales because they reduce differences in interpretation usually found among different raters. For example, on a rating scale measuring the trait "job knowledge", it is highly probable that the agreement among different raters on the descriptions "unfamiliar with the work", "fairly familiar with the work", "works with reasonable accuracy and turns

https://rbigradeb.com/

out satisfactory work", "noticeably better than the ordinary run of men", and "thoroughly familiar with his work" will be greater than the agreement on the meaning of the adjectives "poor", "below average", "average", "above average" and "exceptionally good".

Frequently, there is a tendency for the raters to pile-up the ratings either at the middle or at the higher end of the scale. To meet this situation, the *forced distribution system* is used where the rater is instructed about the percentages of cases which should fall in each category on the rating scale.

Thus, for example, on a scale of "job knowledge", the following percentages might be used.

Poor 10%, Below average 20%, Average 40%, Above average 20%, and Exceptionally good 10%.

In most instances, the expected distribution of cases is simply provided as a guide to the rater rather than as a rigid rule.

Checklist Method

Sometimes the method used for performance appraisal is a list consisting of a number of statements about the worker and his behaviour. Each statement on this list is assigned a value depending upon its importance. Both statements and their values are derived from preliminary research in which the pooled judgements of persons familiar with the job are used. In rating a person, the rater is asked to place a plus sign, a minus sign or a question mark in front of each statement, depending, respectively, on whether he feels the description applies, does not apply, or there is doubt. No restrictions are put on the rater as to the number of statements he should mark. The worker's final rating is taken as the average of the scale values of all statements that his superior has checked with a plus sign. The method has the advantage of requiring only a reporting of facts from the rater. Since the values assigned to different statements do not appear on the list, the rater does not know how highly he has rated a given individual. He also does not have to distinguish among various categories for each of the several traits considered for each of the several employees working under him. The objections to this method are:

1. It is difficult to construct a good checklist.
2. A separate checklist is needed for each job because statements used in one checklist to evaluate one category of workers cannot be used in another checklist to evaluate other categories of workers. For example, persuasive ability is probably the most important single trait for some sales positions but it typically has little importance for a research scientist.
3. Since the rater does not know the values given to different statements, he may resent the system as a whole and may not give it his wholehearted support.

Forced-choice Method

A forced-choice rating form consists of a number of statements which describe an individual being rated. These statements are grouped in twos, threes, or fours. Sometimes all groups on the rating form are made of favourable statements only, sometimes all have unfavourable statements only and sometimes they have both favourable and unfavourable statements. The rater makes two checks in each group, one for the statement which best describes the individual and one for the statement which is least descriptive. It can be seen that all the statements in a group might well apply to a single person; conversely none of them might apply. Nonetheless, the rater is compelled to check a "most" and a "least" in each group—hence, the term "forced choice". Each statement has a predetermined value. As in the case of checklist scales, these values are unknown to the rater. An individual's rating is determined by adding together the values of each of the statements that have been checked as describing him.

https://rbigradeb.com/

The objections to this method are:

1. It is expensive to instal because the statements must be custom-tailored to the demands of the particular job and company.
2. It is resented by the rater because the implicit assumption behind it is that the rater cannot be trusted to make an impartial evaluation.
3. It does not make explicit to the rater or the ratee the desired mode of behaviour.

Field Review

Under this method, appraisal of workers is done by the personnel officer by collecting oral ratings about them from the supervisor at the place of work. The personnel officer later writes his notes and invites the supervisor to make additions or corrections. This method is not widely used because supervisors generally resent what they consider the staff interference.

Critical Incident Method

In this method, the first step is to draw-up for each job a list of critical job requirements, that is, those requirements which are vital for success or failure on the job. For example, in the job of a salesman the following critical factors may be identified:

1. Following up: complaints, requests, orders
2. Planning ahead
3. Communicating true information to managers and customers
4. Carrying out promises
5. Persisting on tough accounts
6. Pointing out uses for other company products besides the salesman's own line
7. Using new sales techniques and methods
8. Preventing price-cutting by dealers and customers
9. Knowing customer requirements
10. Initiating new selling ideas.

A good salesman has to handle all or most of these factors well in order to succeed, and failure on anyone count can lead to failure on the entire job.

Once all the critical factors of a job are identified, the supervisors may then observe and record instances and events of on-the-job behaviour falling under any of these factors as they take place. In this way, a concrete performance record of a man—objectively observed and recorded—comes into being for his future evaluation. The supervisor need not depend on recall which may be incomplete and subject to moods. The objections to this method are:

1. It is difficult to identify critical factors.
2. The recency of severity of incidents may influence the supervisors' opinion.
3. Supervisors are accused of spying and carrying a "black-book".

Confidential Report

A confidential report by the immediate supervisor is still a major determinant of the subordinates' promotion or transfer. The format and pattern of this report varies with each organisation, A sample of such a report is given in Exhibit 13.1.

https://rbigradeb.com/

EXHIBIT 13.1

SAMPLE CONFIDENTIAL REPORT

Name _____ Division _____

Designation and present duties _____

Service with the company _____ Years _____ Months _____

Age _____ Qualifications _____

Present scale and salary _____

Next increment date _____

Report on Year's Work and General Opinion

Describe in fullest terms your estimate of his/her personal qualities and capabilities:

(a) taking particular note of his/her reliability, judgement, adaptability and ability to organize, supervise, and cooperate with others;

(b) mentioning any work of an outstanding character carried out by him/her during the year or any failure on his/her part to achieve the standard expected;

Do you consider that he/she is capable of rising to a higher position:

(a) in his/her present sphere;

(b) in another direction, if so, suggest which;

(c) whether at an early date or after further experience;

(d) what is needed for his/her development.

Date MANAGER

Review

Date DIRECTOR

Final Review

Date COMMITTEE OF MANAGEMENT

Essay Appraisal

This technique is very common for appraising individuals for professional positions. In this technique the rater who may be the former employer, teacher or associate of the candidate, is requested to give in writing an informed and honest account of the candidate's strengths, weaknesses, potentials, and so on. The biggest drawback of this technique is the accounts' variability in length and content. Hence it is difficult to compare two essay appraisals.

https://rbigradeb.com/

LIMITATIONS OF TRADITIONAL APPRAISAL METHODS

1. Many of these methods are *not data-based.* They are based on the impressions which the appraiser has about the appraisees. It is not uncommon for these impressions to suffer from the following:
   - The tendency of the superior to allow his good impressions of one or two important work characteristics of an individual, to carry over to total evaluation. For example, if the superior is very fond of punctuality, a punctual worker may get a high rating on practically every factor, though many factors have little to do with punctuality. This is called *"halo"* effect.
   - The tendency of the superior to rate people lower than their performances just because his expectation level is very high, or for some other reason. This is called *"horns"* effect.
   - The tendency of the superior to be lenient in his rating, or to average too many work characteristics in the middle grades because he does not possess enough definite information to express a discriminatory opinion.
2. Some of these methods (e.g., confidential report) *do not give feedback* to the appraisee on his performance. The appraisee never comes to know about his strengths and weaknesses, his training needs, and so on.
3. These methods *lay greater stress on evaluating the employee for salary and reward* administration, promotions and disciplinary action, rather than developing him.
4. Some methods *emphasise employee's performance only in terms of the physical results* that he has achieved, without regard for several other characteristics such as creativity, initiative, team spirit, emotional intelligence, etc.

Due to the above limitations of traditional performance appraisal methods, these methods are losing respect and credibility. According to Deming[2], all traditional performance appraisal methods are devastating to individuals and destructive to organisations. They nourish short-term performance, build fear, demolish team work and encourage rivalry and politics. They leave people with poor ratings, unfit for work for weeks after the receipt of ratings, unable to comprehend why they are inferior. Experts, therefore, emphasise the replacement of these methods by a development-oriented performance appraisal method which should have the following objectives:

1. To clarify an employee's roles and responsibilities.
2. To help him in realistic goal setting.
3. To generate adequate feedback and guidance.
4. To help the employee identify the facilitating and inhibiting factors for achieving his goals.
5. To help the employee identify his training needs.

POST-APPRAISAL INTERVIEW

The performance appraisal of an employee is generally followed up by an interview which serves as a feedback for him. Feedback would be less effective if much time is allowed to elapse between the performance and the post-appraisal interview. According to Norman Maier[3], there are three types of

[2]Deming, W.E., *Quality, Productivity and Competitive Position*, Cambridge, Mass, MIT Press, 1982.
[3]N.F. Maier, *The Appraisal Interview*, Wiley, N.Y., 1958.

https://rbigradeb.com/

post-appraisal interviews: "Tell and Sell", "Tell and Listen" and "Mutual Problem-Solving." These have different objectives and require the supervisor to exercise different skills when conducting them.

Tell and Sell (One-way Communication)

The objectives of this method are (a) to let the employee know how he is doing; (b) to gain the employee's acceptance of the evaluation; and finally (c) to get the employee to follow the plan that is outlined for his improvement. In this type of interview, the interviewer is cast in the role of a judge. He comes with the diagnosis and the remedy. But the subordinate who is being judged tries to conceal his weaknesses and if he feels the criticism is severe or the praise faint, he gives defensive responses.

The skills required of the interviewer for success in the Tell and Sell type of interview are considerable. They include the ability to persuade the person to change in the prescribed manner, and this may require the development of new needs in the person, as well as a knowledge of how to make use of the kinds of incentives that motivate each particular individual. The Tell and Sell method has its greatest potential with young and new employees. They are inexperienced and insecure and want the advice and assurance of an authority figure. The superior is likely to be respected not only because of position but also because his knowledge and experience are so obviously greater than theirs.

Tell and Listen (Two-way Communication)

The objective of the Tell and Listen interview is not only to communicate the evaluation to the employee but also to drain-off his feelings aroused by the evaluation. The superior divides the interview into two parts. He covers the strong and the weak points of a subordinate's job performance during the first part of the interview and avoids interruption and controversy by postponing any points of disagreement for later consideration. The second part of the interview is devoted to thoroughly exploring the subordinate's feeling about the evaluation.

Initially the reactions to the Tell and Listen method are similar to those of the Tell and Sell method because both begin with the presentation of the evaluation. However, they differ radically with respect to the way disagreement and resistance are handled. Instead of the interviewer dominating the discussion to clarify his views, he always listens to disagreements. Actually he sits back and encourages the employee, not only to disagree with the evaluation but also to relate his feelings. Thus the interviewer becomes a non-directive counsellor during the second part of the interview.

The skills of the Tell and Listen approach are (a) careful listening; (b) making effective use of pauses; and (c) responding to feelings in order to show that one understands them.

One advantage of this type of interview is that it creates a good relationship between the superior and subordinate during the interview. The subordinate is likely to leave the interview with a favourable attitude towards the superior. Another advantage of this method is that it tends to encourage upward communication and make the management personnel employee-minded rather than production-minded. The superior who listens and learns about the employee needs and aspirations during the interview transmits his knowledge upward. This helps to grow a suitable organisational philosophy.

Mutual Problem-solving

The objective of this approach is employee development. Unlike the previous two approaches, the appraisal of the subordinate is not directly communicated to him. It is thought that it would

https://rbigradeb.com/

be unnecessary to tell him of his appraisal because an awareness of a weakness is not essential to development. The "telling" part of the interview is relevant only if it is assumed that this knowledge is a first step in the development process. If it is assumed, however, that the development of an employee can proceed without going through the steps of locating and correcting weaknesses or faults, there is no need to communicate the appraisal to him.

The method takes the interviewer out of the role of a judge and makes him a helper. The interviewer sacrifices his right to determine the direction of improvement of his subordinate. He does not specify the area in which this development should take place because this would then constitute diagnosis and judgement. This means that the interviewer limits his influence to that of stimulating thinking rather than supplying remedies or solutions. He is willing to consider all ideas on job improvement that the employee brings up. He forgets his own viewpoint and tries to see the job as the employee sees it. The employee is asked to review the year's progress and discuss the problems, needs, innovations, satisfaction, and dissatisfactions he has encountered. The idea is to make the interview the employee's opportunity to get the boss's ear.

APPRAISAL OF MANAGEMENT

Factors Affecting Managerial Performance

According to S.K. Chakroaborty[4], appraisal of managerial performance should be done with caution. It is always advisable to make a preliminary survey of the following constraints within which the management of an organisation is working.

Environmental Constraints There are several environmental constraints which may be outside the control of a middle level manager and to ignore this fact in judging his performance would be unjust. For example, the quality of manpower in an organisation may deteriorate over a period or the market for its products may contract unexpectedly. As a result, both productivity and profits may suffer. But if selection of personnel and planning of markets have been done at higher levels in the organisation, the performance appraisal of the middle level manager should not be affected.

Organisational Leadership It is the nature of leadership at the top which determines to a large extent the loyalty and commitment of managerial personnel to the goals of an organisation. Effective top leadership orients and motivates the entire organisation for better performance. Managers at every level become highly performance conscious. Performance appraisal under such conditions is liked by everybody. But in opposite conditions, it is considered an imposition or a stricture.

Interdependence of Sub-systems Since every organisation is a big system composed of a number of interdependent sub-systems, the success or failure of anyone sub-system has got to be interpreted in the context of all other sub-systems to which it is related. For example, the sub-standard output of the production department may be due to the poor quality purchases made by the purchasing department or the cause of the trouble may be at some higher level sub-system where planning for the production and purchase departments has been done.

It is precisely because of this interdependence of sub-systems that the suggestion is often made to start appraisal of managerial performance from the apex. This leads to more systematic and logical cause-and-effect tracing of performances at all levels within the organisation.

[4]S.K. Chakraborty, *Managerial Development and Appraisal* (Macmillan, India, 1978).

https://rbigradeb.com/

Organisation Structure We have learnt in Chapter 7 that there can be two classes of organisational structure: organic and mechanistic. Organic structures tend to have quite flexible organisational relationships. There is minimal formal organisational consciousness. Elaborate organisation charts or manuals are usually nonexistent. In rapidly changing environments, such structures can quickly manoeuvre themselves into vantage points to confront new situations. This dynamism makes such structures readily responsive to innovations of all kinds. Mechanistic structures, on the other hand, tend to be rigid, with clearly defined relationships and responsibilities. A formal awareness of the structural pattern pervades such organisations as shown by readily available organisation blueprints. By implication, these structures tend to be static and are designed to carry out a nearly fixed strategy in a relatively stable environment. Initiative, drive and imagination are not the qualities that receive encouragement in a mechanistic structure.

Standards Used in Managerial Appraisal

1. *Appraising managers against standards of personal traits (such as the ability to get along with people, industry, judgement, initiative, etc.) and work characteristics (such as job knowledge, production or cost results)*. This type of evaluation suffers from three main defects:
   - Connection between performance and possession of characteristics is doubtful.
   - There is lack of objectivity. The appraisal is not very discriminating.
   - It provides little tangibility to discuss performance and plan for improvement.
2. *Appraising managers against standards based on fundamentals of management*. H. Koontz and O'Donnell[5] give us a list of 73 questions to appraise a manager's performance in planning, organising, staffing, directing and controlling an organisation. Each question has 6 ratings from 0 (inadequate) to 5 (superior)—a standard of performance which could not be improved under any circumstances known to the rater. They suggest that, in order to bring in objectivity, *examples* can be given and the ratings made by a superior *reviewed* by his superior.
3. *Appraising managers against verifiable objectives.* This technique concentrates on what a manager *does* rather than on what someone subjectively thinks of him. It should be remembered that this technique is *not* an independent appraisal tool but works successfully only when used as a *last step* of Management by Objectives (MBO)[6]. Prof. Reddin defines MBO as: "MBO is the establishment of effectiveness areas and effectiveness standards for managerial positions and the periodic conversion of these into measurable time-bound objectives, linked vertically and horizontally and with future planning."

In terms of the above definition, important *steps* of an MBO programme are: setting objectives, tracking progress and evaluating results or recycling.

Setting Objectives This step is implemented "*top down*". First the top executives meet and decide the organisational goals for some specific period. But this they do only after receiving inputs from lower levels. Next, goals are set at department levels. Finally, goals are set at individual levels. This involves cross checking meetings in which subordinates present their tentative goals, check the impact of these goals on one another and make adjustments before finalizing their individual goals. In the alternative, the process of working "*bottom up*" may also be adopted. Here goals are first set at the bottom and a

[5]H. Koontz: *Appraising Managers as Managers*

[6]The first original work on MBO can be found in Peter Drucker's book. *The Practice of Management* published in 1945. In 1965 George Odiorne made a major contribution in introducing the MBO technique.

https://rbigradeb.com/

consensus on them is developed at each higher level. It should, however, be remembered that whatever the process a manager's individual goals are always set within his Key Result Areas (KRA) which are identified for this purpose in very beginning. They are also always SMART, i.e., specific, measurable, ambitious, result-oriented and time-bound. They are called *stretch goals* or breakthrough objectives when they force the individual manager to think out of the box and to be creative. Thus, he may be asked to cut costs by half or reduce product development time from years to months. It is always ensured that such goals are neither unattainable nor unduly stressful.

Tracking Progress After the specific period the individual manager and his superior jointly review the progress against goals. Their discussion includes an analysis of the forces which have helped or hindered the attainment of goals during the period under review.

Recycling Organised tracking of progress leads to a repetition of the cycle with a revision of objectives, roles, priorities and allocation of resources from the overall organisational level through unit level, team level to individual level. The more specific the feedback, the more positive the effect.

An effective MBO system has the following *advantages* for any type of organisation:

1. It requires each manager to actively involve himself in the setting of objectives of his area to be accomplished during a specific time-period. This is different from some systems in which higher level managers simply assign duties to lower level managers. Since they are involved in setting their objectives, managers are generally more committed to the goals established and will generally work harder to accomplish them.
2. It requires that the objectives of each department are consistent with the overall organisational objectives. This requirement ensures that people and departments do not work at cross purposes.
3. It encourages a more systematic evaluation of performance. Performance is evaluated on the basis of the degree of accomplishment of specific objectives. This is generally better than evaluating performance on the basis of personal characteristics.
4. It helps in the identification of "effective" managers, i.e. those who are able to choose right objectives. As pointed out earlier, for Peter Drucker, although efficiency is important for good managerial performance, effectiveness is critical.
5. It is a more positive technique because it shifts emphasis from the appraisal of an employee's weaknesses to the analysis of his strengths.
6. It reveals organisational deficiencies such as overlapping of authority, ineffective delegation and communication, etc.

Although it is a useful technique, MBO should not be viewed as a cure-all. Difficulties in applying MBO can arise. Some of them are as follows:

1. Sometimes it is not feasible to state specific objectives for a time-period. Imagine the difficulty, for example, of the research department stating specifically what is to be accomplished during the next six months. Jobs that involve speculation, trial and error or numerous unknowns are not easily adapted to MBO.
2. MBO presumes a certain level of trust throughout the hierarchy. But the organisational life teaches people to be cautions. This inhibits honest dialogue. Also, the status differentials between superior and subordinate may be too great to allow appropriate goal setting to take place in an open atmosphere.
3. The system can become so formalised that it becomes an end in itself. Carried to an extreme, MBO may require so much paperwork and so many meetings that managers do not have time to do their normal work.

https://rbigradeb.com/

4. MBO deals with an individual's performance on the present job only. It overlooks his past and also does not identify his future potentials. It may happen that an individual who has failed on a job in the present situation had done exceedingly well on it in the past, in another situation.
5. MBO system by concentrating on individual efforts:
   — encourages employees to work for themselves and not for teams or a superordinate goal;
   — pits people against each other for the same rewards;
   — tempts low performers to emulate high performers by using quick-fix techniques; and
   — divides employees into two unequal groups: one consisting of those few who are acclaimed as "heroes" and are supposed to run the organisation and the other consisting of those many who have failed to achieve their targets. The second group naturally feels bitter, despondent, dejected or even depressed.

Essentials of a Good Performance Management System

1. The system should be easily understandable, continuous and not an annual event.
2. The system should have the support of all line people who administer it.
3. The system should be data-based.
4. The system should be truly indicative of the performance of the employees. The evidence favours behaviour-based criteria over those developed around traits which have little or no performance relationship.
5. The system should provide for trained appraisers. Evidence suggests that the training of appraisers can make them more accurate raters.
6. The system should be open and participative. It should provide ongoing feedback to the parties and clarify their roles. It should involve employee in the goal-setting process.
7. The system should focus more on the development and growth of employees than on generating data for administrative decision-making, related to promotions, increments, etc. There can be two separate appraisals in a year—one for identifying employees' strengths and weaknesses, and indicate training needs, and the other for deciding promotions etc.
8. The system should provide for continuous guidance and counselling of the employee.
9. The system should be periodically evaluated to ensure that it is meeting its goals.

PERFORMANCE MANAGEMENT IN INDIAN INDUSTRIES

As a result of survey of performance appraisal practices of 82 organisations in India in 1968 and a resurvey of 49 of these organisations in 1976 done by Prof. Malathi Bolar, it was revealed that a large number of organisations used performance appraisal for controlling employees rather than for developing them. There was complete absence of counselling or appraisal interview with the ratee. Very little feedback was given to him and he was left in the dark as to how he was doing and what he could do in the future. This generally increased his anxiety, lowered his morale and reduced his commitment to work. This practice still continues in many organisations.

Coming to the types of performance appraisal forms currently being used in our country, their following *drawbacks* may be noted:

1. There is too much emphasis on traits. Little attention is paid to an individual's work.
2. Many traits do not lend themselves to precise definition.

https://rbigradeb.com/

3. All traits are treated equally important for all individuals. This is not correct because some traits are more important for some individuals than for others. For example, aggressiveness is more important for a sales executive as perseverance is for an executive working in the research department.
4. All traits are considered additive in nature. This again is wrong. The excess of anyone trait in an individual cannot make for the deficiency of others. Thus, too much of cooperation cannot make for poor administration.

Marurti, Wipro, Raymond and Godrej have adopted 360-degree appraisal. Some important organisations which have introduced MBO are: Glaxo Laboratories Ltd., Mumbai, Hindustan Lever Ltd., Mumbai, Indian Tobacco Co. Ltd., Kolkata, Bharat Heavy Electricals Ltd., Tiruchi, and Madura Mills Ltd., Madurai.

As our companies are struggling against intensifying competition from abroad and more demanding investors at home, *they are requiring their managers to measure up on several new criteria in their performance appraisal*. AT&T, for example, has now laid down the following three criteria: EVA or economic value added (appraisee's contribution to company earnings), PVA or people value added (appraisee's effectiveness in managing and developing subordinates) and CVA or customer value added (appraisee's effectiveness in the eyes of major customers).

Some companies which have been traditionally appraising their managers against "what" they have achieved are now shifting their focus on "how" they can further increase their achievements. In other words, what are their competencies and developmental need. Larsen & Toubro, the engineering major and Hughes Escorts, the subsidiary of U.S. headquartered telecom company have developed competency-based performance measurement system. They measure the performance of each employee in terms of the increase in his competency relevant to his job since his previous appraisal.

IT majors like Infosys, Wipro, Cognizant and Satyam have assessment centres and are finding them useful.

Team-oriented Performance Appraisal

Performance appraisal concepts have been almost exclusively developed with only individual employees in mind. But, nowadays more and more organisations are restructuring their operations around teams. Hence, the need to appraise team performance. Some people suggest the following three criteria for rating a team's performance:

(a) *Customer satisfaction* which can be measured in terms of the team's product or service meeting customer requirements,
(b) *Inter-team transactions* which can be evaluated in terms of delivery and quality, and
(c) *Process steps* (the team follows to satisfy customers' needs) which can be evaluated in terms of waste and cycle time.

Two measures usually suggested to evaluate the performance of the *top management team* are the *tally sheet* and *market capitalisation*. Under the tally sheet, the value the team delivered in the previous few years is compared with the money it got paid. Under market capitalisation, the team's performance is measured on the basis of rise or fall in the *market value* of the company's share capital.

Asea Brown Boveri Ltd., Baroda has developed a performance appraisal system which reinforces and encourages team effort. Following are the highlights of this system:

https://rbigradeb.com/

- It links payment to team performance.
- Team performance is judged in the light of certain *quantitative* and *qualitative* parameters. The quantitative parameters include areas such as orders, profits, etc. while the qualitative parameters include customer satisfaction, on-time delivery, etc.
- Every team plans its job for the ensuing year. This ensures role clarity and rapport building between the team leader and team members.
- There is emphasis on openness and disclosure of performance with counselling as compulsory.
- There is analysis of training needs of individuals and teams.
- Following the logic of a statistical quality control chart the system divides members of a team into 3 performance groups:
  (a) Individuals below the lower control limit comprising those showing performance far below expectations.
  (b) Individuals above the upper control limit comprising those showing performance far above expectations.
  (c) Individuals within the limits comprising those showing performance as per expectations.

Special counselling efforts are made for individuals who fall in the (a) group. Individuals who fall in the (b) group are given non-financial rewards such as special training, special assignment trips abroad and so on. All individuals who form group (c) are treated alike in respect of their compensation. Despite differences in their performance they are not ranked because it is believed that these differences come from the system itself and are not attributable to the merits of individuals. Nonetheless, the job of the leader is to shrink the control limits to get less and less variation in a process or less and less difference between individuals.

EXPATRIATE PERFORMANCE APPRAISAL[7]

In the case of expatriate performance appraisal, the difficulties include:

- The choice of evaluator
- Difference in performance perceptions between home and host countries
- Communication difficulties with headquarters
- Inadequate recording of performance objectives
- Parent-country ethnocentrism
- Non-comparability of data from different subsidiaries/regions, and
- Environmental variation across subsidiaries

CAREER PLANNING AND DEVELOPMENT

In management parlance, *career* refers to a series of work-related positions occupied by an individual throughout his work life not necessarily with the same organisation. The following paragraphs will show that the study of careers takes on two different orientations depending on whether it is viewed from the perspective of the individual employee or of the organisation.

[7]H.B. Gregersan, J.S. Black and J.M. Hite, "Expatriate Performance Appraisal: Principles, Practices and Challenges. In J. Selmer (Ed.) *Expatriate Management*: *New Ideas for International Business*, Westport, CT: Quorum Books, 1995.

https://rbigradeb.com/

Career planning From the organisation's perspective, a *career plan* is a blueprint in which the entire career of the employees is mapped, from the point of their entry into the organisation, to the point of their retirement from it. From this blueprint, employees come to know about the competencies needed for the various career paths, and the training and development facilities available to them to prepare for higher positions. The network of related positions is always established by job analysis, and is usually depicted by means of charts and diagrams. There are two broad categories of these charts: *three-position charts* and *multiple-chain position charts.* In three-position charts each position is related to two other positions, one from which employees are promoted and another to which promotions are made. In multiple-chain position charts, each position is linked to several others from which promotions can be made, and to several positions to which employees may be promoted. These charts, variously described as *"promotion charts", "opportunity charts"* or *"fortune sheets"* do not promise or guarantee the promotion of any individual. They only point out the avenues for advancement that exist.

Organisational career planning is mostly done for supervisory and managerial positions of an organisation. Hence, it is sometimes described as the planning for "blue-eyed" jobs. A variant of this career plan is the *Succession Plan.* Unlike this career plan which covers executives at all levels, the succession plan covers only top executives. It aims at identifying those individuals who stand a chance of succeeding the top executives on their resignation, retirement, transfer, death or restructuring. Such a plan not only ensures continuity of leadership and growth of an organisation but it also increases its credit rating. The plan is generally regarded as highy confidential.

In contrast, from the individual's perspective, a career plan is a personalised and ongoing process whereby the individual establishes his career goals and identifies the means of achieving those goals. It should be remembered that, although organisations assist employees in their career planning efforts in several ways such as by holding career planning workshops where employees can assess their own interest and abilities, yet the primary responsibility for establishing career goals and career paths always rests with the employees.

Career development From the organisation's perspective, career development consists of all those activities which an organisation undertakes to increase its long-term effectiveness in managing its human resources. These activities, e.g. job rotation, improve organisation's ability to attract and retain highly talented employees. In contrast, career development from an individual's standpoint consists of those activities which the organisation undertakes to help employees to accomplish their career plans. These activities may include giving a realistic job preview to a candidate before calling him for interview, performance feedback and counselling. Here also it is important to note that it is up to the individual to develop his career. If he does not, chances are no one else will.

PROMOTIONS

A promotion takes place when an employee moves to a position higher than the one formerly occupied. His responsibility, status and pay also increase. When as a result of promotion there is no increase in the employee's pay, it is called a "dry" promotion.

There are two broad concepts on which all promotion channels are generally based. One concept is of placing the *rank-in-the-job.* Here the rank is more tied to the job than to the man. This means that the content of the job—the level of skill, effort and responsibility—determines its place and pay in the hierarchy of jobs. To be promoted, a man must cross the boundary of his present job classification and move to one of greater job demands and responsibility, e.g., the promotion of a clerk to office

https://rbigradeb.com/

superintendent or foreman to production manager. Such promotions are also called *vertical promotions*. When such promotions result in transferring men *across functional lines* in the enterprise they are called *lateral promotions*. The other concept is of placing *rank-in-the-man.* Here the rank is more tied to the man than to his job. This means that the level of skill and performance of the man and not the content of the job determines the job's place in the hierarchy of jobs. To be promoted, a man need not move from his present job classification but must acquire greater proficiency such as from lower division clerk to upper division clerk or from second grade foreman to first grade foreman or from associate professor to professor, etc. A hierarchy of job titles in all these cases represents degrees of proficiency more than differences in basic job content. Such promotions are also called *horizontal promotions*.

Besides providing an *opportunity to the present employees* to move into jobs that provide greater personal satisfaction and prestige, promotion schemes are of value to management also. They offer *opportunities to management to provide recognition* and incentives to the better employees, to *correct initial mistakes in appointments* and to "*freeze*" *inefficient personnel*. Existence of adequate promotion opportunities generates within an organisation *beneficial pressures on work performance* and the desired behaviour of all its members. *Minimum efficiency standards* are maintained by matching the qualities of an employee with the demands of the job on which he is to be promoted. Finally, all promotion schemes serve as an *orderly, logical and prompt source of recruitment* for management to fill vacancies as they arise.

One important drawback of a promotion scheme is that it results in a condition known as "*inbreeding*" in which the company's ideas and habits are perpetuated and little new thinking is able to occur. The system becomes stagnant, repetitious and overly conformist. The newer employees are introduced at lower levels where they can have little influence.

A promotion scheme is of little significance for a small organisation where there are only few roads to the top and, therefore, it is difficult for a current job holder to progress readily from one job to another. The scheme is of significance for a big organisation only which has a large number of vertical job relationships.

Requirements of a Sound Promotion Policy

The first requirement of a sound promotion policy is that it must provide for a *uniform distribution of promotional opportunities throughout the organisation.* This means that the ratio of internal promotions to external recruitment must be the same at various levels in all departments. If this ratio differs greatly from one department to another, the morale of employees may be seriously impaired in the department notorious for its low ratio of promotions.

The second requirement of a sound promotion policy is that it must ensure *consideration of all eligible in-service candidates* and not of the few highly "visible" ones only. This means that the promotion system should be "open" and not "closed" so that the candidacy for a job remains open for all individuals within the company.

The third requirement of a sound promotion policy is that there should be *some definite system for the selection of employees* who are to be promoted from within the promotion zone. This, of course, calls for the choice of promotion criteria. In the absence of a contract to the contrary, the employer has the right to establish any criteria for evaluating promotability if they are reasonable, pertinent to the job and are not applied in a discriminatory manner. The two criteria often used for making promotion decision are merit and seniority. These are discussed in detail in a separate section. In any case, the promotion policy should not compel a reluctant to accept promotion.

https://rbigradeb.com/

The fourth requirement of a sound promotion policy is that *all promotions should be finally sanctioned by the concerned line-heads.* The personnel department may only propose the names of potential candidates and send their history records to the department making the requisition to fill vacancies. In this way, the staff position of the personnel department does not intrude upon the authority of the department served. In addition, subordinates are impressed favourably by their line superior's concern for their progress.

Finally, a sound promotion policy must provide for a *suitable system of follow-up, counselling and review.* Say, a month or two after the change, the personnel department should hold a brief interview with the promoted employee and his new superior to determine whether all is going well. All promotions should be made for a trial period so that if the promoted employee is not found capable of handling the job he can be reverted to his former post and his former pay scale.

Since the number of potential candidates is very often more than the number of promotional openings, some candidates are bound to lose in the competitive struggle. Rowland[8] refers to them as *"also-rans"*. Generally, all "also-rans" accept the outcome philosophically. For the few who do not, counselling services should be provided by the management. To prevent them from slipping into the deadwood category which comprises employees who neither perform well on their current jobs nor do they have chance of upward mobility.

Review of promotional decision by higher management may also sometimes become essential to satisfy employees who accuse management of being unfair and unjust.

Merit vs Seniority

Although it is best for the profitability of a company to be able to promote those who are the most able without reference to seniority, but rarely is merit given complete control in such matters. The criticism is often made that merit is a highly subjective criterion which encourages inequities and favouritism in promotions and that the differences in merit are not readily measurable. To avoid these difficulties it is suggested that the criterion of seniority be used.

The *advantages* of seniority criterion are as follows:

1. It is an objective means of distinguishing among personnel. Under this criterion, it is not the management but the system which ranks individuals.
2. The measurement with this criterion is both simple and exact.
3. The criterion is in consonance with Indian culture in which seniority is respected in all walks of life.
4. The criterion gives a feeling of security and assurance to the individual who can calculate his promotion well in advance.
5. Seniority, being valued as an asset, prevents people from leaving an organisation. It thus reduces labour turnover.

The *disadvantages* of seniority criterion are as under:

1. Although in some situations it may be true that a worker's long stay on a job reflects his ability to adjust to the working conditions, his ability to get along with his follow workers, his satisfaction with the job and similar factors yet in many situations excessive emphasis on seniority leads to the promotion of incompetents. Accumulation of years of experience for any length of service does not always produce ability.

[8]Virgil K. Rowland, *They also Ran*, AMA Personnel Series, No. 171, 1957.

https://rbigradeb.com/

2. When seniority is the only deciding factor in promotion, initiative inevitably withers away. Human nature being what it is, few people will take the trouble of qualifying themselves for the next rung of the ladder if they can achieve the same goal merely by 'putting in time'.
3. The seniority criterion adversely affects the morale of meritorious workers and drives the ambitious and able men, with little service, out of the organisation.

It can now easily be understood that seniority by itself is an incomplete criterion. Much of the clamour for its recognition as the sole criterion is based on a fundamental distrust of management. But in the interest of efficiency, equity and a contented work force, the management should work out a compromise between seniority and merit. It must decide on the relative weight it will give to the merit and seniority in making promotion decisions. For example, seniority may completely control such matters as length of vacations or choice of shifts but only partly control such matters as transfers and promotions.

Potential Appraisal

We have mentioned above that ideally seniority should be coupled with merit to decide promotion. The question is: How should the two be measured? Measurement of seniority is not difficult because one can easily measure it in terms of the number of years of service put in by an employee, but measurement of merit poses a problem because an employee's present merit, as disclosed by his present performance appraisal, provides no assurance of his future success on a new job involving substantially different roles, responsibilities and functions. In such cases, his present performance appraisal is an indicator of his success in a new role only to the extent that the duties and responsibilities involved in the two roles are common. So, if the employee's would-be role is going to be different from his present role, the objective is better fulfilled by appraising the employee's potential i.e., *his capability to successfully assume a new role in future, following his promotion.* See Exhibit 13.2.

EXHIBIT 13.2

THE PETER PRINCIPLE I.E., PROMOTING PEOPLE TO THEIR LEVEL OF INCOMPETENCE[9]

L.F. Peter in his book, *The Peter Principle*, says that there are many examples of individuals who are promoted from time to time because of their satisfactory performance in their present positions and who finally reach positions exceeding their level of ability—in other words, positions where they prove incompetent. At this point naturally their further promotions stop and they stay there till the end of their career as incompetent executives. Peter calls this phenomenon the *Peter Principle*. The moral of this principle is that, at some point on the promotion ladder those very qualities of an employee which have helped him in getting promotions in the past become his liabilities.

Hence, in considering individuals for promotion one need to assess future potential rather than his present performance.

Potential appraisal may be done either *regularly* (annually) or *intermittently* (as and when some post falls vacant). The regular potential appraisal is usually done along with the employee's performance appraisal. The methods generally used in intermittent appraisal are as under:

(i) Collection of information about all candidates from their immediate officers under whom they have worked in the past.

[9]*The Peter Principle*, N.Y. William Marrow, 1969.

https://rbigradeb.com/

(ii) In-basket exercises simulating a variety of situations which the appraisees would face if they were to be promoted to the higher post. The situations are simulated in the form of letters, notes, instructions, etc. in the IN-tray, on which the appraisees have to take quick decisions.
(iii) Assessment centres where groups of trained evaluators use multiple assessment techniques, and pool their data to judge a candidate's suitability for promotion.

APPRAISAL OF ORGANISATIONAL PERFORMANCE

Traditionally, most business organisations have used financial performance as the only criterion to know about their overall performance. This is analogous to operating an airplane concentrating only on either the air speed or altitude or fuel consumption. Now, many organisations realise the *need* for a more comprehensive data in addition to the traditional financial performance. To meet this need, Robert Kaplan and David Norton[10] have developed the concept of the *Balanced Score Card*, which provides a basis for creating win-win relations with all the company's stakeholders. The approach assumes that all the stakeholders are interrelated. Employees' attitudes and behaviours influence customer satisfaction and retention which in turn influence the satisfaction of shareholders and the investments made in the firm. Shareholders' satisfaction influences employee satisfaction through better salaries and bonuses or the investments made in employee growth and development.

Balanced Scorecard

It measures an organisation's performance from four different perspectives as described below

Financial Perspective Measures ultimate results that the business provides to its shareholders. They include profitability, revenue growth, return on investment, economic value added (EVA) and shareholders' value.

Internal Perspective Measures performance of the key internal processes. They include quality levels, productivity, cycle time and cost.

Customer Perspective Measures customer needs and satisfaction as well as market share. This includes service levels, satisfaction ratings, and repeat business.

Innovation and Learning Perspective Measures future success—the organisation's people and infrastructure. Key measures might include intellectual assets, employee satisfaction, market innovation and skills development.

The above balanced scorecard is only one version of organisational performance. In many other versions we may find these perspectives being categorised and named differently. Thus, the Malcolm Baldrige Criteria for Performance Excellence Results has the following six categories: Customer, Product and Service, Financial and Market, Human Resource, Organisational Effectiveness and Governance and Social Responsibility.

Since organisations need to know what is happening now and what might happen in the future, a good balanced score card contains both lagging and leading measures and indicators under each

[10]Robert Kaplan and David P. Norton, *The Balanced Score Card: Translating Strategy into Action*, Harvard Business School Press, 1996.

https://rbigradeb.com/

category. *Lagging measures* and indicators tell what has happened. *Leading measures* and indicators[11] predict what will happen.

We should remember that, each organisation is different from all others in its needs of organisational performance measures and indicators. For example, a pizza franchise that delivers bulk orders to fraternities and parties around a college campus would have a different set of performance measures and indicators than one in a quiet suburban residential neighbourhood. *Thus, an organisation first needs to fully understand its internal capabilities and external environment and then choose those performance measures and indicators that are tied to the key factors that make it competitive in its industry.*

SUMMARY

- Performance appraisal is one of the most important tasks any manager has. Its major purposes are to let subordinates know formally how their current performance is being rated, to identify those subordinates who deserve merit raises and promotion, to locate those subordinates who require training, to provide a rational foundation for the payment of piecework wages and to evaluate the effectiveness of devices for the selection and classification of workers.
- There are a number of performance criteria which may be used to measure the performance of an employee. If this measurement is done at the end of a specified period, it is called summative appraisal. But if it is an ongoing process, it is called a formative appraisal. Where a person is appraised by a number of appraisers, comprising his superior, subordinates, peers, etc., it is called a 360-degree appraisal.
- Important performance appraisal methods are: ranking method, rating scale method, checklist method, forced-choice method, field review method, critical incident method, confidential report method, and essay appraisal. There are a number of limitations of these methods.
- The performance appraisal of a worker is generally followed by an appraisal interview which serves as a feedback for him. There are three types of appraisal interviews, Tell and Sell, Tell and Listen, and Problem-Solving.
- A popular technique of appraisal of managerial performance is MBO. The basic elements in an effective MBO programme include: (a) goal setting by each subordinate in collaboration with his superior at the start of the appraisal period; (b) periodic review of performance; and (c) evaluation of results.
- Essentials of a good appraisal system are: (a) It must be easily understandable, (b) It should have the support of line people, (c) It should be data-based, (d) It should be indicative of the intrinsic merit of the employees, (e) It should have built-in rewards, (f) It should be open and participative, (g) It should focus on the development of employees and (h) It should be periodically evaluated for its effectiveness.
- Many companies prepare a plan which maps out the entire career of an executive from the point of his entry into the organisation to the point of his retirement. This is called a career plan. A variant of this is a succession plan.
- *Promotions* are the most significant way of recognising superior performance. There should always be a sound promotion policy. Neither seniority nor merit by itself is a complete criterion for promotion.

[11]The term *indicator* is often used for measurements that are not a direct or exclusive measure of performance. For instance one cannot directly measure dissatisfaction, but one can use the number of complaints or lost customers as indicators of dissatisfaction.

https://rbigradeb.com/

In the interest of efficiency, equity and a contented work force the management should work out a compromise between seniority and merit. Furthermore, promotions should be based on the potential appraisal of individuals and not on their merit on their present jobs.

- David Norton and Robert Kaplan of the Harvard Business School have promoted the concept of the Balanced Score Card for the appraisal of organisational performance.

KEY TERMS

Summative Appraisal In this system, an individual is appraised for his total performance at the end of a certain period. Most appraisal techniques fall in this category.

360-degree Appraisal This is a questionnaire-based appraisal of a person's performance by his colleagues, above, below and to his side, and his service-users.

Career Plan It is a blueprint showing the network of related executive positions called career paths, from the point of an executive's entry into the organisation to the point of his retirement from it.

Potential Appraisal This is the appraisal of an individual's capability to successfully assume a new role in future, following his promotion.

Ratings These are quantitative statements of opinions of foremen, managers and others in supervisory authority about such characteristics of a worker as job knowledge, cooperativeness dependability, regard for safety, and so on.

Review Questions

1. What is performance appraisal? What are the essentials of a good appraisal system?
2. Evaluate the importance of performance appraisal in an industrial organisation.
3. Distinguish between the subjective and objective criteria of performance appraisal. List four criteria each for operatives, supervisors, middle level managers and top managers.
4. Name various kinds of performance appraisal methods. Describe any two of them in detail.
5. What are the various types of post-appraisal interviews? What objectives do they serve and how?
6. How does the appraisal of managers differ from the appraisal of operatives? What factors effect managerial performance?
7. Performance appraisal by objectives is considered to eliminate the subjectivity in appraisal. Do you agree? Give reasons in support of your view.
8. What are the limitations of appraisal methods? How can these be overcome?
9. What are the essentials of a sound promotion policy?
10. Write a short note on "Career Plan".
11. Write short notes on:
    (a) Performance appraisal in Indian industries
    (b) 360-degree appraisal
    (c) Seniority vs. merit.
12. Distinguish between:
    (a) Performance management and performance appraisal

https://rbigradeb.com/

(b) Forced distribution system and Forced choice method
(c) Summative appraisal and formative appraisal.

13. (a) Which of the following methods is most appropriate for appraising the potential of a candidate for promotion?
    (i) Forced Choice Method
    (ii) Confidential Report
    (iii) Assessment Centre (iii)

    (b) Which of the following post-appraisal interviews has employee development as its objective?
    (i) Tell and Sell
    (ii) Tell and Listen
    (iii) Problem-solving (iii)

    (c) Which of the following terms means the tendency of a superior to rate a subordinate lower than his performance?
    (i) Halo Effect
    (ii) Horns Effect
    (iii) Central Tendency (ii)

    (d) Who among the following first introduced the concept of MBO?
    (i) Abraham Maslow
    (ii) Peter Drucker
    (iii) Douglas McGregor (ii)

14. What is a balanced score card? Describe its components.

Projects

1. Interview managers of a local airline, hospital, government or police department to determine what types of performance measures or indicators they use. Are these indicators consistent with their business factors?
2. Conduct a 30-minute presentation for 10 to 15 supervisors who have not adapted as well as desired by management the recently introduced 360-degree feedback-based performance management.

Cases — Rating Employees and Learning a New Job

1. Rating Employees

Laxmi Savings is an investment company. Its employees are annually rated by means of a graphic scale. The qualities are responsibility, dependability, initiative, interest in work, potential leadership and community activity. Resulting ratings are used to counsel employees, to influence promotions and salary adjustments, and as criteria for evaluating sources, methods of selection, and training.

At this time, some trouble arose. Three of the company's employees have expressed their dissatisfaction with ratings they have received before the chief executive. The aggrieved employees

https://rbigradeb.com/

have argued that their ratings do not accurately represent their qualifications or performance. They have insisted that "community activity" is not properly a part of their job, and that what they do off the job is none of the employer's business. They insist that salary increases be automatic.

Prepare a memorandum outlining your position as a personnel manager for possible submission to the chief executive.

2. Learning a New Job

Basanti Lal accepted a new promotion with mixed feelings. He was proud of having his work recognised, but he had some doubts about how he would like the new work. His former job had involved regular contacts with salesmen—trouble-shooting, helping them with special customer problems, and so on. His new job in market research was essentially a research job working with industry marketing reports, and the like.

Basanti Lal missed the routine of his old office and the men he had worked with. He had a private office now, but he felt he really did not have the educational background for the job. When he submitted his first report, the division head was nice enough—suggesting some changes that in fact meant that Basanti Lal had really used the wrong approach. His boss said not to worry. "We all have to learn a new job."

Discussion Questions

(a) What should now be done to correct this situation?
(b) Could this situation have been avoided altogether? How?

https://rbigradeb.com/

CHAPTER

14 COMPENSATION PLANS

Learning Objectives

This chapter will enable the reader to:

- **Examine** time as the basis of pay
- **Describe** internal and external alignment of wages and salaries and various factors affecting them
- **Describe** the advantages, disadvantages and the kinds of monetary incentive compensation
- **Present** the requisites for the success of monetary incentive compensation
- **Discuss** non-monetary incentives
- **Explain** the statutory and voluntary benefits
- **Relate** the international compensation
- **Describe** the wage packet in Indian industry

https://rbigradeb.com/

A good compensation plan, well administered, has a salutary effect on the entire organisation. It attracts and retains the services of desirable employees, pays employees according to the importance and difficulty of their jobs, rewards them according to merit and ability, raises their morale and productivity, explains to them the "how and why" of their compensation, simplifies wage and salary administration and control, facilitates collective bargaining, makes promotions and transfers easy, keeps employee costs within reasonable limits, and incorporates legal requirements. In short, with a good compensation plan, employees are happier in their work, cooperation and loyalty are more pronounced, productive output is up, and quality is better. In the absence of such plans, compensations are determined subjectively on the basis of haphazard and arbitrary decisions. This creates several inequities which are among the most dangerous sources of friction and low morale in an enterprise.

Time as Basis for Pay

The oldest and most common system of paying employees is on the basis of time, i.e., rate per hour, per day, per week, per month or per year. Under this system, no consideration is given to the quality or the amount of output. The employer buys the time of the worker, i.e., the worker is guaranteed a definite payment for a specified period of working. Use of time rates for salaries and office employees is almost universal. Time-basis is the only satisfactory system when units of output are not distinguishable and measurable and employees have little control over the quality of output; or when there is no clear-cut relation between effort and output as in the case of most of the indirect workers, like office employees and executives; or when work delays are frequent and beyond the employee's control; or quality of work is specially important; or supervision is good and the supervisors know what constitutes "a fair day's work", and competitive conditions and cost control do not require precise advance knowledge of labour costs per unit of output.

The *merits* of this system are as under:

1. It is simple and straightforward. Workers can easily calculate their remuneration.
2. It is liked by trade unions because it does away with differences of payments and assures a guaranteed income for a given period of work.
3. It helps in maintaining the quality of output because the worker is not tempted to increase his speed to produce more sub-standard output to earn more wages.
4. It helps in maintaining the machines and equipment in good conditions by avoiding breakage and damage to them which would otherwise result if the speed of operations is unduly increased by workers in order to increase production.
5. It does not cause employees to overwork themselves and hence it results in fewer accidents and better employee health.

Following are the *demerits* of this system:

1. As this system does not distinguish between efficient and inefficient workers, there is no incentive for workers to improve their efficiency.
2. As all the workers are paid equal remuneration, irrespective of their quantity of output, the more efficient among them are tempted either to reduce their speed and efficiency or to leave the organisation.
3. As this provides security to the workers, they are tempted to shirk work, which would lead to loss to the employer.

https://rbigradeb.com/

4. In order to make the employees work without wasting their time, the employer is obliged to appoint personnel for supervision and this increases his cost of production.

CLASSIFICATION OF COMPENSATION

Compensation can be classified into three broad categories: primary compensation, incentive compensation and benefits. While primary compensation is always in the form of money, incentive compensation can be either monetary or non monetary. Benefits can be in various forms and can be either statutory or voluntary. See Fig. 14.1.

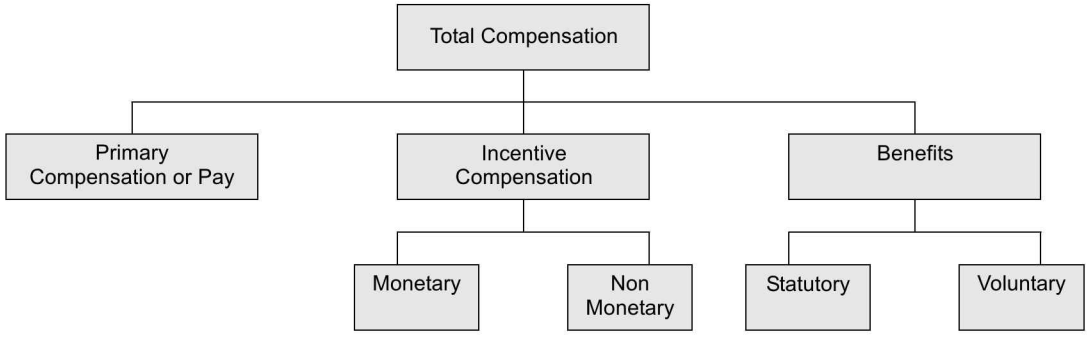


Fig. 14.1 Classification of Compensation

PRIMARY COMPENSATION

Although there can be both monetary and non-monetary forms of compensation prevalent in an enterprise, yet it is the former which is the most basic element by which individuals are attracted to an organisation, persuaded to remain, and induced to engage in a behaviour beneficial to the organisation.

The primary monetary compensation is the basic pay in the form of wages or salaries. In popular usage, a distinction is drawn between these two words. The word "wage" is used to denote payments to hourly rated production workers and the word "salary" is used to denote payments to clerical, supervisory and managerial employees. For our purpose, however, this distinction is meaningless because roughly the same problems are involved in the administration of both wage and salary policies.

Internal Alignment (Job Evaluation)

A sound primary compensation structure is a function of *internal* and *external alignments*.

Internal alignment means that there should be a proper relationship between the wages and salaries of various positions within the enterprise. Internal alignment is concerned with the concept of equity and status. If, for example, the salary of a foreman, though above the average rate in the community, is lower than that of his subordinates, the foreman is not being paid fairly. It indicates the foreman's lower status compared with his subordinates. The internal alignment of rates is not correct. There is inequity in rates. In other words, the relative wages of an employee are almost as important for him as his absolute wages. Unfair differentials in pay lower his morale and often result in high turnover.

https://rbigradeb.com/

The management's answer to the problem of pay inequities is *job evaluation.* It is the cornerstone of a formal wage and salary programme. The central purpose of job evaluation is to determine the relative worth of the jobs of an enterprise. Fair pay differentials among jobs can be established. Any existing pay inequities can be corrected and future inequities be prevented.

Determining the relative worth of all jobs in the enterprise is difficult. Different jobs make varying demands on workers. One job, for example, might demand a prescribed level of education, require a certain physical ability, or exact specific responsibilities from an employee, whereas another job may be very lax in these aspects. Jobs, therefore, differ with respect to the demands made on the employee as well as in value to the enterprise. Job evaluation compares all demands made on each worker and, by means of this comparison, establishes the relative worth of each job in an enterprise. The comparison and evaluation may be made on a *non-quantitative basis* by simply ranking or classifying the jobs from lowest to highest, or on a *quantitative basis* where point values are assigned to the various demands of a job, and its relative worth determined by the sum of such point values.

Job relationship and job values do change as time passes. So, it is necessary to reexamine job evaluation plans periodically to fit new conditions and to have procedures for bringing them upto date.

External Alignment (Pricing the Job)

Once the relative worth of each job has been established through job evaluation, the management's next task is pricing the jobs, that is, expressing the non-monetary point values in monetary terms. This task is usually based upon a comparison of present company wage rates with those being paid in the community for comparable jobs. The wages and salaries of workers must be in alignment with the wages and salaries that other organisations are paying at similar levels. If this external alignment or comparability is lacking, the organisation will not be able to retain its capable employees or attract employees from outside. The need to achieve external alignment is highest in times of full employment when due to a shortage of labour a new worker can choose among employers and when older employees can take up new jobs elsewhere.

To achieve external alignment, the management must first know (either through a wage survey or through some other source) what average rates of its key jobs are prevailing in the community. It can then plot these rates against the point values of those key jobs. Finally, a straight line trend or curvilinear trend can be fitted to the data, so that by reading appropriate rates from this line, a price structure for all jobs may be established.

It is not always essential for the management to fix its wage level at the average level of the community. Guided by its own wisdom it may decide a higher or lower level of wages for itself. In either case, the internal relationship among jobs, that is, the *shape* of the wage structure, remains undisturbed. It is only in the *location* of the structure that changes take place.

An above-average wage level is generally fixed

- when the enterprise wants to choose employees from a wider reservoir of talents;
- when qualified personnel are in short supply;
- when the enterprise wants to gain a reputation in the community as a good employer;
- when there is union pressure on the enterprise to pay high wages;
- when the enterprise wants to keep the unions out;
- when the wages are linked to productivity, which is rising; and
- when the cost of living is going up.

https://rbigradeb.com/

Average rates may be decided

- when there is an abundance of labour;
- when the enterprise is incurring losses;
- when the cost of living is going down;
- when the enterprise has the reputation of being a stable employer with no lay-offs;
- when the enterprise pays substantial fringe benefits; and
- when wages are linked to productivity, which is constant or is falling.

It is very uncommon for an enterprise to determine below-average rates due to the fear that its employees may quit the organisation provided that other jobs are available. (Read Adam's Equity Theory of Motivation in Chapter 15.)

Factors Affecting Wages

On the basis of the above discussion, we may summarise the factors affecting wage rates as under:

1. ***Demand and supply of labour*** Demand and supply conditions of labour have considerable influence on the determination of wage rates. If there is a short supply of labour, the wages may be high, whereas if there is no dearth of labour, the wages tend to be low.

2. ***Labour unions*** If the labourers are well organised into strong trade unions, their bargaining power would be high and they can demand higher rates of wages. On the other hand, if the labourers are not organised, the management may fix low wages.

3. ***Cost of living*** The cost of living of workers also has a strong influence on the rate of wages. If this factor is not considered, the labourers may not be in a position. to make both ends meet and this will affect their efficiency. Hence progressive employers consider this factor also.

4. ***Competition*** The degree of competition for the products of an industry is yet another factor which has influence on the wage rates. If there is perfect competition, the level of wages may be at par with the value of the net addition made by the workers to the total output; but if there is imperfect competition, the wages may not reach this level.

5. ***Prevailing wage rates*** Prevailing wages in a particular industry are also taken into account by the employers while deciding wage levels for their employees. By considering the prevailing wage level, employers will come reasonably close to the wage level of competitors, and this will enable them to retain and attract qualified workers to the organisation.

6. ***Ability to pay*** The wage level, to a large extent, is determined by the ability of the enterprise to pay its workers. The ability to pay in turn is determined by the profit-earning capacity of the enterprise.

7. ***Job requirements*** Job requirements are also an important factor affecting wages. Jobs requiring specialised knowledge or involving much mental or manual efforts are priced higher than those which are light or which do not need any specialised knowledge.

8. ***State regulation*** State regulation is another important factor influencing wages rates. As the State assumes responsibility for safeguarding the interest of citizens, it has to step in to regulate the wage rates of labourers through legislative measures.

9. ***Court judgements*** In recent years, this factor has emerged as the most important factor in determining wages. Courts, now-a-days, not only interpret laws, but also issue directions to the industry about the manner in which compensation plans are to be framed and implemented.

https://rbigradeb.com/

10. ***Philosophy of management*** Some progressive organisations, in order to attract, motivate and hold employees, believe in paying them more than the established bench-marks.

Factors Affecting Executive Compensation

Following factors seem to govern the compensation paid to an executive in an organisation:

1. ***Job complexity*** The complexity of an executive's job depends upon (a) the size of his company as measured by its sales volume, (b) the company's rate of growth as reflected in the percentage increase in company's fixed assets, and (c) geographical diversity, i.e., the number of states in which the company carries on its business operation. On these variables will generally depend the number of levels of management, span of control and the magnitude of responsibility vested in the job. The greater the complexity, the higher is the compensation paid to an executive.

2. ***Employer's ability to pay*** This is a major determinant of executive compensation. Companies with greater ability to pay can offer higher remuneration in order to compete for the scarce executive talent.

3. ***Employee's education and experience*** This factor though critical in determining entry into the management cadre of a company becomes less important for purposes of salary determination of top executives. At the top the job and the person become inseparable from each other so that the determination of an executive's salary becomes highly subjective in nature and does not lend itself to standardisation.

4. ***Employee's performance*** Traditionally, only salaries of marketing and sales people have been linked to performance. But now the pressure to cut costs is forcing companies to link the salaries of executives in many other areas also to their performance.

5. ***Statutory limits*** In India the Companies Act puts statutory limits on the amount of remuneration payable to different categories of managerial personnel of a public company or a private company which is subsidiary of a public company.

MONETARY INCENTIVE

Primary compensation is a *non-incentive, non-variable* payment on the *basis of time* expended. In this section, we shall be concerned with monetary incentive compensation which provides for *variable* payments, based either on individual output or group output.[1]

Monetary incentive, (which Amitai Etzioni calls "*utilitarian power*") is essentially a managerial device of increasing the workers' productivity. The belief underlying an incentive compensation is that an offer of money *in addition to—rather than in place of*—the primary compensation will motivate workers to work harder and more skilfully, which will result in an increased rate of output. But in many cases this is not so largely because in today's machine-paced production system individual workers or groups can do little to speed the production line or the pace of the automatic machine. As a result, incentive compensation is now more widely used for managerial and sales personnel than for production personnel.

[1]Amitai Etzioni: *Modern Organisations*, 1965 Prentice-Hall of India, New Delhi.

https://rbigradeb.com/

Advantages of Monetary Incentive

Apart from its two direct advantages (viz., increased productivity and less overall cost per unit of production), monetary incentive results in several indirect advantages also.

1. As the workers themselves come to acquire a stake in higher production, *the need for direct supervision is reduced.* Rather than the supervisors chasing the workers, the workers themselves sometimes chase the supervisors for materials, tools, etc.
2. Incentive compensation generally results in the creation of a feeling of *mutual cooperation amongst the workers* themselves as their operations are interdependent and any hold-up at one point may affect the production and earning at other points.
3. Under incentive compensation, there is *an increase in workers' punctuality and attention to work and decrease in absenteeism.*
4. Under incentive compensation, human ingenuity gets full scope for *finding better methods and techniques* resulting in higher productivity. Even without a formal suggestion scheme workers come forward with new ideas and suggestions.
5. As the workers come to have a stake in an uninterrupted and continuous running of the factory under incentive compensation, it results in *better discipline and better industrial relations.*

Disadvantages of Monetary Incentive

Experience has shown that monetary incentive is not an unmixed blessing. It may produce the following disadvantages unless precautionary steps are taken to check them in advance:

1. There is a tendency among the workers to *sacrifice quality* for the sake of quantity. This calls for a very strict system of checking and inspection.
2. In the absence of adequate provisions, incentive payment brings about a certain *rigidity in the operations.* This makes it difficult for management to revise norms and rates following changes in technology, methods, machines, materials, etc.
3. Unless greater vigilance is exercised, there is a danger of the workers *disregarding safety regulations.*
4. Unless a maximum ceiling on incentive earnings is fixed, some workers tend to *overwork and undermine their health.*
5. Jealousies may arise among workers because some are able to earn more than others. In the case of group systems, the fast workers may be dissatisfied with the efforts of the slower members of the group; where heavy work is involved, older workers in particular are likely to be criticised for being too slow.
6. The introduction of a system of incentive payment increases the amount and cost of clerical work, since it involves considerably more book-keeping. This is particularly true when the production is sub-divided into many processes.

Kinds of Monetary Incentive Plans

The number and type of incentive pay plans is legion. Almost every company has a new "twist" or an added feature to a common basic plan. We may however classify all incentive plans under the following three broad categories: (a) individual incentive plans, (b) group incentive plans, and (c) factory-wide or plant-wide incentive plans.

https://rbigradeb.com/

Individual Incentive Plans The simplest of all individual incentives, also called '*pay for performance*' popular since the scientific management over a hundred years ago, is the simple piece-rate system under which the production worker is paid for each piece produced.

Various systems of payment for performance are also sometimes designed for non-production workers such as maintenance workers, cleaners, inspectors and packers to reward them for their increased efforts. Floor sweepers are sometimes allowed a standard stipulated time to sweep a specified area of floor and if they complete the job in less than this time, they are granted a *bonus* according to the time saved. Packers are paid a bonus for the number of units packed above the standard rate. A similar method is adopted for inspectors. However, no such direct method can be applied to maintenance men and certain other workers. For this reason and on grounds of equity, a single system of bonus payment is often applied to all or most of the nonproductive workers in a plant, even though it would be possible to measure accurately the output of some of these workers such as, inspectors or packers. In some cases, the bonus is calculated according to some agreed upon principle on the output of the plant or of a department. In others, the bonus is a specified percentage of the bonuses or total earnings of all or some of the direct workers. Many managements, however, prefer to give *ad hoc* rewards to indirect workers on the basis of their impressionistic judgement.

Over the years, several new *payment-for-performance* techniques have been designed. Some of them are as under:

1. Variable Pay Under this technique, some or all of the employees' pay is made *conditional* on his grade, his performance on certain measures and the incremental profits reported by the undertaking in a financial year.

2. Merit Pay Under this technique, annual pay increase is given to an employee for his meritorious performance. Two important demerits of this technique are: (i) it does not clearly spell out the criteria for determining merit, and (ii) the employee continues to receive the increased pay even when his performance declines.

3. Skill Pay This technique pays employees for their demonstrated multi-skills rather than the job they perform.

4. Competency Pay This technique pays employees for their *abstract* knowledge or competencies related to technology, leadership, problem-solving decision-making, strategic planning, cross-cultural communication skills etc. *An employee receives this pay for having these competencies even if these are not used.* Following are the steps involved in designing a competency based pay system:

(a) Identify competencies that are relevant to carry out a particular job.
(b) Identify proficiency levels for each competency by assigning point values to various demands of a proficiency level and adding those values.
(c) Assess individual employee's proficiency levels on different competencies through job simulation, behaviour rating scales, feedback from different sources etc.
(d) Replace salary grades with pay bands. In a competency pay system, the traditionally large number of pay categories collapse into a small number of pay categories with broad pay ranges. This is called "*broad banding*". Thus instead of having three levels of supervisors with salary ranges of ₹ 10,000 to ₹ 20,000, ₹ 15,000 to ₹ 30,000 and ₹ 25,000 to ₹ 40,000, the company will have one supervisory scale from ₹ 10,000 to ₹ 40,000. This allows the management to group together all

https://rbigradeb.com/

supervisors of different proficiency levels and put them in one pay category and grant each a pay increase as he shows growth in his personal competencies even without promoting him *per se*.

Group Incentive Plans Individual systems of incentive payment are not suited to cases where several workers are required to perform jointly a single operation, as in the case of a steel melting furnace in an engineering works. In such cases the work can be done only by the joint efforts of more than one person and it is impossible to measure the output of individuals. If it is desired to introduce a system of payment by results for such workers, this can only be done on a group basis.

There are a large number of group incentive plans. Important among them is the *group piece work.* Under this plan first of all the total earnings for the group are determined and if all the members are of equal skill, these earnings are usually divided among them equally. Frequently, however, the members of the group are not of equal skill. In these cases, the total earnings of group may be divided among the members in proportion to their individual time rates, or according to specified percentages, or in some cases among only a certain number of the members of the group.

Factory-wide or Plant-wide Incentive Plans Profit Sharing is a very common example of a plant-wide incentive plan. Under a profit sharing plan, a certain percentage of profits is distributed at fixed intervals, usually annually or bi-annually in some definite ratio to all, or the specified categories of employees, over and above their wages. Profit sharing may be current or deferred. Under current profit sharing, each worker is paid his portion of the profit in cash. This has more direct appeal and provides a comparatively more direct incentive to workers to increase efficiency. Under deferred profit sharing, the share of profit due to each worker is either credited to his provident fund account or to his pension account or is paid in the form of bonus shares. In this way the relationship between effort and reward becomes too remote; as such deferred profit sharing provides no direct incentive. It may, however, have a stabilising influence on a worker's purchasing power.

After deciding the amount of profit to be distributed among the workers, the next step is to decide their individual shares. This may be done either on the basis of the length of service of each worker or on the basis of the number of hours each has worked during the year or on the basis of wages earned by each worker. Of these three methods, the most commonly employed method is to determine individual shares on the basis of the wages earned.

One form of profit sharing which has become a major source of compensation to managerial personnel in the USA is the *Employee Stock Option Plan* (ESOP). Under this plan options to purchase the company's shares are granted to employees at a price somewhat below the market price on the date of grant. Option-holders can convert their options into underlying equity shares on the completion of a certain lock-in period which is 1 to 5 years. On conversion the company issues these shares and lists them on the stock exchange where if the stocks are touching new high the employees can make a killing by selling them. There is no obligation on the option-holders' part to exercise their options. If they do not exercise their options or quit before the future date, their options lapse. Following are two important *merits* of this method:

1. It is an ideal form of rewarding employees at senior levels while keeping their wages bill from sky rocketing.
2. It creates a feeling of ownership among increasingly transient employees and helps in retaining key talent.

The *demerits* of this method are:

1. It is not an ideal method at middle and junior levels where employees' needs being more immediate they rather prefer receiving a cash bonus.

https://rbigradeb.com/

2. For ESOPs to provide incentive the key is that employees must believe that their efforts can actually move the share price up. If they do not so believe due to any reason they may regard ESOPs as just another perk.
3. There is lack of transparency in share dealings. In times of falling share prices many companies either secretly reprice the options or issue more stocks at a lower option price to their executives to compensate them for their 'paper loss'.

A variant of ESOP is *Share Appreciation Rights* (SAR). Unlike ESOPs, in which shares are *actually* allotted by companies to their employees, under SAR shares are allotted only on a *notional* basis. However, when the market price of shares goes up, the employee can demand that the company pay him the share appreciation. In the event of the share price going down, he loses nothing. The company cannot force him to fork out the amount that reflects the decline in the share price.

Requisites for the Success of a Monetary Incentive Plan

The following points are essential for a successful monetary incentive installation:

1. The first requirement for the successful introduction of a monetary incentive plan is a *proper climate* wherein the issues can be dispassionately viewed by all the parties concerned. This means that relations between the management, the supervisory staff and workers should be happy and free from suspicion. Any trace of animosity or bitterness mars the chances of success. Employees having a history of poor relations with management may suspect the wage incentive system as yet another strategy on the part of management to coerce them for production. Management must therefore, ensure the association of workers during the development and installation of the scheme. It may also sign an agreement with the union.
2. All employees and supervisors must have *full knowledge of the details* of the plan. The plan should be explained and discussed with them before it is installed. Employee acceptance and cooperation is much more likely if they have a part in its inception and development.
3. The incentive plan should possess the following characteristics:
   (i) It should be *simple* and easy to understand. The benefits of the plan should be quite obvious to the workers concerned. Further, they should be easily calculable by the workers. Complicated plans and formulas sow seeds of doubt and distrust in the workers' minds.
   (ii) It should allow for *earnings to be in direct proportion to an employee's output* above the work standard. Employees do not like to share their earned extra pay with the management; instead they favour plans where they *receive full benefit from their extra effort.* If a standard is fair and just, the worker deserves all his extra pay for his extra effort, if the standard is not just, such a standard should not be used.
   (iii) It should be *equitable.* This means that the plan should cover and should provide equal opportunity to all employees whose jobs can be adapted to the incentive method of payment. Otherwise dissatisfaction will result among those employees who have no opportunity to participate in the higher earnings possible under the plan. Any disparity between direct production workers and indirect workers should be reduced by giving some benefit of increased productivity to the latter also.
   (iv) It *should not be very costly* in operation. Actually, besides incentive wages, there are many other items of expenditure, such as job evaluation, method-improvement, work measurement, additional supervision, better inventory control, etc.—which will have to be incurred

https://rbigradeb.com/

while installing an incentive plan. It should be ascertained in advance that these costs are amply covered by the resultant benefits.

(v) It should be *flexible.* This means that it should have the elasticity to take care of technological and other changes taking place from time to time or for rectifying obvious errors that may have crept in at the time of its initial introduction.

(vi) Incentive payments under the plan should be *large enough* in relation to the existing income of employees. A rise of Rs 20 to a person getting Rs 200 per month would perhaps be a more meaningful gain than to the one drawing a monthly salary of Rs 2000.

(vii) Extra payment for extra effort should be *received soon* after the pay is earned. Employees do not like to be rewarded next month for extra effort expended today.

(viii) A *guaranteed base rate* should be included in any plan. This constitutes the element of security that employees want. Employees want to be assured that they will receive a minimum given wage regardless of their effort or output. This wage is the minimum base on which they plan their standard of living and home life.

(ix) The plan *should not be detrimental to the health and welfare* of the employees. This may even involve a ceiling on the maximum earnings by way of incentives.

(x) The plan should be *instrumental in satisfying as many needs as possible*—other than economic needs—at all levels of hierarchy.

4. The work standard set for the payment of wage incentives must have the following characteristics:

   (i) *It should be fair and just:* A fair and just standard is the key to any incentive plan, and employees must have confidence in both the technical capacity and the integrity of those who establish these standards. A work standard is usually established by time study.

   (ii) *It should be of average difficulty:* If the employees can beat the standards easily, they would hardly experience any competition. Similarly, if the standard is too tight, it makes employees complacent with their pre-incentive earnings.

   (iii) *It should be consistent and should not be changed, unless* (a) an error has been made in calculation, or (b) a change in work methods, materials or equipments has been effected. If this is not so, employees may develop fear about their possible retrenchment resulting from excessive production which may force the closure of some production lines or lowering the price of their work (rate cutting) by the management as an adjustment to the loose standard previously set.

   (iv) *It should be based on established and recognised quality requirements.* Employees should not be paid for sub-standard work. In fact, some provision may be necessary to control waste if it is excessive.

5. *Standard working conditions should exist.* Standard work method, standard work places, standard materials, standard control procedures, etc. are necessary for any system of incentives. Standardisation is the basis of work incentives. All inputs should be readily available to employees. Management should avoid delay in the supply of raw materials and in attending to maintenance work. When the employees cannot reach production standards due to supply bottlenecks, they lose interest in the incentive plan.

6. *Management must set up a suitable machinery to handle all grievances arising from the implementation of the incentive plan.*

7. An incentive plan once installed should be rigidly maintained. Vigilance is the price of success for an incentive plan, which once set up should not be forgotten. *Incentive audit system* should,

https://rbigradeb.com/

therefore, be devised to assess periodically the effectiveness of the plan against accredited objectives and to provide feedback information for the management to take corrective steps. The audit would reveal the reasons of the employees' failure to beat the standards. It may emerge that their failure is due to improper training, poor equipment, or unequal flow of raw materials.

NON-MONETARY INCENTIVES

Experience has shown that in many cases monetary incentives which are usually built on a rationalised engineering and accounting base fail to achieve high production. According to Mason Haire,[2] there are two reasons for this failure. First, both the positive and negative implications of a monetary incentive are psychologically defective. The positive implication is, "If you produce more, I will pay you more." This is control by gratitude. The negative implication is "If you fail to produce so much, I will see that you are paid less." This is control by fear. Both fear and gratitude cannot be sustained for long periods. Second, a monetary incentive usually overlooks the satisfaction of high order needs of an individual which are largely responsible for his increased accomplishment. "If money were the only force to motivate a person, why would he indulge in a hobby which is unpaid?" People have desires and aspirations for things other than money.

The importance of social and egoistic need satisfaction in raising productivity has already been established by many researches conducted in this area. For instance, Lawler[3] describes how in a factory employing a large number of unmarried women, time off-the-job was more important than money. So when the women were told that they could go home after a certain amount of work was done, productivity increased dramatically. Several earlier attempts to use pay to motivate high productivity had failed.

Mason Haire classifies all forces which influence productivity into two classes: (i) forces on top of the productivity line which *push it down*, and (ii) forces under the line which *push it up*. These forces are shown in Fig. 14.2.

One of the very important effects of this view of the level of production is that it at once becomes clear that it can be raised *either* by increasing the forces below the line *or* by reducing the forces above the line. A predominantly non-monetary nature of these forces is also revealed.

From the above description, we may conclude that employees in industry are not merely "economic men." They are "ego men" also. Therefore, in any programme to increase production, a complete reliance on monetary incentives would be as ineffective as a complete reliance on non-monetary incentives. The science of management can record these two extremes only, but the proper proportioning thereof is largely an art to be determined by each management. The proper use of non-monetary incentives involves a higher level of skill than that required for monetary incentives, Each person has his individual psychological framework and responds to different appeals in a different manner. Consequently, the manager must study his people and determine the forms of monetary and non-monetary incentives that will stimulate them to do what he desires. Some commonly used non-monetary incentives are: an important and interesting task, fair treatment, praise and credit for good work done, security of tenure, congenial relations with superiors, subordinates and peers, happy environment, competition, participation and access to correct information.

[2]Mason Haire, *Psychology in Management,* (N.Y.: McGraw-Hill, 1964).
[3]Edward E. Lawler III, "Pay and Organisation Effectiveness—A Psychological View', (N.Y.: McGraw-Hill, 1977).

https://rbigradeb.com/

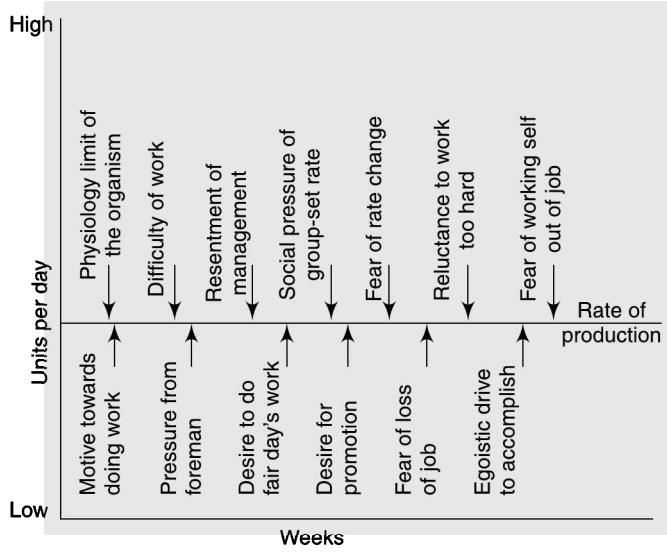


Fig. 14.2 Forces affecting individual productivity

Generally speaking, the relative importance of the two types of incentives for an individual seems to be determined by (a) his need for achievement *(nAch)* and (b) his position in the organisation hierarchy, It has been shown[4] that financial incentives act as motivators more effectively among people who have a lower level of achievement motivation, Those who are high on need for achievement work hard even without being offered any monetary reward, Similarly, people who are in managerial positions are better motivated by non-monetary incentives like increase in power and responsibility than by monetary incentives.

In India, where workers live under subsistence conditions, the monetary incentives are relatively more important. In six out of seven studies[5] done during the sixties, for example, adequate salary was ranked of highest importance by all workers. In respect of managers, however, the Delhi Seminar on incentives, organised by the Institute of Public Enterprises[6] in 1966 identified the following non-monetary incentives:

1. Managerial stability and continuity within an enterprise.
2. Greater delegation of authority from the higher to the lower levels.
3. Careful formulation of a career development policy.

Among some new non-monetary incentives recently introduced by Indian companies, we may mention the following:

(i) Wipro and Genpact have introduced *skip meetings* wherein employees can interact and raise issues with the super-boss without the boss hanging around.

[4]J.W. Atkinson and W.R. Reitment, "Performance as a function of motive strength and expectancy of goal attainment, *Journal of Abnormal and Social Psychology,* 1956, p. 53.

[5]P.N. Singh and R.J. Wherry, Sr., "Ranking of job factors by factory workers in India", *Personnel Psychology,* 1963, p. 16.

[6]Incentives in Public Enterprises—Seminar Papers and Proceedings (Bombay: N.M.Tripathi Pvt. Ltd., 1967).

https://rbigradeb.com/

(ii) Genpact helps its employees in *exploring and fulfilling* their passions and interests, such as going to dance classes or preparing for some examination.
(iii) Adecco has placed "love boxes" to drop in *letters of thanks* by those who feel that someone has helped them. At the end of the month, these letters are read publicly.
(iv) NIIT names rooms in office buildings after employees chosen as high achievers.

RECOGNITION AS A REWARD

Now a days, a growing number of companies around the world are finding that well-structured and implemented employee recognition reward systems yield very positive cost-benefit results in terms of increased productivity, reduced turnover and improved quality of product and customer service. They also act as a powerful reinforcer of ideal organisational culture. However, companies in India still seem to ignore the following benefits of this form of reward vis a vis financial rewards:

— There is no limit to the number of persons who can receive this kind of reward;
— It can take different forms. It is performance-contingent;
— It can be given at any time and in any amount. The employee never seems satiated. In fact, he wants more.
— It can be withdrawn if found to have been mistakenly given. For example, the authority or autonomy, given to a person can be withdrawn if the person is found unable to handle it.

Formal recognition system, to be successful, should be:

— *tailor-made* to meet the specific and changing needs of employees. Like monetary reward, a particular form of recognition reward, after a while, may also begin to lose some of its power. So it has to be altered and different one offered.
— *easy to implement*
— *widely communicated* and soliciting new ideas from employees.
— *exemplary* publishing practices of employees which have earned recognition in the past so that people know what they should do to earn recognition.

BENEFITS

Benefits are an important component of the organisational compensation system. Benefit costs range between 30 and 35 percent of wages and salaries. But because they are so common, their value as a reward goes unnoticed. All benefits can be classified in a number of ways. According to one classification they can be broadly categorised as those that must be offered because they are *required by law* and those that most organisations *voluntarily* give to their employees. Employees in India receive several kinds of benefits such as, pension, gratuity, leave, compensation for injury etc. in terms of the provisions made in various Acts such as the Factories Act, Workmen's Compensation Act, Employees' State Insurance Act, Maternity Benefit Act, Payment of Gratuity Act, Employees' Provident Fund Act and so on.

Besides the above mentioned statutory benefits, many other benefits are also given voluntarily to employees by some progressive employees. These include loans for purchasing houses and for educating children, leave travel concessions, fair price shops for essential commodities and group insurance covers. Many organisations have developed townships for their workers. Among the newer types of

https://rbigradeb.com/

benefits such benefits as flexitime, telecommuting, job-sharing, and compressed work week that help balance work and family are very important. In recent years, a growing number of organiations have begun offering cafeteria-style benefit plans. These are plans that allow employees self-control and choice over the benefits received. Employees are allowed to put together their own package by choosing those benefits that best meet their personal needs. The only condition is that the total of all the chosen benefits should not exceed a prescribed amount.

It should be remembered that most of these benefits (better known as "fringe benefits") are *system benefits* which accrue to people by virtue of their membership in the system. Unlike incentives which are given in acknowledgement of differential contributions to organisational functioning, these benefits are administered without any relation to individual effort and performance usually on the basis of length of service.

System benefits are most effective for holding members within the organisation although they do not lead to work of higher quality or greater quantity than is required to stay in the organisation.

WAGE PACKET OF INDIAN WORKER

Composition of the wage packet of an Indian worker is very complex. Besides the above benefits its other principal components are: basic pay, dearness allowance, incentive earnings and statutory bonus. The most prevalent wage incentive scheme is the *piece-rate* plan, under which workers earn in direct proportion to the work done. Another less prevalent wage incentive scheme is the *production bonus* under which workers are paid at a differential rate for the output produced in excess of the norms of output fixed for a unit of time. Annual statutory bonus is paid to every worker drawing a salary or wage not exceeding Rs 10,000. The minimum bonus is 8.33% of the worker's annual wage and the maximum is 20%.

Recent years have seen all-round increase in the wages and salaries of employees in all sectors in India, particularly IT and finance. To recruit good employees, many companies are promising fancy designations, exciting job profile and career paths (with reduced threshold of experience). The practice to offer executives puffed-up cost-to-company (CTC) salary packages, which generally include many such components which are not of immediate use to the employee (e.g. low-interest loan), is gaining ground. The important question facing all employers is: How should employees be rewarded? Following are some suggestions:

1. There should be *different yardsticks* for rewarding employees of different departments of the same organisation.
2. Retirement benefits should be made *more attractive,* to remove employees' present fear that their savings will hardly suffice to provide for post-retirement blues.
3. There should be *greater proportion of take-home pay* in the total package.
4. Salary packages should be more *transparent and honest.*
5. Work conditions should be aligned to employees' wish-list, which may include items such as learning opportunity, job content, work-life balance, talent-fit, easy visit to home town, recognition, career advancement, and so on.
6. Compensation and reward system should be made dependent on the employee exhibiting required performance behaviours. A strategy should be developed which may strengthen the desired performance behaviours and weaken the undesired ones.

https://rbigradeb.com/

INTERNATIONAL COMPENSATION

The *objects* of international compensation programmes are:

— to attract and retain qualified employees,
— to facilitate transfers between HQ and affiliates,
— to create consistency and equity in compensation and
— to maintain competitiveness.

Expatriate compensation comprises the following:

- *Salary*–Basic pay plus incentives (merit, profit sharing, bonus plans) determined via job evaluation or competency-based plans
- *Differentials*–These are paid to compensate the expatriate for differences in expenditures between the home and the host country. Housing and hardship allowances fall in this category.
- *Tax equalisation*—Expatriates face two potential sources of income tax liability—home and host. Almost all MNEs have some tax protection plan so that the expatriate does not pay more in taxes than if he were in his own country. Tax equalisation is an adjustment in expatriate's pay which reflects tax rates in the home country.
- *Assistance programmes* These are expenditures commonly incurred by an expatriate on his relocation, e.g. expenditure incurred on household goods shipping, legal clearance, prelocation visits, annual home visits, children's education etc.

There are many approaches to expatriate compensation. They may be paid either on the basis of their home country's salary structure or on the basis of host country's or on the basis of features taken from both the structures. Some MNEs offer their expatriates different compensation packages to make their choice or even the right to negotiate.

SUMMARY

❖ A good compensation plan makes employees happier in their work, raises their output and quality and makes them loyal to the organisation. The whole topic of compensation can be dealt with in five parts: (a) primary compensation, (b) monetary incentive compensation, (c) non-monetary incentives, (d) company benefits, and (e) international compensation.

❖ *Primary monetary compensation* is the basic pay in the form of wages and salaries. A sound primary compensation structure is a function of internal and external alignments. *Internal alignment* means that there should be a proper relationship between the wages and salaries of various positions *within* the enterprise. This will depend on correct job evaluation. *External alignment* means that the company wage rates should be comparable with the rates in other companies. This will depend on the correct survey of wage rates prevailing in the community. *Incentive compensation* is the device to increase worker's productivity. There are several good and bad effects of monetary incentive compensation. All monetary incentive plans can be classified into three categories: (a) individual incentive plans, (b) group incentive plans, and (c) factory-wide incentive plans.

❖ Non-monetary incentives are necessary to satisfy the social and egoistic needs of workers. Now a days, a growing number of companies are implementing 'recognition' as a non-monetary incentive.

❖ System benefits are given to employees by virtue of their membership in the system and have no relation to individual effort.

https://rbigradeb.com/

- Basic pay, dearness allowance, incentive earnings and annual statutory bonus are the principal components of Indian wage packet. Piece-rate plans and production bonus are the common incentive plans in vogue in Indian industries.
- In recent years there has been a phenomenal rise in wages and salaries of workers in India. Linking compensation with required performance behaviour is one of the effective ways of enhancing organisational performance.

KEY TERMS

Primary Compensation It is the basic pay in the form of wages or salaries.

Monetary Incentive This is a variable amount, based on an individual's performance which is paid to him in addition to—rather than in place of—the basic primary compensation.

Internal Alignment This means that the wages and salaries of various jobs within enterprise should be based on their relative worth, which is determined by job evaluation.

External Alignment This means that the enterprise should fix the wages and salaries of its people after taking into account the wage rate prevailing in the community.

Employee Stock Option Plans (ESOP) These plans give employees the right to purchase a fixed number of shares of the company at a specified, usually, lower price for a limited period of time. ESOPs are used by firms as an incentive for executives and as a retention tool.

Flexitime This is a benefit which allows an employee greater autonomy to put in his eight hours of day within a given period called bandwidth.

Job-sharing This is the splitting of a full-time position between two people, each of whom works part time.

Compressed work week This is compressing the work week into fewer days. For example, while the typical workweek is 40 hours spread over five days, a compressed workweek could be four 10-hour days.

Telecommuting This entails receiving and sending work between home and the office. For instance, employees may come into the office on Monday and Tuesday, work from their homes on Wednesday and Thursday, through computers linked to their office and come again on Friday.

Review Questions

1. What is meant by the terms "internal alignment" and "external alignment", when used in connection with job evaluation plans?
2. Explain the significance of the question of wages and discuss the factors which affect wage rates.
3. Analyse carefully the essentials of a satisfactory compensation plan.
4. Discuss the merits and limitations of a time-rate system of wage payment. How does it compare with the piece-rate system?
5. Discuss the principal incentive compensation systems in modem industries.
6. What is the difference between individual and group incentive plans and between group and factory-wide incentive plans?

https://rbigradeb.com/

7. What principal factors will you take into account in implementing a non-financial incentive programme in an organisation?
8. Discuss the advantages and disadvantages of monetary incentive compensation.
9. Describe various factors affecting executive compensation.
10. (a) When may an employer decide to pay average wage rates?
    - (i) When the cost of living is going up
    - (ii) When qualified personnel are in short supply
    - (iii) When the employer wants to gain reputation as a good employer
    - (iv) When there is abundance of labour (iv)

    (b) Which of the following is a demerit of time as the basis of wages?
    - (i) It is simple
    - (ii) It is liked by trade unions
    - (iii) All workers are paid equal remuneration
    - (iv) It does not cause workers to overwork (iii)

    (c) Which of the following is an individual monetary incentive compensation?
    - (i) Profit sharing
    - (ii) Employee stock option plan
    - (iii) Merit pay (iii)
11. Write short notes on:
    - (i) Company benefits
    - (ii) "New Pay" techniques
    - (iii) Recognition Programmes as part of non-monetary incentive pay system

Project

The purpose of this exercise is to show that there are *individual differences* when it comes to reward systems and there have to be *different strokes for different folks*. Here are some monetary and recognition rewards offered by different companies:

- A "Pat on the Back Award" to the employee and a copy of the notice of the award being put in the employee's file.
- "The Most Helpful Employee of the Month" award to the employee who helps out in other departments on days when his workloads are light.
- Lunch or dinner served to the employee by the C.E.O for a job well done.
- Cash award to the employee for quitting smoking for a year.
- Running trophy to the employee with his name inscribed on it and with the right to choose the winner for the next month.
- Fax saying "Thank you for the job. Well-done" to the employee who is located in another city and does not get the chance to visit the home office very often.
- Mentor's role assigned to the employee for his trustworthiness and counselling skills.
- Slips of paper convertible in gift cheques/certificates redeemable at any store or restaurant given to the employee by customers for doing something noteworthy.

Discuss whether the above rewards tend to produce different impacts in different types of organisations viz., manufacturing, service, government and non-profit. Innovate few more awards for each type.

https://rbigradeb.com/

Cases

Balancing the Compensation Plan, Maintaining Efficiency, and Telecommuting

1. Balancing the Compensation Plan

ABC Company is manufacturing chemicals for textile paints and rubber industries—both organic and inorganic. From its inception, the grades for the chemists who were operating the various plants and for the engineers who were maintaining them were the same. About two or three years ago, the company noticed that its engineers were leaving one by one; even the new recruits did not stay for more than a few months. Investigations showed that the engineers were getting better offers. The company, therefore, decided to get new engineers at higher grades. This created inequality between the salaries of chemists with eight to ten years' experience and the engineers who had two to three years' practical experience after their graduation.

The chemists represented to the company that their grades should also be revised. The management explained to them that their company was comparatively small with low profit margin and, therefore, could not afford to increase everybody's salary. Further, engineers were being paid higher salary because their market value at that time was higher. This created dissatisfaction in the chemists' ranks and there was a general decline in their initiative and interest. They were also not cooperating with engineers as before and were blaming engineers for recent increase in breakdowns which was resulting in reduced production and profits. On the other hand, engineers were blaming chemists for not taking enough care of machines during day-to-day operations. Furthermore, some of the engineers, unable to cope with the increased number of breakdowns, were feeling frustrated and were leaving the company.

Analyse the above case and give your suggestions to improve the situation.

2. Maintaining Efficiency

Milk Products Limited is engaged in collecting, processing and distributing milk and milk products in a large city in South India. Most of the products of the company are such that these have to be distributed on daily basis. The company has a crew of distributors who approach the fixed customers, both bulk buyers and individuals. Mr K. Ramesh joined the crew of distributors after graduating in commerce. The distribution manager was quite impressed by Mr Ramesh but initially could not offer him a better job than that of a distributor. However, he promised to give him better opportunity whenever available. Mr Ramesh joined gladly.

The distributors are employed on monthly salary basis. In order to ensure distribution of the products, the company has a provision of overtime pay. Normally, crew members work slowly in the beginning just to accumulate overtime pay. The pace becomes hectic towards the end of the day with some overtime to meet the distribution schedule. There is no group leader but there are several old-timers who influence newcomers regarding the work rules. Mr Ramesh did not like this method of working but had to follow the group to be a good team mate. He gathered that over the years, the company had paid around sixty per cent overtime unnecessarily.

After a year, impressed by the work of Mr Ramesh and his overall suitability, the distribution manager offered him the position of distribution supervisor. The basic duty of supervisor was

https://rbigradeb.com/

to look after the distribution system and to develop new customers in a given area. Besides Mr Ramesh, there were four other supervisors also. Ramesh was sure of making distribution system effective as he was aware about the delaying tactics of the crew. He was quite sure about cutting the overtime cost and impressing upon the manager about fixing the quota of work per day in two parts: before lunch and after lunch. The distribution manager left convinced and introduced the system. However, the efficiency dropped down considerably and no crew member was near the target.

Discussion Questions

(a) What were the reasons for decreased efficiency in the new system?
(b) Advise Mr Ramesh and distribution manager about the future course of action.

3. Telecommuting

Jennifer Smith is pregnant and is happy about it. However, she is concerned about her job as a North-East zone supply chain manager in health and beauty products for Big Bazaar—a large retail chain that has stores across ten states in India.

Jennifer is the link between the store managers and their product line suppliers. A large part of her job consists of verbal and fax contacts with store managers and suppliers as well as extensive use of computer for sending and responding to mails.

Jennifer thinks that she can do 85–90% of her job at home according to her own schedule. The other 10–15 percent of the job for which she will have to be in the office will not present any problem because her husband could keep the baby at home.

Jennifer has very good performance record and is eligible for receiving 12 weeks of maternity leave under the Maternity Benefit Act, 1961. She, however, fears that she may not be given the same job upon her return from leave. She, therefore, meets the regional manager to explore the possibility of "telecommuting" after childbirth. The regional manager does not make any commitment to Jennifer to support Jennifer's request to telecommute. She says that the company has never done this before and it may pose a number of difficulties, but she would forward Jennifer's request to the two vice-presidents (vice-president of human resources and vice-president of operations) who could approve or disapprove it.

She asks Jennifer to prepare some "talking points" concerning the benefits vs. the limitations of the arrangement and the cost estimate that she could present to the two vice-presidents.

You are Jennifer. What talking points and cost estimate you would prepare to support your case?

https://rbigradeb.com/

CHAPTER

15 DIRECTION AND SUPERVISION

Learning Objectives

This chapter will enable the reader to:

- **Explain** the meaning of direction and requirements of effective direction
- **Describe** orders and the principles to be followed in giving orders
- **Discuss** the meaning, nature and process of motivation
- **Analyse** important content, process and reinforcement in motivation theories
- **Examine** the systems perspective of motivation
- **Relate** the research on motivation in India and the Japanese model of motivation called theory Z
- **Understand** the meaning and correlates of job satisfaction and its relationship with productivity
- **Identify** organisational commitment
- **Understand** the meaning of morale and its relationship with productivity
- **Relate** some morale studies in India
- **Describe** the functions of a first level supervisor
- **Explain** the guidelines to make the first-level supervision effective

https://rbigradeb.com/

Direction is a vital managerial function. For the effective implementation of any administrative decision, planning, organising and staffing are not enough. The manager must stimulate action by giving direction to his subordinates through orders and also supervise their work to ensure that the plans and policies achieve the desired actions and results. Planning, organising and staffing are concerned only with the preparation for work performance and it is the direction which alone stimulates the organisation and its staff to execute the plans. Hence it is also called *management-in-action.*

Direction means issuance of orders and leading and motivating subordinates as they go about executing orders. Without the issuance of orders, without leading and motivating subordinates, nothing, or at best very little, can be accomplished. According to Haimann, 'Directing consists of the process and techniques utilised in *issuing instructions* and making certain that operations are carried on as originally planned."[1] According to Koontz and O'Donnell, 'Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives".[2] The function of direction thus breaks down into two major activities:

1. Giving orders to employees, and
2. Leading and motivating them.

REQUIREMENTS OF EFFECTIVE DIRECTION

Direction is one of the most complex functions of management which can be learned and perfected only through long experience. However, some important principles or requirements of effective direction may be outlined as under.

Harmony of Objectives

An organisation functions best when the goals of its members are in complete harmony with and complementary to the goals of the organisation. Such an ideal situation seldom exists in any organisation. Nor should a manager ever: expect this situation to exist. But in directing subordinates he *must take advantage of individual motives to gain group goals.* In other words, he must direct the subordinates in such a way that they perceive their personal goals to be in harmony with enterprise objectives. Thus, for example, if employees are told to work hard so that the company's profits may increase, they probably will not. But if they are told to do so in their own interest (e.g., to receive additional bonus or promotion) they are more likely to work hard.

Unity of Command

This principle implies that the subordinates should receive orders and instructions from one superior only. The violation of this principle may lead to conflicting orders, divided loyalties and decreased personal responsibility for results. Another reason why this principle should not be violated is that the immediate boss is the only person who knows best about the nature of his subordinates and about their responses to different motivation techniques. Consequently, he alone is in the best position to select whichever directing techniques maximise productivity. No other outside interference in the supervision of subordinates should then be permitted.

[1]Theo Haimann, *Professional Management* (New Delhi: Eurasia Publishing House, 1966), p. 408.

[2]Harold D. Koontz and Cyril J. O'Donnell, *Principles of Management—An Analysis of Management Functions* (Tokyo: McGraw-Hill Kogakusha, 5th edn.), p. 499.

https://rbigradeb.com/

Direct Supervision

Every superior must maintain face-to-face direct contact with his subordinates. Direct supervision boosts the morale of employees, increases their loyalty and provides them with immediate feedback on how well they are doing.

Efficient Communication

Communication is an instrument of direction. It is through communication that the superior gives orders, allocates jobs, explains duties and ensures performance. Efficient communication is a two-way process. It not only enables the superior to know how his subordinates feel but also helps the subordinates to know how the company feels on a number of issues concerning them. In communication, comprehension is more important than the content. How much information is correctly understood by the subordinates is more important than what is said and how it is said. This can be ensured only if the manager makes provision for a proper feedback.

Follow-through

Direction is not only telling subordinates what they should do but also seeing that they do it in the desired way. The manager should, therefore, follow through the whole performance of his subordinates not merely to keep a check on their activities but to help them in their act, to show them where their deficiency, if any, lies and to revise their direction if it needs revision, and so on.

GIVING ORDERS

The order is a devise employed by a *line* manager in directing his immediate subordinates to start an activity, stop it and modify it. A staff executive does not issue orders. To some men the matter of giving orders and having them obeyed seems a very simple affair but the fact is that it is surrounded by many difficulties. Mary Parker Follett lays down the following principles which should be followed in giving orders:

1. The attitude necessary for the carrying out of an order should be prepared in advance. People will obey an order only if it appeals to their habit patterns. Therefore, before giving orders, it should be considered how to form the habits which will ensure their execution.
2. Face-to-face suggestions are preferable to long-distance orders.
3. An order should be depersonalised and made an integral part of a given situation so that the question of someone giving and someone receiving does not come up. Thus the task of the manager is to make the subordinates perceive the need of the hour so that the situation communicates its own message to them.

Chester Barnard lays down four conditions which make an order acceptable. These are:

1. Order should be clear and complete;
2. Order should be compatible with the purpose of the organisation;
3. Order should be compatible with the employee's personal interest; and
4. Order should be operationally feasible.

https://rbigradeb.com/

Orders may be communicated verbally or in writing. Written orders are appropriate when

1. the subject is important;
2. many details are involved; and
3. there is geographical distance between the order-giver and the recipient.

A manager may follow four types of methods to ensure compliance to his orders:

1. Force,
2. Paternalism,
3. Bargain, and
4. Harmony of objectives.

The formula followed in "force" is: "Do what I say or else ... ", meaning thereby that an employee will be punished if he does not follow orders. The results are frustration, restriction of output, sabotage, militant unionism, etc.

The formula followed in "paternalism" is: "Do what I say because I am good to you." The result here is that the employees develop a feeling of gratitude and indebtedness toward the manager which they do not like. Further, paternalism operates in violation of the law of effect. Instead of increased rewards following increased compliance, the paternalistic manager provides rewards first and expects the compliance to follow.

The formula followed in "bargain" is: 'You do as I say in certain respects and I do as you say in certain other respects.' The result of this method is that the manager's control is gradually reduced.

The formula followed in "harmony of objectives" is: "If we perform together each will achieve his goal". This in fact is the best formula for ensuring compliance to orders.

MOTIVATION

Technically, the term *motivation* can be traced to the Latin word *movere*, which means "to move". This meaning is evident when we remember that a manager gets work done through others. If there is any one key to "getting work done through others", it is his ability to move other people in the right direction day after day.

Motivation, therefore, concerns those dynamic processes which produce a goal-directed behaviour. This process always begins with the individual feeling certain *needs* (also referred to as drives or motives). These needs give an energising thrust to the individual toward certain goals or incentives which he perceives (rightly or wrongly) as possible satisfier of his needs. Thus one may perceive food, water and friends as the possible satisfiers of his hunger, thirst and affiliation needs and may be motivated to achieve these goals. So, what controls human behaviour and gives direction to it is not the goal or the incentive but the need. The goal which is external to the individual only provides him with the opportunity for satisfying his internal needs.[3]

[3]Advocates of B.F. Skinner's Behaviour Modification Theory, however, refute this. They say that what controls human behaviour and gives direction to it is not the need but the incentive. By changing the incentive (positive or negative) one can change an individual's behaviour. Skinner's Behaviour Modification Theory thus avoids concern with the needs and drives of the individual. Rather, it is founded upon the observable, that is, the behaviour or the response that can be seen, measured or modified. (Read this theory ahead)

https://rbigradeb.com/

We can show the motivation process by means of a diagram thus.

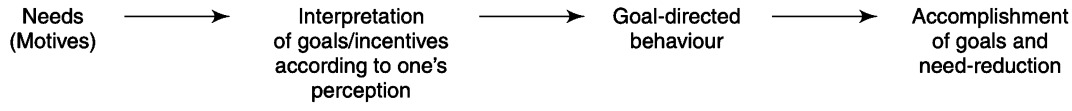


Fig. 15.1 Motivation process

Nature of Motivation

Motivation is not an easily observed phenomenon. We observe an individual's actions and then interpret his observed behaviour in terms of underlying motivation. This sometimes leaves a wide margin of error. Our interpretation does not necessarily reveal the individual's true motivation. The following points reveal the *complexities* involved in understanding true motivation:

1. ***Individuals differ in their motives.*** The viewpoint (called "monistic approach") that there is only one "economic drive" which determines behaviour is untenable. The goals to which individuals aspire differ and so do their motives. This is well illustrated by an oft-quoted story. There were three men cutting stones near a cathedral about three-fourths completed. A stranger came along and said to the first man, "My friend, what are you doing?" The first man replied, "Me, what am I doing? I am working for 10 shillings a day." He went to the next man and put to him the same question. The second man said, "Me, what am I doing? I am squaring this stone, see. I have to make its edge absolutely straight." The stranger walked on to the third man and repeated the same question. The third man replied. "Me, what am I doing? You see that cathedral up there. I am helping to build that. Is not it great?" In this story the major source of satisfaction to the first man was the wages he earned. The job itself contributed very little. But job itself was the outstanding source of satisfaction to the second man. The third man viewed the completion of his group goal—the building of the cathedral—as his primary source of satisfaction. This means that there is no single motive that determines how all workers will react to the same job and, therefore, there can be no single strategy that will keep motivation and productivity high for everyone everywhere. The manager has to deal with human diversity.

2. ***Sometimes the individual himself is unaware of his motive.*** Freud uncovered this phenomenon while analysing his critical patients. He found that in many ways man is like an iceberg. Only a small part is conscious and visible, the rest is beneath the surface. This below-the-surface concept is unconscious motive. The presence of this explains why man cannot always verbalize his motive to attain certain goals or even tell what his goals are. An example can be drawn from the famous Hawthorne experiments. One girl-worker complained to her counsellor about her foreman. Later on, it was found that the reason why she disliked her foreman was that she had a step-father whom she feared and whose physical appearance was very much like her foreman, with the result that she had unconsciously transferred to her foreman the unfavourable characteristics of her step-father.

3. ***Motives change.*** Hierarchy of motives of each individual called "structure" is not fixed. It changes from time to time. An individual's primary motive today may not be primary tomorrow, even though he may continue to behave in the same way. For example, a temporary worker may produce more in the beginning to become permanent. When made permanent he may continue to produce more—this time to gain promotion, and so on.

https://rbigradeb.com/

4. ***Motives are expressed differently.*** The ways in which motives are eventually translated into actions also vary considerably between one individual and another. One individual with a strong security motive may play it safe and avoid accepting responsibility for fear of failing and being fired. Another individual with the same security motive may seek out responsibility for fear of being fired for low performance.

Even the same individual may express his motive differently at different times. Thus, an employee who in the beginning works hard to get promotion may, when frustrated, indulge in anti-management union activities for the same purpose. Different expressions completely mislead a manager because he does not know what the employee's true motivation is.

5. ***Motives are complex.*** It is difficult to explain and predict the behaviour of workers. The introduction of an apparently favourable motivational device may not necessarily achieve the desired ends if it brings opposing motives into play. In a factory, when blue-green lighting was introduced to reduce eye strain, the output of men workers increased but that of women workers decreased. On investigation it was found that the latter disliked the change in lighting because they felt that the new type of lighting had made them look 'simply ghastly'.

6. ***Multiple motives make the choice of goals difficult for an individual.*** We have been referring to examples of motivations as if they exist one at a time. This is hardly the case. The fact is that multiple motivations operate simultaneously to influence an individual's behaviour. Furthermore, some of these motivations are incompatible with one another. This results in the following three types of motivational conflicts which make the person's choice of goal difficult:

(i) *Approach-approach conflict* where the person desires to do two things which he likes equally well, but it is possible to do only one. For example, there is the person who has the choice of either remaining at his present place of posting with the present salary, or going to a new place with a hike in salary. In such situations, two different behaviours are aroused in him which block each other.

(ii) *Avoidance-avoidance conflict* where the person is forced to choose between two alternatives, both of which are considered equally undesirable by him. For example, there is the person who, being dissatisfied with his present job, wants to leave it but also wants to avoid unemployment.

(iii) *Approach-avoidance conflict* where the person is attracted to the positive characteristics of his choice, but wants to avoid its negative characteristics. For example, a person may be motivated to work overtime for extra pay but may not like to be scolded by his wife for reaching home late.

Motivation Theories

There is no shortage of motivation theories. We can classify them under *three* broad heads:

1. Content theories
2. Process theories
3. Reinforcement theory

The content theories tell us *what* motivates an individual. They throw light on the various needs and incentives which cause behaviour. The process theories, on the other hand, answer the question *how* behaviour is caused. Reinforcement theory explains the *ways* in which behaviour is learned, shaped or modified.

https://rbigradeb.com/

Some important theories under each head are as under:

Content Theories

1. Maslow's Need Hierarchy Theory
2. Alderfer's ERG Theory
3. Herzberg's Two-Factor Theory
4. McClelland's Achievement Theory

Process Theories

1. Victor Vroom's Expectancy Theory
2. Adam's Equity Theory

Reinforcement Theory

1. Skinner's Behaviour Modification Theory.

Maslow's Need-Hierarchy Theory All people have a variety of needs. At any given time, some of these needs are satisfied and others are unsatisfied. *An unsatisfied need is the starting point in the motivation process*. It begins the chain of events leading to behaviour.

When a person has an unsatisfied need, he or she attempts to identify something that will satisfy the need. This is called a goal. Once a goal has been identified, the person takes action to reach that goal and thereby satisfy the need. According to A.H. Maslow, needs are arranged in a hierarchy or a ladder of five successive categories as shown in Fig. 15.2. Physiological needs are at the lowest level, followed by security, social, esteem, and self-fulfilment needs.

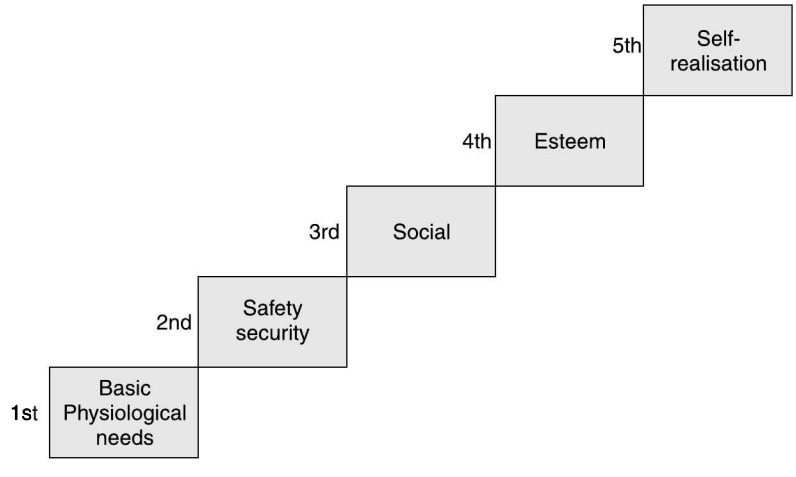


Fig. 15.2 Order of priority of human needs

Physiological needs are those which arise out of the basic physiology of life, for example, the need for food, water, air, etc. These needs must be at least partially satisfied for continued survival.

Security needs are the needs to feel both economically secure and psychologically secure The former include protection from arbitrary lay-off and dismissal, disaster, and avoidance of the unexpected. The latter relates to a man's confidence that he will be able to deal with the problems that might confront him in future.

https://rbigradeb.com/

Social needs are needs to associate with other people and be accepted by them; to love and be loved. These needs are variously referred to as "the hard instinct", "gregariousness" and the like, but at base, they point to the fact that man finds a satisfaction in association with others and feels a real deprivation when it is not possible.

Egoistic or esteem needs are those which relate to respect and prestige. A need for dominance may be thought of as one of the egoistic needs. These are of two types: self-esteem and esteem from others. Self-esteem is an individual's need to feel inside himself that he is worthy. He has also the need that others think he is worthy.

Self-fulfilment needs are needs for realising one's potential. These include the need for realising one's capabilities to the fullest—for accomplishing what one is capable of accomplishing, for becoming what one is capable of becoming. A musician must make music, an artist must paint, a poet must write if he is to be ultimately happy. This need is also called need for self-realisation or self-actualisation. This term, first coined by Kurt Goldstein, refers to a person's motivation to transform his perception of self into reality.

According to Maslow, people attempt to satisfy their physical needs first. As long as these needs are unsatisfied, they dominate behaviour. As they become reasonably satisfied, however, they lose their motivational power and the next level of needs, security needs, becomes the dominant motivational force. This process continues up the need hierarchy. As each level of needs becomes relatively satisfied, the next higher level becomes dominant.

Characteristics of human needs: Human needs can also be classified as (a) lower order needs, and (b) higher order needs.[4] The first two needs of Maslow's classification constitute the lower order needs. The other three are called higher order needs. Table 15.1 presents some important characteristics of these needs.

Table 15.1 Characteristics of Human Needs

Lower-order needs	*Higher-order needs*
1. Being related to the physiology of an individual, these needs are explicit and not hidden. It is, therefore, easy to understand these needs.	1. Being related to the mind and spirit of an individual, these needs are hidden and nebulous. It is, therefore, very difficult for others, even for the individual himself to understand them.
2. These needs are finite.	2. These needs are infinite.
3. These needs are universal but vary in intensity from individual to individual.	3. These needs are not universal and may even exist as opposites in two persons. One person may find satisfaction in being aggressive, another in being submissive.
4. These needs are conditioned by social practice, e.g., if it is customary to eat breakfast in the morning then the body comes to respond accordingly	4. These needs are strongly conditioned by experience, and maturity.
5. These needs are primarily satisfied through the economic behaviour, i.e., by earning more money.	5. These needs are primarily satisfied through symbolic behaviour of the psychic and social content.

Maslow's theory points out a fact which is ignored in the conventional approach to the management of people, namely, a satisfied need is not a motivator of behaviour. A restructuring occurs whenever

[4]Keith Davis, *Human Relations at Work*, Tata McGraw Hill, New Delhi, 1967.

https://rbigradeb.com/

a need has been so well satisfied that it sinks into the background and all others move up a notch to replace it. The theory is, however, criticised on two main grounds:

1. *The hierarchy of basic needs is not always fixed.* The order in which the needs become stronger is not rigid. Different people may have different orders. For example, in the case of creative people like singers, painters, etc. their self-actualisation needs may become the dominant motivation force even before their lower order needs are satisfied. Similarly, in the case of frustrated people whose attempts to satisfy needs at a higher-level have repeatedly failed, lower level needs may again become the dominant motivating force because these people may regress and redirect their efforts toward these needs. Sometimes all needs simultaneously operate within an individual. For example, a person may be hungry and at the same time need love and affection.
2. *It is difficult to know about the needs and motives of an individual* from the analysis of behaviour. Analysis of behaviour would be simple if a person's behaviour at a given time were the result of one motive and one alone, but this is seldom the case. Behaviour is multi-motivated. Motives of all types and intensities influence one another to accomplish a particular need and this makes the search for the motive very complex.

Alderfer's ERG Theory Alderfer modified Maslow's theory of motivation and proposed a model reducing the need categories to three:

1. Existence 2. Relatedness 3. Growth

Maslow's Safety and physiological needs are the building blocks of existence needs; Social needs are similar to relatedness needs and self-actualisation and esteem needs make up growth needs.

A major difference between these two theories is that Maslow's theory offers a *static needs hierarchy* whose pinnacle is fulfillment, whereas the ERG theory presents a flexible, three-needs system.

Herzberg's Two-Factor Theory Maslow's hierarchy of needs provides some insights about people and their behaviour. Using this as a base, we can now look more specifically at work motivation.

Perhaps the most popular theory of work motivation is based on research started by Frederick Herzberg. In his original study, Herzberg and his associates interviewed 200 engineers and accountants. They asked them to think of times when they felt especially good and times when they felt especially bad about their jobs. The engineers and accountants were then asked to describe the factors that led to these particular feelings.

When talking about especially bad times, the engineers and accountants brought up things like unfair company policies, poor relationship with their boss and co-workers, and low pay. In contrast, when asked about good job experiences, they generally did not mention these factors. Instead, they talked about recognition they had received for a well-done job, or the opportunity their jobs gave them for personal growth and development.

Herzberg and others repeated these interviews with a variety of workers in different types of organisations. Their results were generally the same. Based on these findings, Herzberg developed the two-factor theory of work motivation.

According to Herzberg, the absence of certain job factors tends to make workers dissatisfied. However, the presence of these same factors in themselves does not produce high levels of motivation. They merely help avoid dissatisfaction and the problems it creates, such as absenteeism, turnover and grievances. Herzberg called these factors *maintenance* or *hygiene* factors since they are necessary to maintain a reasonable level of satisfaction to serve as a take-off point for motivation. He concluded that there were ten maintenance factors, namely:

https://rbigradeb.com/

1. Fair company policies and administration
2. A supervisor who knows the work
3. A good relationship with one's supervisor
4. A good relationship with one's peers.
5. A good relationship with one's subordinates
6. A fair salary
7. Job security
8. Personal life
9. Good working conditions
10. Status

To build high levels of motivation, a different set of factors is necessary. However, if these factors are not present, they do not in themselves lead to strong dissatisfaction. Herzberg called these the *motivators* or *satisfiers*. These are six in number:

1. Opportunity to accomplish something significant
2. Recognition for significant accomplishments
3. Chance for advancement
4. Opportunity to grow and develop on the job
5. Chance for increased responsibility
6. The job itself

As the lists indicate, the motivators are job-centred; they relate directly to the content of the job itself. In contrast, maintenance factors relate more to the conditions and environment in which the work is done. These two groups of factors are respectively also known as *intrinsic* and *extrinsic* rewards. Intrinsic rewards are so called because they are internally generated by the task itself and are not tangible and visible to others. Extrinsic rewards are distributed by other people and are tangible and visible to others.

Herzberg noted that the two sets of factors are *uni-directional*, that is, their effect can be seen in one direction only. In the absence of maintenance factors, for example, workers may feel dissatisfied. There may be more absences, more quits, and more grievances in union organisations. But the presence of these factors does not motivate them. Similarly, in the presence of motivators, workers may feel motivated but their absence does not make them dissatisfied.

Herzberg admits that the potency of any of the job factors mentioned, as a motivator or dissatisfier, is not solely a function of the nature of the factor itself. It is also related to the personality of the individual who may be either a "motivation seeker" or a "maintenance seeker". A motivation seeker (*high nAch*) is motivated primarily by the nature of the task and has high tolerance for poor environmental factors. Maintenance seeker (*low nAch)*, on the other hand, is motivated primarily by the nature of his environment and tends to avoid motivation opportunities. He is chronically preoccupied and dissatisfied with maintenance factors surrounding the job. He shows little interest in the kind and quality of work.

Although an individual's orientation as a motivation seeker or a maintenance seeker is fairly permanent, it can be influenced by his environment. Thus, in an environment of achievement, responsibility, growth, and recognition, a maintenance seeker tends to behave like, and acquires the values of a motivation seeker. On the other hand, the absence of motivators causes many motivation seekers to behave like maintenance seekers and to become preoccupied with the maintenance factors in their environment.

https://rbigradeb.com/

To a certain extent, Herzberg's theory also fits in with the earlier discussion of needs. As shown in Fig. 15.3 the maintenance factors mainly satisfy physiological, security, social and some esteem needs. The motivators are directed at some part of esteem, and self-fulfilment needs.

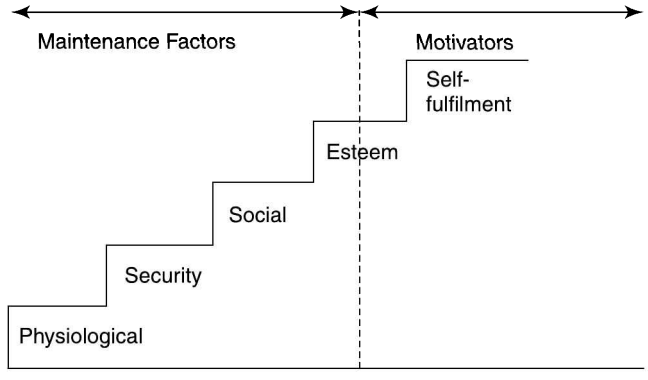


Fig. 15.3 Herzberg's theory and Maslow's theory compared

Herzberg's theory has drawn attention to the importance of intrinsic job satisfaction in work motivation. He deemphasises economic motivation and off-the-job and around-the-job need satisfactions. According to Herzberg, one important way to increase intrinsic job satisfaction is through job enrichment. By *job enrichment* is meant the deliberate upgarding of responsibility and challenge in work. Job enrichment should be distinguished from *job enlargement* in which a job is made structurally bigger by adding other tasks from the horizontal chunk. According to Herzberg, this does not motivate a worker because the mere increase in the size of his task does not make it more interesting. Job enrichment makes a job more interesting by increasing its planning and controlling contents and reducing its doing content. This can be accomplished in several ways, such as by:

(a) eliminating a layer of supervision,
(b) increasing worker's autonomy and authority (e.g., when to start and stop work, when to have a break, to plan work, to assign priorities, to decide work methods, to solve important problems independently, and so on),
(c) giving worker a complete *natural unit* of work. A natural unit of work calls for a variety of skills and increases one's task identity because one can clearly see one's contribution, For instance, instead of a worker doing a specialised task, then passing it off to another worker for doing another part of the task, under natural unit, the worker would be given a complete module of work to do (job enlargement) and importantly, would be held responsible and accountable for it.
(d) giving direct feedback to the workers without the supervisors coming in between. Workers feel more happy when they receive comments from the clients directly, and
(e) introducing new and more difficult tasks not previously handled.

The theory has been *criticised* for a number of reasons. These are as under:

1. The theory is based on a sample of 200 accountants and engineers. Critics ask whether this limited sample can justify generalising to other occupational groups with different technology, preferences and background. For example, job enrichment is difficult to truly implement where employees simply prefer an old familiar job or their current pattern of social life at work or their present higher pay to any enriched job with increased autonomy and responsibility.

https://rbigradeb.com/

2. The theory suffers from the following weaknesses inherent in the *critical incident methodology* which was used by Herzberg:
   (i) Persons, when satisfied, attribute the causes of their feelings to themselves. When they are dissatisfied, they attribute their own failures to the causes outside themselves. Therefore, the ego defences are at work when people say they are satisfied or dissatisfied.
   (ii) The categorisation of factors into motivators and hygienes (maintenance) requires not only the respondent's accuracy and veracity of self-reports, but also the interpretation of the rater which vitiates the results.
   (iii) The methodology has the bias of being able to recall only the most recent job conditions and feelings. Further, a currently satisfied person who responds to his retrospective feelings may have a satisfied respondent bias.
3. Motivational and maintenance factors are not wholly uni-directional in their influence. They operate *primarily* in one direction, but also partly in the other direction. For example, in the case of blue-collar workers, maintenance factors such as pay and security may also work as motivators.

McClelland's Need for Achievement Theory According to McClelland, the three important needs are: the need for affiliation (n Aff), the need for power (n Pow) and the need for achievement (n Ach). The need for affiliation reflects a desire to interact socially with people. A person with a high need for affiliation is concerned about the quality of an important personal relationship. Thus, social relationships take precedence over task accomplishment for such a person. A person who has a high need for power concentrates on obtaining and exercising power and authority. The person is concerned with influencing others and winning arguments. A person who has a high need for achievement has three distinct characteristics. These are:

1. Preference for setting moderately difficult but potentially achievable goals.
2. Doing most things himself rather than getting them done by others. He wants to take personal responsibility for his success or failure and does not want to hold others or chance responsible for it.
3. Seeking situations where concrete feedback is possible.

This theory does not recognise the lower-order needs. A job with the above characteristics goes a long way to motivate an individual.

Victor Vroom's Expectancy Theory According to Vroom, under conditions of free choice, an individual is motivated towards that activity which he is most capable of rendering and which he believes has the highest probability of leading him to his most preferred goal. Following are some basic concepts of this theory.

1. ***First and second-level outcomes*** There can be various job-related goals before an individual, such as, promotion, increase in salary, recognition, praise and so on. These are second-level outcomes. Each second-level outcome holds some distinct value for the individual. This is called valence. The valence of any outcome may be positive, negative or zero. It is positive for an outcome which an individual prefers to attain (for example, promotion). It is negative for an outcome which he does not want to attain and it is zero for an outcome toward which he is indifferent.

Each second-level outcome can be achieved in a number of ways. For example, one can achieve promotion either by leaving the organisation or by absenting himself as a show of dissatisfaction or by joining some pressure group or by attending a training programme or by developing intimacy with his boss or by bribing somebody or by improving his performance and so on. These are called first-level outcomes.

https://rbigradeb.com/

2. ***Instrumentality*** All first-level outcomes do not have equal probability of leading the individual to the second-level outcome. The individual has his own subjective estimates of these probabilities ranging from –1 to +1. These are called instrumentalities. –1 indicates a belief that the second-level outcome is certain without the first-level outcome; 0 indicates a belief that the second-level outcome is impossible with the first-level outcome, and +1 indicates a belief that the second-level outcome is certain with the first-level outcome.

These instrumentalities help in determining the valence of each first-level outcome. The valence of each first-level outcome is the summation of all products arrived at by multiplying its instrumentalities with the related valences of the second-level outcomes.

3. ***Expectancy*** Expectancy like instrumentality is also a probability estimate which joins the individual's efforts to first-level outcome. The individual asks himself 'Can I do it?' and makes an estimate of the probability of making a given first-level effort. Being an effort-outcome association, expectancy values are always positive, ranging from 0 to 1.

4. ***Motivation*** Motivation is a multiplicative function of the valence for each first-level outcome (V_1) and the believed expectancy *(E)* that a given effort will be followed by a particular first-level outcome, i.e., $M = f(V_1 \times E)$.

The working of the above concepts can be better understood with the help of an example of a worker faced with various first- and second-level outcomes, as shown in Table 15.2.

Table 15.2 Working of Victor Vroom's Motivation Theory

	Expectancy	*First-level outcomes and its valence*	*Instrumentality*	*Second-level outcomes*	*Valence*
		(a) More work Valence =	0.8	Getting promotion	8
	0.3	(6.4) + (10) + (0.5) = 16.9	1.0	Getting more salary	10
			0.1	Getting recognition and praise	5
M	0.6	(b) Developing intimacy with the employer	0.6	Getting promotion	8
		Velence =	0.8	Getting more salary	10
(Motivation force to perform)		(4.8) + (8.0) + (0.5) = 13.3	0.1	Getting recognition and praise	5
			0.5	Getting promotion	8
		(c) Bribery			
	0.8		0.2	Getting more salary	10
		Valence =	0	Getting recognition and praise	5
		(4) + (2) + (0) = 6			

In the above illustration, the motivation force to put in more work is (16.9) × (0.3) = 5.07, to develop intimacy with the employer is (13.3) × (0.6) = 7.98 and to resort to bribery is (6.0) × (0.8) = 4.8. Thus, it can be easily predicted that the worker would be motivated toward developing intimacy with his employer. His motivation will depend not only on the valence of the first-level outcome but also on the value of expectancy.

https://rbigradeb.com/

Although Vroom's theory does not directly contribute to techniques of motivating personnel in an organisation, it is of value in analysing the process of motivation. The theory tells us that what an individual does depends on a three-step thought process. First of all, he determines the relative importance of his various personal goals such as money, security, recognition, etc. These are the second-level outcomes for him. He then determines the probability of the organisational goals i.e., the prescribed standards of output and behaviour (which are first-level outcomes) leading him to his second level outcome. This is the instrumentality of the first-level outcomes. Finally, he decides what is his ability to achieve each first-level outcome. This is expectancy. The theory thus *recognises* the differences in motives or needs of individuals and emphasises the role of individual's internal judgements.

This model has several important implications for a manager. It tells him that to motivate an individual, it is not enough to offer him rewards. He must also *believe* that:

1. The outcomes will be satisfying (Satisfaction)
2. The prescribed effort will lead him to those outcomes (Trust), and
3. He has the ability to put in the prescribed effort (Confidence).

The experience of one manufacturing company dramatically demonstrates the importance of people being convinced that by working they will receive rewards that are important to them. The company planned to expand its operation and the management knew that a number of new supervisors would be needed. To prepare for the expansion, the company decided to run a training programme for hourly employees to prepare them to become supervisors. The programme was open to all employees at no cost. They were required, however, to attend the programme on their own time. When the programme started, management was shocked—only three people participated. Interviews with employees who did not participate explained the poor participation. Many indicated that they would like to be promoted, but did not feel that attending the programme would help. "Promotion is based on who you know, not what you know", was a commonly expressed opinion. In other words, although promotion was an important motivation factor to many of the employees, they did not participate in the training programme because they did not believe it would help them get promoted—they had negative expectations.

This model, however, operates in those situations only where the employees are *rational and logically calculating* and have the *freedom* to make their choices among alternative courses of action or behaviour. In those situations, where these assumptions do not hold true, this model will not operate.

Adam's Equity Theory[5] This theory is based on the thesis that a major factor in job motivation, performance, and satisfaction is *distributive justice*[6], i.e. the individual's evaluation of the equity or fairness of the reward he or she is receiving. In this theory, equity is defined as a ratio between the individual's job inputs (such as effort, skill, experience, education and seniority) and the job rewards (such as pay or promotion) *compared to the rewards others are receiving for similar job inputs.* The theory suggests that an individual's motivation, performance and satisfaction will depend on his or her subjective evaluation of the relationship between his or her effort/reward ratio and the effort/reward

[5]Stacy Adams, "Toward an understanding of inequity", *Journal of Abnormal and Social Psychology*, Nov.1963.

[6]We must remember that distributive justice is only one part of *organisational justice*. The other part is procedural justice which deals with the analysis of fairness and equally followed in reaching a decision. More recently equity theory has been applied to the analysis of procedural justice as well.

https://rbigradeb.com/

ratio of *others* in similar situations. Thus, unlike the expectancy theory, this theory is more *externally-oriented*. People compare what they are being paid for their efforts with what others in similar situations receive for theirs. When they feel that inequity exists, a state of tension develops within them. People try to resolve their tension by appropriately adjusting their behaviour. A worker who perceives that he or she is being underpaid, for example, may try to reduce the inequity by exerting less effort. Overpaid workers, on the other hand (also in a state of tension through perceived inequity), may work harder.

Because individuals differ, their methods of reducing inequity will also differ. Some individuals will resolve the inequity by rationalising that their efforts were greater or lesser than they originally perceived them to be, or that the rewards are more or less valuable. For example, one person failing to receive a promotion may "decide" that the previously desired job actually involved too much responsibility. Another may remove an inequity by quitting the job altogether. Still others may try to make those co-workers with whom they are comparing themselves change their behaviour. Those work team members receiving the same pay but exerting less effort, for example, may be persuaded or coerced into working harder. Alternatively, high-performance workers may be discouraged in order to "stop making the rest of us look bad". For managers, equity theory has several implications, the most important of which is that, for many individuals, rewards must be *perceived* as fair in order to be motivating. They, therefore widely use it to set pay scales for jobs.

Skinner's Behaviour Modification Theory The theory (also known as Operant Conditioning Theory) has developed out of researches done by B.F. Skinner. According to this theory, people behave the way they do because; in past circumstances, they have learned that certain behaviours are associated with pleasant outcomes and certain other behaviours are associated with unpleasant outcomes. Because people generally prefer pleasant outcomes, they are likely to repeat behaviour that they have learned will have pleasant consequences. For example, people, in an organisation are likely to obey manager's instruction because they have learned at home and at school that obedience to authority leads to praise and disobedience leads to punishment. Thus, the frequency of the various kinds of behaviour in the organisation can be seen as contingent on the immediate consequences of these behaviours.

The consequences that *increase* the frequency of a behaviour are positive reinforcement (e.g., praise or monetary reward) or negative reinforcement (i.e., escape from some aversive situation). An example of negative reinforcement might be a manager who requires all subordinates to attend an early morning staff meeting whenever performance of the organisation falls below a certain level. Subordinates would then work very hard to avoid the unpleasant early morning meetings and strive for a high level of performance. The consequences that *decrease* the frequency of a behaviour are extinction (i.e., ignoring the behaviour) and punishment (e.g., reprimand, fine, frown, etc.).

When reward or positive reinforcement is being used to increase the frequency of a desired behaviour the first important task to be performed by the manager is to *identify* effective reinforcers through trial and error. This is unlike other motivational approaches in which what employees want—more money or enriched jobs, is taken as predetermined. As soon as effective reinforcers are identified, the *frequency* of their availability should be determined. Rewards can be administered *continuously—every* desired behaviour can be reinforced—or they can be administered on an *intermittent basis.* Normally a manager begins by reinforcing every desired behaviour. A secretary may be complemented every time he types an error-free letter. Then as the behaviour becomes permanent, the rewards are gradually tapered off to an intermittent or random basis. Instead of praising the secretary for every error-free letter, the manager may begin skipping now and then. (Also read "Process of Change" in Ch. 20.)

https://rbigradeb.com/

The above approach, unlike other behavioural approaches, avoids concern for the inner motivation of the individual. It does not dwell on a man's drives and needs, nor does it hypothesise about his aspirations. Rather, it is founded upon the observable, that is, the behaviour or responses which can be seen, measured and modified. Dealing with the behaviour itself, rather than theorising about motivations that caused it, would appear to be both *more practical and more effective* in many instances.

Skinner's behaviour modification theory is criticised on two grounds. First, it is said that it overemphasises the importance of extrinsic rewards and ignores the fact that people are better motivated by intrinsic rewards. Second, it is argued that the theory is unethical because no manager has a right to manipulate and control his employee's behaviour. Replying to the second criticism Skinner says that we are constantly affecting others' behaviour whether we intend to or not. Every time we smile, frown, criticise, or praise, we are reinforcing or punishing a behaviour. If so, why not recognise and understand what we are doing and make sure we reinforce those behaviours that are desirable.[7]

Systems Perspective of Motivation

Research on work motivation has still a long way to go. The various theories of motivation developed so far are considered by some writers[8] more as a progress report than as a definitive statement. It is said that all content theories lead to a better understanding of job content factors although they do not adequately stress that human behaviour is multi-determined and multi-motivated. Process theories are relatively complex and difficult to translate into actual practice.

Systems perspective of motivation tells a manager that motivation is the result of *interplay* of the following four factors:

- The Individual
- The Organisation
- Job Characteristics
- Exogenous variables

The Individual To understand what motivates employees we must know something about their needs, interests and values. Obviously people differ in these characteristics, and their motivations will also differ. Some of their needs are difficult to describe and identify because people hide their real needs beneath the overlay of socially acceptable behaviour.

The Organisation Hawthorne's experiments have shown that the climate of the organisation also plays an important part in determining a worker's motivation. Like a football player who may play poorly for one team but much better for another because of the change in the context, a worker also may work poorly in one organisation but much better in another because of the change in the organisational climate which includes a number of variables relating to job environment such as the extent of direct supervision and formalisation, the extent of incentives provided for higher effort and performance, the extent of expression of differences and blocking of each other, the degree of checks imposed on the members' behaviour and so on. Read Chapter 21.

Job Characteristics Job design from the perspective of job characteristics rather than from Herzberg's motivators is another important determinant of motivation. According to Hackman and

[7]Skinner, B.F., *Beyond Freedom and Dignity*, (N.Y.: Knopf., 1971.)
[8]Saul W. Gellerman, *Motivation and Productivity*, 1970, D.B. Taraporevala, Mumbai

https://rbigradeb.com/

his associates[9], these characteristics are *skill variety, task identity, task significance, autonomy* and *feedback*.

Skill Variety refers to the extent to which the job requires the employee to draw from a number of different skills and abilities. **Task identity** refers to the extent to which the job is a complete module of work. **Task significance** refers to the importance of the task to the pride of the employee and to the organisation. **Autonomy** refers to employee's freedom in making decisions relating to his work schedule, choice of means to accomplish objectives, etc. **Feedback** refers to objective information about progress and performance which can come from the job itself or from superiors or an information system.

According to the authors of this work-design model the above characteristics create in the worker the following *psychological states*, which result in a self-perpetuating cycle of positive work motivation:

Job Characteristics	*Critical Psychological States*
Variety of skill Identity of the task Significance of the task	Meaningfulness of the work
Autonomy →	Responsibility for work outcomes
Feedback →	Knowledge of results from work activities

Exogenous Variables A worker's life is not divided into two watertight compartments, one inside the organisation and the other outside it. The two are closely bound together so that the trouble and joys of the job life cannot be put aside when reporting for work, nor can organisation matters be dropped when returning home after work. Both on-the-job and off-the-job lives play a *strong motivational* role.

Research on Motivation in India

Researchers on employee motivation in India have mostly followed the pattern of investigations set by their counterparts in the West. Their studies are either correlational or attitudinal or replication studies to test findings of researches carried out elsewhere. Several of the replication studies of Herzberg's two factor theory show that security and salary (extrinsic rewards) are considered more important by employees in India than job design, autonomy and other job-related factors. Ishwar Dayal and Mirza Saiyadin[10] however, support the Motivation-Hygiene theory. Lahiri and Srivastava[11] support the theory only partially. They say that the satisfied and dissatisfied feelings are unipolar but both intrinsic and extrinsic factors contribute to satisfied and dissatisfied feelings. A study of 150 supervisors of textile mills in Ahmedabad by Ahmedabad Textile Industry Research Association (ATIRA) in 1970 found that recognition and work do not act as motivators and peer relationships and working conditions do not operate as hygiene factors. Achievement, responsibility and advancement, besides salary, act as definite motivators.

[9]Hackman J.R. and Oldham G.R., Motivation Through the Design of Work: Test of a Theory, *Organisational Behaviour and Human Performance*, 1976, pp. 250–279.

[10]Ishwar Dayal and Mirza Saiyadin, 'Cross-cultural validation of motivation-hygiene theory', *Indian Journal of Industrial Relations*. Vol. 6, 1970.

[11]Lahiri and Srivastava, 'Determinants of satisfaction in middle management personnel', *Journal of Applied Psychology,* Vol. 51, 1967.

https://rbigradeb.com/

One area in which a comparatively large amount of data on this subject is available in India is the workers' ranking of job factors in order of importance. Table 15.3 shows averages of ranks given by workers to various job factors in eight such studies.[12]

Table 15.3 Average Ranks of Various Job Factors Denoting their Relative Importance

Job factors	*Average Rank*
1. Adequate salary	1.1
2. Job security	2.1
3. Adequate personal benefits	3.8
4. Opportunity for advancement	4.0
5. Suitable work (Intrinsic aspect of work)	5.6
6. Good supervisor	6.0
7. Opportunity for training and learning	6.2
8. Comfortable working conditions	6.4

Note: The job factor with the lowest average rank is the most important and that with the highest average rank is the least important.

It can be seen from Table 15.3 that for an Indian worker salary, security and personal benefits are very important job factors. Viewed against Maslow's need hierarchy theory we can say that the Indian worker has not yet crossed the first two lower level needs. He is still seeking satisfaction of basic physiological and security needs. Therefore, it is quite true that some of the more sophisticated and elaborate motivational devices of modern industrial management may not be appropriate here. The needs of workers may be more simply reached by direct motivational devices amended to fit the culture of their social group.

Motivation of Managers

Although managers have the same relative human urges as other people, Koontz and O'Donnell hold the view that Maslow's hierarchy of human needs does not apply to managers. For instance, some managers may prefer to achieve recognition for their accomplishments even before their need for security is fulfilled. According to these writers, the motivation system for managers should be comprehensive enough to include a variety of rewards appealing to the productive drives of individual managers. These rewards may be prompt recognition, avoidance of boredom, increased control over job and provision of opportunities for managers to prepare themselves for greater responsibilities.

In a micro-level study[13] of motivation of managers in a large sized public undertaking in India carried out in 1976 it was found that among the various motivational factors, personal growth and development, recognition for good work done and accomplishment are perceived by the senior and middle level executives as more important motivators than factors like promotion, job security, decision-making authority, pay, prestige of organisation and working conditions. But in the case of junior level executives, the more important motivators are job security and personal growth and development.

[12]These studies are Ganguli (1954); Singh and Wherry (1963); Kapur (1967); Desai (1968), Mukherjee (1968); Vaid (1968); and Goyal (1969). *The Indian Journal of Social Work,* April 1971.

[13]A.Kumar, "Managing motivation", *Lok Udyog*, Vol X, no.1, April 1976.

https://rbigradeb.com/

Interestingly, more or less identical conclusions were reached in another study which was carried out at a macro-level few years earlier in 1970.[14] In this study, which was based on the replies received from 1213 managers of 47 major public enterprises in the country, each manager was asked to give his perceptions about his need fulfilment and need expectations in respect of each of the eight need areas selected for measuring his motivation. A Likert-type five-point scale was used for this purpose. Each respondent was also asked to assign ranks to the eight need areas according to their importance in contributing to job performance. The findings of this survey are outlined in Table 15.4.

Table 15.4 Different Mean Values of Factors Contributing to Job Performance

Factors contributing to job performance (1)	*Mean need fulfilment (2)*	*Mean need expectation (3)*	*Mean need gap (col. 3–2) (4)*	*Rank (5)*
1. Decision-making authority	2.7	4.1	1.4	3.5
2. Opportunity for personal growth and development	2.8	4.5	1.7	3.5
3. Job security	4.1	4.4	0.3	8
4. Prestige of the organisation outside the company	3.2	4.8	1.6	6
5. Feeling of worthwhile accomplishment	3.1	4.7	1.6	1
6. Pay, allowances and other benefits	3.0	4.6	1.6	7
7. Opportunity for promotion	2.4	4.4	2.0	5
8. Recognition for good work done	2.7	4.7	2.0	2

This table shows that:

1. Managers perceive a very high degree of fulfilment in respect of job security and a low degree of fulfilment for promotion.
2. They want to see the prestige of their organisation high as this would provide them with a feeling of esteem and ego gratification. Decision-making authority has the lowest expectation. It is because the managers fear accountability which necessarily would flow from authority, or that the managers have reconciled with the organisational reality of centralisation of authority with the top management or with the Government and have lowered their sights accordingly.
3. The highest dissatisfaction (as shown by the extent of need gap in relation to need expectation) is found in the area of "promotion" followed by "recognition for good work done". The lowest need dissatisfaction is found for job security.
4. The feeling of "worthwhile accomplishment" is given the highest rank (it has lowest mean value among all the factors). It is followed by "recognition" at the second rank, "the opportunity for personal growth" and "decision-making authority", both having a rank of 3.5. The lowest rank is given to "job security", while the rank for "pay and benefits" is higher only to "job security". Thus, in case of "job security", the mean gap and the rank coincide, both being the lowest.

The above study also collected information on eight other factors which were considered likely to inhibit job performance. Respondents were asked to assign ranks to these factors according to their importance. Mean rank values and ranks are shown in Table 15.5.

[14]This survey was conducted by the Osmania University, Hyderabad for the Research Programmes Committee of the Planning Commission.

https://rbigradeb.com/

Table 15.5 Ranking of Factors Inhibiting Job Performance by Managers

Factors inhibiting job performance	*Mean rank value*	*Rank*
1. Attitude of workers and their union	4.4	5.5
2. Inadequate communication	4.2	3.5
3. Government interference	5.8	8
4. Lack of consistency in management policies	3.1	1
5. Audit control	5.6	7
6. Sloth and bureaucracy in management	4.2	3.5
7. Lack of clear definition of responsibilities	3.4	2
8. Lack of fairness in personnel matters	4.4	5.5

As indicated in Table 15.5, the highest rank is given to "lack of consistency in management policies". This means that the managers regard it as the most inhibiting factor in their job situations. The general impression that government interference, audit control, and attitude of workers and trade unions are the main inhibiting factors in job situations is not borne out by the low ranks obtained by these factors.

In a study of 22 companies in India undertaken in 1996 by Arun Monappa and Mahrukh Engineer[15] it has been found that managers at different levels are motivated by different factors. Whereas senior managers prefer *responsibility* most (followed by career development opportunity and financial reward), middle managers prefer *career development opportunity* most (followed by financial reward and responsibility). Junior managers show highest preference for *financial reward* (followed by career development opportunity and good working conditions).

Japanese Model of Motivation-Theory Z

Among those looking to the Japanese model for answers to the motivation and production problems has been William G. Ouchi, who says that the key to increased productivity lies in the following characteristics of Japanese business organisations. He names these characteristics as Theory Z.

1. **Lifetime Employment** This means that an employee once hired remains in the organisation till his retirement. The company takes extreme care in selecting the employees. It ensures that only those individuals whose ideas and outlook are in line with its own ideas and outlook are hired. The company also makes substantial investment on subsequent indoctrination of the worker in company philosophy and his on-the-job training. Neither incompetence nor the changing need of the company constitutes a justifiable ground for the dismissal of an employee. During periods of depression workers are not laid off or retrenched but the workweek is curtailed. Similarly, during periods of boom, instead of recruiting extra workers, overtime is done or the work is given on sub-contract. However, since the beginning of the 1990s many Japanese firms have begun to lay off workers.

2. **Collective Decision-making** The decision-making process is called *nemawashi—the* practice of broad consultation and consensus-building. Anyone on any level of hierarchy with a stake in a decision can give his suggestions and a consensus is reached before a decision is implemented. Admittedly, this

[15]Arun Monappa and Mahrukh Engineer: *Liberalisation and Human Resource Management*, 1999, Response Books, N.D., p. 160.

https://rbigradeb.com/

approach is time-consuming, but once a decision is made its implementation becomes fast and effective because of the commitment of all parties.

3. **Collective Responsibility** There is no clear-cut delegation of individual authority and responsibility. The *concept* of individual responsibility (which is implicit in the principle of division of labour) has not taken roots in Japanese companies. The essential building block of a company is not an individual but a section consisting of 8 or 10 individuals each sharing the same overall responsibility. The section is expected to help out by dividing up what needs to be done, substituting for someone who is absent, or assisting another when necessary. The assignment is flexible, for the position and tasks are two different systems: the position rises with seniority, but the work depends on the tasks of the unit and the talents and complementarity of the individuals. Work is not determined by a specifically defined position.

Performance is viewed overwhelmingly as group performance and an individual's contribution is never isolated for praise or for blame because it is considered inimical to group harmony. Whatever performance appraisal does take place emphasises the human relations aspect more than the material results. Hence most Japanese organisations do not have a formal performance appraisal system. Appraisal of an individual's absorption in the group is done by his peers. Emphasis on group responsibility eliminates intra-group rivalry.

4. **Non-specialised Career Paths** In Japan, there is the system of continuous training. This means that every employee (including top managers) keeps on receiving training as a regular part of his job till he retires. The system of continuous training in all types of work goes a long way toward preventing extreme specialisation and departmentalisation especially among managerial and professional people. A Japanese company will not hesitate to move a young manager from production control into market research or the accounting department. Hence every manager, though the purest of specialists in his own work, is a true generalist in his knowledge, vision and in the way that he holds himself responsible for the performance and results of the entire organisation.

5. **Slow Evaluation and Promotion** In Japan, new employees ordinarily receive the same pay for the first several years in the company. Promotions are slow and are made on the basis of seniority. All those with the same seniority are considered as equals. They have only slight differentials in their pay and title. The abler among them know that they cannot surpass their seniors in rank and salary now but all concerned informally recognise that they are abler than their superiors. Further, these able junior men know that they must co-operate with their seniors to be considered promising. The seniors know that they must take advantage of the talents of the abler persons under them by giving them responsible work. In Japan, how slow the evaluation and promotion are can be judged from the following figures. A Japanese manager remains a general office clerk for nearly 10 years. He then reaches his first threshold of section chief. He remains a section chief for another 10 years and then reaches his second threshold of departmental head where he remains till his retirement usually at 55 years of age.

6. **Implicit Control Mechanisms** As already mentioned, in Japan, authority and responsibility for each level of management are not clearly defined. This means that there are implicit control mechanisms. Under the *ringi* system of decision-making a proposal, after being initiated at a lower level, is separately examined and approved by a number of executives at different levels of the organisation and then finally approved by the top management. The responsibility for decision-making is thus highly diffused and cannot be associated with anyone individual. The role of the president is, in effect, merely that of legitimising decisions or concurrences on the proposal given by people below him.

Now, however, many companies in Japan are giving up the *ringi* system and evolving explicit control mechanisms.

https://rbigradeb.com/

7. **Holistic Concern and Commitment** The Japanese system always stresses the need of the company unimpeded by functional fiefdoms and career paths. A job is not merely a contractual arrangement for pay but means identification with a large entity—in other words, a satisfying sense of being part of something big and significant. The Japanese have a strong commitment to their companies. They never allow production to suffer. They believe that a "productive worker is a happy worker", and not the other way as we do. They, therefore, devise many interesting ways of expressing their grievance before their management and seldom stop production. Thus, the workers of the Tokyo Bus Co. once showed their discontentment by refusing to sell and collect tickets from bus travellers rather than by refusing to ply buses. Similarly, the workers of a Japanese shoe factory once demonstrated their resentment against management by producing left-foot shoes only so that none could be marketed. As soon as their grievance was redressed they produced the right-foot shoes also to complete the pairs. In this way they did not allow company production to suffer.

8. **Concern for Young Workers** Japanese companies show great concern for proper guidance and counselling of their young workers during the first ten years of their career. Members of middle management act as "god fathers" for the young workers. The god father is rarely a young worker's direct superior. He may not even be in the direct line of authority over the worker or his department. The god father is expected to be in close touch with the young workers under his charge. The god father is expected to know the youngman, see him fairly regularly, be available to him for advice, and, in general, look after him.

9. **Care of Worker's Family** To take care of all the needs of the worker's family such as housing, health, recreation, etc. is considered a primary concern of Japanese companies. They give gifts to their workers on various social occasions like a wedding, the birth of a child, etc. and join them in times of adversity like the death of a family member, illness in the family, etc.

10. **Participative Leadership** In Japanese companies participative leadership is not achieved by making worker's representatives sit on their boards of directors as we do in India. Instead, it is achieved by letting ideas generate among people down below and not imposing them from above.

11. **Equality** To foster a sense of employee equality the wage ratio between the top and bottom is kept as low as 5:1. Using a company uniform common to all categories of employees from the president to the floor sweepers, common facilities like canteens, lavatories, parking places, joint singing of the company song and so on, are some other methods which the management follows to foster employee equality.

12. **Company-wide Unions with Harmonious Relations** There are no industry-wide unions in Japan. There are only company unions which are treated as a part of the company family. The office bearers are all company workers. There are no outsiders. In fact, the Japanese find our multiplicity of unions, go-slows, indiscipline, absenteeism and unchecked misuse of medical leave hard to comprehend.

Unions generally have good relations with management. In fact, harmony is part of Japanese philosophy which permeates the whole of Japanese society. Small wonder that litigation in Japan is minimum and legal profession is the least sought after profession. There are only 12,000 lawyers in the whole country.

JOB SATISFACTION

The term 'job satisfaction' refers to an employee's general attitude towards his job. To the extent that a person's job fulfils his dominant needs and is consistent with his expectations and values, the job will

https://rbigradeb.com/

be satisfying. There are three major theories of job satisfaction, viz., (a) Herzberg's motivation-hygiene theory, (b) need-fulfilment theory, and (c) social reference group theory. Herzberg's theory has already been discussed in a preceding section. Under the need-fulfilment theory, it is believed that a person is satisfied if he gets what he wants and the more he wants something, or the more important it is to him, the more satisfied he is when he gets it and the more dissatisfied he is when he does not get it. The social reference-group theory is similar to the need-fulfilment theory, except that it takes into account not the desires, needs and interests of the given individual, but rather the point of view and opinions of the groups to whom the individual looks for guidance. Such groups are defined as the '*reference-groups*' for the individual in that they define the way in which he should look at the world and evaluate various phenomena in the environment (including himself). It would be predicted, according to this theory, that if a job, meets the interest, desires and requirements of a person's reference group, he will like it, and if it does not, he will not like it. A good example of this theory has been given by C.L. Hulin.[16] He measured the effects of community characteristics on job satisfaction of female clerical workers employed in 300 different catalogue order offices. He found that with job conditions held constant, job satisfaction was less among persons living in a well-to-do neighbourhood than among those whose neighbourhood was poor. Hulin thus provides strong evidence that such frames of reference for evaluation may be provided by one's social group and general social environment. However, it is obvious that the theory is an incomplete explanation, since while some people may go along with group opinions and group evaluation of organisational phenomena, many people are independent of these pressures.

In summary, the three theories reveal that

1. job satisfaction is a function of, or is positively related to, the degree to which the various motivators or satisfiers are present in the job situation;
2. job satisfaction is a function of, or is positively related to, the degree to which one's personal needs are fulfilled in the job situation; and
3. job satisfaction is a function of, or is positively related to, the degree to which the characteristics of the job meet with the approval and the desires of the groups to which the individual looks for guidance in evaluating the world and defining social reality.

Correlates of Job Satisfaction

According to Abraham A. Korman,[17] there are two types of correlates of job satisfaction. These are: (a) environmental effects, and (b) personal variables.

Environmental Effects

1. ***Occupational level*** The higher the level of the job, the greater the satisfaction of the individual. This is because higher level jobs carry greater prestige and self control. This relationship between occupational level and job satisfaction stems from the social reference-group theory in that our society values some jobs more than others. Hence, people in valued jobs will like them more than those who are in non-valued jobs. The relationship may also stem from the need-fulfilment theory. People in higher level jobs find most of their needs satisfied than when they are in lower level ones. There is less disparity between what satisfaction these people (in higher level jobs) expect and what they realise.

[16]C.L. Hulin, "Effects of community characteristics on measures of job satisfaction", *Journal of Applied Psychology*, 1966, 50, 185–192.

[17]A.K. Korman, *Organisational Behaviour* (New Delhi: Prentice-Hall, 1978).

https://rbigradeb.com/

2. ***Job content*** The greater the variation in job content and the less the repetitiveness with which the tasks must be performed, the greater the satisfaction of the individuals involved. Since the job content, in terms of variety and nature of tasks called for, is a function of the occupational level, the theoretical arguments given above apply here also.

3. ***Considerate leadership*** People like to be treated with consideration. Hence considerate leadership results in higher job satisfaction than inconsiderate leadership.

4. ***Pay and promotional opportunities*** All other things being equal, these two variables are positively related to job satisfaction. An explanation for this finding lies in both the theories discussed above.

5. ***Interaction and the work group*** Here the question is: when is interaction and the work group a source of job satisfaction and when is it not? Interaction is most satisfying when

(i) it results in the cognition that the other person's attitudes are similar to one's own, since this permits the ready calculability of the other's behaviour and constitutes a validation of one's self;
(ii) it results in being accepted by others;
(iii) it facilitates the achievement of goals.

Personal Variables

For some people, it appears that most jobs will be dissatisfying, irrespective of the organisational conditions involved, whereas for others, most jobs will be satisfying. Personal variables like age, educational level, sex, etc. are responsible for this difference.

1. ***Age*** Most of the evidence on the relation between age and job satisfaction, holding such factors as occupational level constant, seems to indicate that there is generally a positive relationship between the two variables up to the pre-retirement years and then there is a sharp decline. An individual aspires for better and more prestigious jobs in the later years of his life.

2. ***Educational level*** With occupational level held constant, there is a negative relationship between the educational level and job satisfaction. The higher the education, the higher the reference group which the individual looks to for guidance to evaluate his job rewards.

3. ***Sex*** There is as yet no consistent evidence as to whether women are more satisfied with their jobs than men, holding such factors as job and occupational level constant. One might predict this to be the case, considering the generally lower occupational aspiration of women.

Some other correlates of job satisfaction, which have been found in the studies relating to women workers, are as under:

- Ease of commuting to work,
- Working hours,
- Company prestige,
- Recognition,
- Autonomy, and
- Fair evaluation of work.

Relationship between Job Satisfaction and Productivity Experiments have shown that there is very little positive relationship between job satisfaction and job performance of an individual. Victor Vroom,[18] in his review of literature has shown that there is a median correlation of only 0.14 between satisfaction and performance, which has little theoretical or practical importance. This is because the

[18]V.H. Vroom, *Work and Motivation* (NY: Wiley, 1964).

https://rbigradeb.com/

two are caused by different factors. Job satisfaction is closely affected by the *amount of rewards* which an individual derives from his job, while his level of performance is closely affected by the *basis for attainment of rewards.* An individual is satisfied with his job to the extent that his job provides him with what he desires, and he performs effectively in his job to the extent that effective performance leads to the attainment of what he desires. This means that instead of maximising satisfaction generally, an organisation should be more concerned about maximising the positive relationship between performance and reward. It should be ensured that the poor performers do not get more rewards than the good performers. Thus, when a better performer gets more rewards, he will naturally feel more satisfied. This approach, we must remember, is quite different from the usual human relations approach of trying to maximise satisfaction generally.

ORGANISATIONAL COMMITMENT

The term "organisational commitment" is an attitude reflecting the *employees' loyalty* to their organisation. It is measured in terms of their *desire* to stay with the organisation, their *willingness* to exert high levels of effort on behalf of the organisation and their *belief* in the values and goals of the organisation.

The employees' organisational commitment is *determined* by a number of personal (such as age, tenure in the organisation, positive or negative disposition) and organisational (such as job design, leadership style, opportunity of career advancement) variables.

As in the case of job satisfaction, there are mixed *outcomes* of organisational commitment. Whereas some studies show that there is a positive relationship between organisational commitment and desirable outcomes, such as high performance, low turnover and low absenteeism, others do not show this relationship. *Yet, most researchers agree that in the context of present day focus on team work, empowerment and flatter organisations, organisational commitment is a somewhat better predictor of desirable outcome variables than job satisfaction, and thus deserves management's attention.* But, in the face of many environmental forces (such as the fear of downsizing, loss of job security, overwhelming change in technology, stress due to overwork, and so on) which are acting against the employees' organisational commitment, management's job to increase it, is not easy. Dessler[19] suggests the following *guidelines:*

1. Commit to people-first values.
2. Clarify and communicate your mission and ideology.
3. Guarantee organisational justice; provide for extensive two-way communication and a comprehensive grievance procedure.
4. Create a sense of community; emphasise team work.
5. Support employee development; commit to actualising; provide job challenge; empower; promote from within.

People doing intrinsically rewarding activity cannot be easily lured away by other organisations since they must furnish the same type of activity or offer extrinsic rewards in overwhelming amount.

MORALE

Although some writers use the term "morale" to describe the basic feelings of an *individual* in relation to his job, it is essentially a *group* concept. It is a concept that describes the attitudes of the employees

[19]Gary Dessler, "How to Earn Your Employees' Commitment, "*Academy of Management Executive*, Vol. 13, No.2, 1999.

https://rbigradeb.com/

collectively towards all aspects of their work—the job, the company, working conditions, fellow workers, supervisors, and so on. It is *esprit de corps* or the attitudes of the collective body. In other words, it is the composite expression or summation of the attitudes of the employees making up the group. Attitude is a predisposition to respond, positively or negatively, to different aspects of the job. A greater presence of positive attitudes indicates high morale while a greater presence of negative attitudes indicates low morale. There are certain indices to measure the height or depth of morale. These are resignations, accidents, sickness, absenteeism, spoilage, grievances and complaints. If morale is high, these indices give low readings and the group persists in its endeavour to reach its common objective, unmindful of the obstacles which may come in its way. If morale is low, these indices give high readings and the group dissipates its energy and sees only frustration before it.

In earlier investigations, the term "morale" has been used synonymously with "job satisfaction" on the ground that the determinants of both of them are the same. But as already explained "morale" refers to a group while "job satisfaction" is the individual picture of activity. In other words, although the two terms are the same because their determinants are the same, they apply to different levels—individuals and groups.

The larger and more decentralised the organisation, the more difficult it is for the top management to obtain a current comprehensive portrait of morale. Such an organisation may need to conduct periodic opinion surveys to support local observations.

Relationship between Morale and Productivity

There is a definite relationship between morale and productivity. Low morale can never result in high production for a long period. It will manifest itself in low production, sooner or later, depending upon the nature of work. Where the work involves the total man (for example, R&D), low morale will lead much more rapidly to decreased productivity. A scientist who feels resentment toward his organisation or his manager will rapidly become unproductive. But, where the work does not involve the total man (e.g., machine-paced work which usually employs only a part of a man's capabilities), a longer period of time will be required before the adverse effect of low morale will manifest itself in the form of norms to restrict production, increased grievances and similar developments, and finally in lower performance.

High morale may or may not result in high production, depending upon the kind of high morale, as shown below.

1. ***Person-oriented morale*** This kind of morale represents a situation where most of the employees are spending all their time and energies in satisfying their personal objectives unrelated to the company's goals. The result is happy employees with good morale but unhappy managers with low production.

2. ***Production-oriented morale*** This kind of morale represents a situation where there is complete identity between the individual and the organisation goals and, therefore, both the employers and the employees work together on common production goals. The result is that both the parties are happy. There is high morale and high production.

Building Company Morale

Morale-building is not a simple process, or a set of easy, clearcut steps. There are numerous complex and contradictory causes of variations in people's attitudes. Events that evoke pleasant feelings in one employee may have just the opposite effect on the other. Thus, any morale building programme must not lose sight of the fact that policies which may have a positive effect on one person can have just

https://rbigradeb.com/

the opposite effect on another, and that the same policies may affect the same person in different ways at different times or places.

Basically the following factors are essential for maintaining a high morale in a work group:

1. The members of the group must have a common goal.
2. The members must regard the goal as worthwhile.
3. The members of the group must feel that the goal can be reached.
4. Top management must be guided by good management principles. These are as under:

(a) Opportunity for employees to play their preferred roles; (b) appointment of fair, sympathetic and trustworthy persons as immediate supervisors; (c) effective two-way communication to shape the attitude of employees towards their management and to serve as adequate grievance channels; and (d) avoidance of meaningless and ambiguous controls.

Morale building techniques can be broadly classified into (a) group techniques, and (b) individual techniques. In designing a group technique, the average man is taken as the guiding factor. There is a stress on conformity. Examples of group techniques are: salary scales based on area practices, seniority rights, retirement plans, improvement of physical facilities, etc. Individual techniques are oriented to the unique feelings of each employee. These techniques are more expensive. Examples of these techniques are: job placement, job training, job rotation, personnel counselling, etc. Both the techniques are supplementary to each other and can be used simultaneously.

Morale Studies in India

Several studies have been made in India on the workers' morale and productivity. The findings of these studies[20] are as under:

1. Group participation is an effective technique to improve workers' productivity and morale (T. Ganguli, 1954).
2. The morale of pro-management workers is higher than that of pro-union workers. The latter are generally dissatisfied with wages, working conditions, and work. The only area in which they show comparatively high morale and satisfaction is related to supervision and co-workers (Ganguli, 1954; Prabhakar Singh, 1971).
3. The workers' morale is significantly related to their education. The higher their education, the lower their morale and vice versa. Income is found to be a non-significant factor affecting morale (Pestonjee and Singh).

FIRST-LEVEL OR FRONT-LINE SUPERVISION

The basis for supervision of a task may be the type of work, the process, the place or a group of persons. Though supervision or over-seeing the performance of subordinates may occur at any management level in an organisation, the first-level supervisor is in a unique position in being the only manager who supervises the work of *non-managers.* There are five different views about his role. One widely held view is that the first-level supervisor plays the role of a *key person* in the organisation because it is he who translates plans and strategies into action at the working level. According to another view his role is that of a *person in the middle.* He is the direct face-to-face representative of management for workers and also the representative of workers for management. He is thus caught between the differing

[20]See Indian Journal of *Social Work*, Vol. XXXIV, No.3

https://rbigradeb.com/

expectations and demands on his two sides. Some people consider his role as that of a *behavioural specialist.* From this point of view his speciality is that of dealing with behavioural problems on the job. He has to properly attend to all grievances, settle inter-personal differences, motivate workers and maintain discipline. Some people regard him as playing the role of a *marginal person* who merely transmits instructions without any power to change them. In the final view he is regarded as just *another worker* whose thought patterns are much closer to those of workers than to those of higher management (perhaps because in many cases he is a promotee from the workers' cadre).

Functions of a First-level or Front-line Supervisor

It should be remembered that out of the five roles of the first-level supervisor which we have mentioned above none is wide enough to include all his functions. In fact, he plays all these roles as shown by the following functions:

1. To determine individual job assignments
2. To give orders and instructions to workers relating to their assignments
3. To ensure implementation of rules and procedures
4. To ensure proper working conditions
5. To attend to grievances and resolve conflicts
6. To provide technical knowledge and guidance to workers
7. To supply strategic information relating to production to management
8. To interpret management's policies to workers
9. To appraise workers' performance and recommend promotions, transfers and training needs
10. To create a congenial climate of goodwill and friendship

Guidelines for Making the First-level or Front-level Supervision Effective

Although all the preceding sections of this chapter are relevant to developing effective supervisory practices still the following guidelines can be used by the first-level supervisor with discretion:

1. Expressing genuine friendship with subordinates
2. Encouraging subordinates' participation in decision-making
3. Maintaining consistency, fairness, forewarning, promptness and privacy in discipline. This is the *Hot Stove Rule* so named by Douglas McGregor. He draws an analogy between maintaining discipline and touching a hot stove. He says that when a person touches a hot stove it gives him warning, the burn is immediate, impersonal, consistent and commensurate with the length of time the touch continued. The same should be with discipline. The disciplinary process should begin *immediately* after the violation is noticed. It must give a clear *warning* that so much penalty would be imposed for a given offence. The same kind of punishment should be consistently imposed for the same offence *regardless of status difference*, and, it should be *commensurate with the gravity of the offence.*
4. Doing environmental engineering, i.e., rearranging the features of the environment so that the stimulus situation does not evoke the undesired response. Skinner tells the story of a manager who had a traffic problem caused by women hurrying down the corridor as soon as the end of the work day was signalled. The manager solved the problem by placing wall mirrors along the corridor. The stimulus situation that had evoked stampeding down the hall way transformed into one which encouraged a more leicurely and orderly walk-and-stop sequence.

https://rbigradeb.com/

5. Emphasising praise over punishment. According to Etzioni punishment or *coercive power* alienates most people and generates least commitment. Praise and recognition or *normative power* are least alienating and generate highest commitment. The results of material rewards or *utilitarian power* fall in between the two.[21]
6. Preferring general supervision to close supervision.
7. Redressing grievances with objectivity and empathy.
8. Showing confidence in the integrity, ability and motivation of subordinates, rather than suspicion and distrust.
9. Planning and scheduling the work to be done, training the subordinates, supplying them with material and tools, etc.
10. Enhancing pro-social/*organisational citizenship behaviours* (OCBs) of subordinates. These are behaviours which are discretionary (beyond the "call of duty") not directly or explicitly recognised by the formal reward system. Some examples of such behaviours are: altruism (e.g., helping out when a coworker is ill), conscientiousness (e.g., staying late to finish a project), civic virtue (voluntarily representing the organisation in a community programme), sportsmanship (e.g., sharing failure of a team project that would have been successful by following the member's advice), and courtesy (e.g., being understanding and empathetic even when provoked).

There are, however, two conditions necessary for the supervisor's success:

(a) *He should be fair and supportive and should be so perceived by the subordinates.* It is how they see things that counts, not the objective reality, and
(b) *He must have sufficient influence with his own superior to be able to affect the latter's decisions.* When subordinates know that their boss is able to represent their 'needs' upward with a fair measure of success, they are inclined to follow his lead.

Some of the above suggestions have been examined more fully in leadership theories in Chapter 17.

SUMMARY

- One of the basic functions of management is direction. Direction means the use of leadership and motivation to guide the performance of subordinates towards the achievement of the organisation's goals. Important requirements for effective direction are: harmony of objectives, unity of command, direct supervision, efficient communication and follow up.
- Giving orders is the commonest technique of direction. Some characteristics of good orders are: feasibility, acceptability, clearness and completeness and following the chain of command. There can be three types of orders: command, request and implied order. Each order can be either verbal or in writing.
- *Motivation* is an extremely significant subject for managers since managers get work done through others. Important characteristics of motives are: individuals differ in their motives; sometimes the individual himself is unaware of his motives, motives change; motives are varied; motives are complex and multiple motives make the choice of goals difficult for an individual.
- Views about the nature of motivation have changed from the early *monistic* model, which suggested that people are motivated by monetary rewards to the *pluralistic model* which recognises four groups of variables affecting the motivation of an individual: individual characteristics, job characteristics, organisational characteristics and external environment.

[21]Amitai Etzioni, *Modern Organisations*, Prentice-Hall of India (Private) Ltd, New Delhi, 1965

https://rbigradeb.com/

- Among important writers on motivation are Maslow, Alderfer, Herzberg, McClelland, Vroom, Adam and Skinner. Maslow theorised that individuals are motivated to fulfill a hierarchy of needs, with the need for self actualisation at the top. Alderfer condensed Maslow's five levels into three, Herzberg developed a "two-factor" approach to work-motivation in which job satisfaction was attributed to factors related to the job *content* and dissatisfaction to factors related to the job *context.* McClelland found that the three important human needs are: need for achievement, need for affiliation and need for power. Need for achievement is most closely associated with successful performance in the work place. According to Vroom, people's actions are based on their two types of expectations: Their expectation to perform if they expend the effort and their expectation to get what they want if they perform. According to Adam a major factor in job motivation is the individual's evaluation of the equity or fairness of the reward he is receiving. According to Skinner employees' behaviour can be changed by managing the consequences that follow it.
- There have been a large number of replication studies of Herzberg's two-factor theory in India. Many of these studies show that the Indian worker is still motivated by physiological and security needs. However, in case of managers, the important motivators are personal growth and development, recognition for good work and accomplishment.
- According to William G. Ouchi, the secret of motivation lies in certain characteristics of Japanese business organisations such as lifetime employment, collective decision-making, non-specialised career plans, holistic concern and commitment, company-wide unions and harmonious relations. Collectively, he calls these characteristics "Theory Z".
- The term 'job satisfaction' refers to an employee's general attitude towards his job. There are three major theories of job satisfaction namely, (a) Herzberg's motivation-hygiene theory; (b) need fulfilment theory; and (c) social reference-group theory. Two types of variables which determine the job satisfaction of an individual are (a) organisational variables, and (b) personal variables.
- Morale describes the collective attitude of employees towards all aspects of their work. It is thus different from job satisfaction which is the picture of an individual's attitude. There is no direct causal relationship between morale and productivity. Low morale can never result in higher production for a long period. High morale may or may not result in high production. Morale building techniques can be broadly classified into (a) group techniques in which the average man is taken as the guiding factor; and (b) individual techniques in which the unique feelings of each employee are taken account of.
- There are a number of factors which determine an individual's loyalty (called "commitment") to his organisation.
- Though "giving directions" is an important feature of superior-subordinate relationship at all levels of hierarchy, it is no where so prominent as at the first level. There are five facets of the role of the first-level supervisor. He is a "key person", "person in the middle", "behavioural specialist", "marginal person" and "another worker". These roles involve at least ten different functions.

KEY TERMS

Self-actualisation Need This is the need to grow, to feel fulfilled, to realise one's potential.

Job Satisfiers According to Herzberg, these are motivating factors related to the nature of work (job content). These include achievement, recognition, work itself, responsibility and advancement.

https://rbigradeb.com/

Job Dissatisfiers According to Herzberg, these are dissatisfying factors related to the organisation's environment (job context) in which the work is being done. These include company policy, supervision, working conditions, working relationships, status, salary and security.

Job Enlargement Under this technique, the scope of the worker's job is increased by combining various tasks from the horizontal slice of an organisational unit, thereby giving him more operations to perform.

Job Enrichment Under this technique, the *depth* of the job is increased by combining various tasks from the vertical slice of the organisational unit, thereby increasing the worker's control over his job.

Organisational Commitment This is an employee's attitude reflecting his loyalty to his organisation.

Organisational Citizenship Behaviours (OCB) These are behaviours which are discretionary (beyond the "call of duty") not directly or explicitly recognised by the formal reward system.

Review Questions

1. Define motivation. Describe its characteristics.
2. Explain Maslow's Need-Hierarchy theory. How does it compare with the Two-Factor Theory?
3. "Motivation is the core of management." Discuss. What can management do to motivate the staff in an industrial organisation?
4. What is meant by morale? How is it related to productivity?
5. "Morale and productivity move together like the east and the west sides of an elevator." Comment.
6. Distinguish between motivation and morale. How is morale related to productivity?
7. How can compliance of an order be ensured?
8. Point out the difference between (a) Positive and negative reinforcers and (b) Intrinsic and extrinsic rewards.
9. Explain Vroom's Expectancy Theory.
10. How does motivation of managers differ from that of the operatives? Describe some researches which have been done on motivation of managers in India.
11. What is job satisfaction? What are its correlates?
12. Describe Skinner's Behaviour Modification theory.
13. Describe the main characteristics of Z theory of motivation.
14. Write short notes on:
    (a) Requirements of effective direction
    (b) McClelland's Achievement Theory
    (c) Adam's Equity Theory
    (d) Role of the first-level supervisor
    (e) Hot Stove Rule
    (f) Organisational Citizenship Behaviours (OCB)
15. Enumerate the functions of a first-level supervisor. How can this supervision be made more effective?
16. Match the following:

(a) Requirement of effective direction	(i) Unity of command
(b) Need Hierarchy Theory	(ii) Job inputs and rewards

https://rbigradeb.com/

(c) Two-factor Theory
(d) Adam's Equity Theory
(e) Victor Vroom's Theory
(f) Skinner's Behaviour Modification Theory
(g) Z theory of motivation
(h) First-level supervisor
(iii) Reinforcement of Behaviour
(iv) Ringi system
(v) High order needs
(vi) Critical incident methodology
(vii) Outcome and valence
(viii) Behavioural specialist

[(a) (i), (b) (v), (c) (vi), (d) (ii), (e) (vii), (f) (iii), (g) (iv), (h) (viii)]

17. Choose the correct word:
    (a) A high rate of personnel turnover *and* a low level of job commitment would be typical when motivational factors are represented to a _____ extent and maintenance factors are represented to a _____ extent.
    (b) The situation in which there is a high amount of interest in the job, but a persistent turnover problem exists, would typically result when motivational factors are _____ and maintenance factors are _____.
    (c) A stable work force with low job commitment would result when motivational factors are _____ and maintenance factors are _____.
    (d) A stable work force with high job commitment is typical when motivational factors are _____ and maintenance factors are _____.

    [(a) Low; Low, (b) High; Low, (c) Low; High, (d) High; High]
18. "Multiple motivations make the choice of goals difficult for an individual." Explain.
19. Explain Etzioni's concept of power and explain how the use of different types of power by supervisors and managers affect discipline at the workplace.

Project

1. The purpose of this exercise is to reflect on the factors that motivate individuals to work. The following are the steps to implement this exercise.

   Step 1 The teacher introduces the exercise through a short description of the systems perspective of motivation which means that the entire set or system, of forces operating on the employee must be considered before the employee's motivation can be adequately understood. The system consists of three variables: individual characteristics, job characteristics and work situation characteristics.

   Step 2 The teacher then distributes among students the following form to be filled up by them *individually* within 30 minutes:

Variables affecting the motivational process in organisational settings

Individual characteristics (e.g., interests and needs)	***Job characteristics (e.g., autonomy)***	***Work situation characteristics (e.g., supervision)***
1.	1.	1.
2.	2.	2.
3.	3.	3.
4.	4.	4.

https://rbigradeb.com/

Step 3 After the individuals have completed writing, the teacher asks them to form into smaller groups of 4 to 5 persons to share their lists and then prepare group reports for each of the three classes of characteristics. The group reports may be presented to the total group for discussion.
Step 4 The teacher may finally prepare a summary by categorizing various characteristics, either according to Herzberg's or Maslow's theories of motivation.

Cases — Motivation Concepts, Supervisor's Tasks and Search for Motivators

1. Motivation Concepts

As part of the company management development programme, a group of managers from various functional areas has devoted several class sessions to a study of motivation theory and the relevance of such knowledge to the manager's. responsibility for directing and controlling the operations of the organisation. One of the participants in the programme is Ashok Jain who has been a supervisor in the production department for about a year. During the discussion session, Jain made the observation. 'Motivation theory makes sense in general, but there is really no opportunity for me to apply these concepts in my job situation. After all, our shop employees are unionised and have job security and wage scales that are negotiated which are not under my control. The study of motivation concepts has given me some ideas about how to get my children to do their chores and their home work, but it has not given me anything 1 can use on the job. Furthermore, in a working situation we are all dealing with adults, and it seems to me this reward and punishment thing smacks of personal manipulation that just won't go over with people."

Discussion Questions

1. In what respect is Jain correct in his comment about not having any opportunity to apply motivational concepts in his job situation?
2. What types of motivators for effective performance may Jain be overlooking?
3. What do you think about his concern that the application of motivational concepts leads to the manipulation of people?

2. Supervisor's Functions

For three months, tension has been building between two employees, Baldev and Ranga, who happen to be under the direction of the same supervisor. Apparently, Baldev is quite resentful of Ranga's promotion into a position which the latter feels he deserves. On two occasions there were confrontations between the two in front of other employees. After the second confrontation, the supervisor informs both of them that unless they resolve the problems between them, there will be serious consequences. Two weeks later, Ranga comes to the supervisor demanding that he does something about the situation. During the course of the conversation, Ranga begins to blame the supervisor for his lack of leadership in intervening in the conflict. Ranga feels that it is the supervisor's responsibility to assist employees in difficult situations; he demands some action immediately, or he will go to 'higher levels'. How would you react as a supervisor?

https://rbigradeb.com/

3. Search for Motivators

Mr Alok Banerjee is the chief executive of a medium-sized pharmaceutical firm in Calcutta. He holds a PhD in pharmacy. However, he has not been involved in research and development of new products for two decades. Though turnover is not a problem for the company, Mr Banerjee and his senior colleagues noticed that the workers on hourly basis are not working up to their full potential. It is a well-known fact that they filled their days with unnecessary and unproductive activities and worked only for sake of a pay cheque. In the recent past, the situation has become quite alarming as the organisation began to crumble under the weight of uneconomical effort. The situation demanded immediate managerial attention and prompt remedial measures. Mr Banerjee knew very well that the only way to progress and prosper is to motivate workers to peak performance through various incentive plans.

One fine morning, Mr Banerjee contacted the Personnel Manager and enquired: "What is the problem with the workers on hourly basis? The wage bill shows that we pay them the highest in the industry. Our working conditions are fine. Our fringe benefits are excellent. Still these workers are not motivated. What do they require really?" The Personnel Manager gave the following reply:

"I have already informed you a number of times, that money, working conditions and benefits are not enough. Other things are equally important. One of the workers in that group recently gave me a clue as to why more and more workers are joining the 'bandwagon of non-performers'. He felt bad that hard work and efficiency go unnoticed and unrewarded in our organisation. Our promotions and benefits plans are tied to length of service. Even the lazy workers, accordingly, enjoy all the benefits in the organisation, which, in fact, according to the workers, should go only to those who work hard." Mr. Banerjee then wanted the Personnel Manager to look into the problem more closely and find out a solution to the problems of workers on hourly basis."

Explain the motivational problem in this case by relating it to Herzberg's theory.

https://rbigradeb.com/

CHAPTER

16

COMMUNICATION

Learning Objectives

This chapter will enable the reader to:

- **Describe** the importance and purposes of communication
- **Discuss** the flows and forms of formal communication
- **Identify** the informal communication called grapevine
- **Describe** the communication process
- **Explain** the barriers to communication
- **Examine** the principles of effective communication
- **Explain** the meaning and characteristics of communication network
- **Describe** the checks on in-plant communication
- **Relate** the communication in Indian industries

https://rbigradeb.com/

Communication has been variously defined by a number of writers. According to Newman and Summer,[1] it is an exchange of facts, ideas, opinions or emotions by two or more persons. Allen Louis[2] defines it as the sum of all the things one person does when he wants to create understanding in the minds of another. Simply stated, communication means the process of passing information and understanding from one person to another. A proper understanding of information is one very important aspect of communication. If the information is not understood by the receiver in the same meaning in which its sender wants him to understand it, the purpose of communication is defeated. This may result in confusion, chaos and organisational inefficiency, leading to non-fulfilment of business goals. In short, communication is not merely transmission of information from one person to another but also correct interpretation and understanding of the information. It is not to get something *off the mind* of the person transmitting it, but to get something *into the mind* and actions of the person receiving it.

IMPORTANCE OF COMMUNICATION

The classicists ignored the importance of communication, for they believed that a business unit was only a technical and formal structure. However, after the thirties, as a result of the Hawthrone experiments, it was realised for the first time that every organisation structure is a social system involving the interactions of people working at different levels and proper communication among them is necessary for achieving the goals of the organisation. It is the basis to an organisation's existence from the birth of the organisation on through its continuing life. When communication stops, organised action comes to an end.

PURPOSES OF COMMUNICATION

Some important purposes which communication serves are as under:

1. Communication is needed in the *recruitment* process to persuade potential employees of the merits of working for the enterprise. The recruits are told about the company's organisation structure, its policies and practices.
2. Communication is needed in the area of *orientation* to make people acquainted with peers, superiors and with company's rules and regulations.
3. Communication is needed to enable employees to *perform their functions effectively.* Employees need to know their job's relationship and importance to the overall operation. This knowledge makes it easy for them to identify with the organisational mission. If a nurse in a hospital knows why she is to follow certain procedures with a patient and how this relates to the total therapy programme for him, it is much easier for her to develop an ideological commitment to the hospital.
4. Communication is needed to acquaint the subordinates with the *evaluation* of their contribution to enterprise activity. It is a matter of some motivational importance for the subordinates to know from their superior how they stand and what the future may hold for them. This appraisal, if intelligently carried out, boosts the subordinates' morale and helps them in building their career.

[1]W.H. Newman and C.E. Summer, *The Process of Management* (New Delhi: Prentice-Hall, 1965). p. 179.
[2]L.A. Allen, *Management and Organisation* (N.Y.: McGraw-Hill, 1958), p. 144.

https://rbigradeb.com/

5. Communication is needed to *teach employees about personal safety* on the job. This is essential to reduce accidents, to lower compensation and legal costs and to decrease recruitment and training cost for replacements.
6. Communication is of vital importance in *projecting the image* of an enterprise in the society. The amount of support which an enterprise receives from its social environment is affected by the information which elite groups and the wider public have acquired about its goals, activities and accomplishments. During the 1982 blowout at Bombay High, ONGC took care to keep the country informed about the steps that were being taken to combat the crisis. Contrast this with Union Carbide which did nothing to refurbish its image after the Bhopal Gas leak.
7. Communication helps the manager in his *decision process.* There is a spate of varied information produced in an enterprise. The manager must make a choice of useful and essential information which should reach him. The important question before him is 'what do I need to know?' It should be remembered that no two successive managers of the same plant will give the same answer to this question.
8. Communication helps in achieving *coordination.* In a large organisation, working on the basis of division of labour and specialisation, there is need for coordination among its component parts. This can be achieved only through communication. A good communication system is the basis of all interdependent activities which we find being carried out in different departments of an organisation. By providing information to each unit about the relevant activities of others, a good system of communication makes the interdependence of each unit acceptable to it. In the absence of communication, no unit would tolerate this interdependence. This will make coordination difficult. In the words of March and Simon, "The greater the efficiency of communication within the organisation, the greater the tolerance of a unit for interdependence."[3]
9. Communication promotes *cooperation and industrial peace.* Most of the disputes in an enterprise take place because of either lack of communication or improper communication. Communication helps the management to tell the subordinates about the objectives of the business and how they can help in achieving them. Similarly, communication helps the subordinates in putting forth their grievances, suggestions, etc. before the management. Thus communication helps in promoting mutual understanding, cooperation and goodwill between the management and workers.
10. Communication increases *managerial efficiency.* It is said that the world of modem management is the world of communication and the success of a manager in the performance of his duties depends on his ability to communicate. Administrators in business and industry reportedly spend between 75 and 95 per cent of their time communicating (either sending or receiving messages.[4]) Naturally then, an effective system of communication is very essential for the efficiency of a manager. Benjamin Balinsky has rightly remarked that, 'if there is any shortcut to executive effectiveness, it is the mastery of the art of face to face communication."

In summary, it can be said that the purposes of communication are:

1. To provide the information and understanding necessary for group effort (i.e., the skill to work); and
2. To provide the attitudes necessary for motivation, cooperation and job satisfaction (i.e., the will to work).

[3]J.G. March and H.A. Simon, *Organisations* (N.Y.: John Wiley & Sons, 1958), p. 162.
[4]Lee O Thayer, *Administrative Communication* (Homewood, III.: Richard D. Irwin, 1961), p. 3.

https://rbigradeb.com/

FORMAL COMMUNICATION

Much of the communication in an organisation is what we call formal communication. It flows in formally established channels and is concerned with work-related matters. All orders, instructions and decisions are communicated to the subordinates through this channel. Formal communications flow in four directions: downward, upward, laterally between departments and between the organisation and the external environment.

Downward Communications

Communications which flow from superiors to the subordinates are known as downward communications. These communications are the medium through which the superior:

1. *directs* the efforts of his subordinates;
2. *communicates* the rationale for the job;
3. *defines* the relation of the job with the goals of the organisation and of other sub-groups.
4. *tells* the subordinates what is expected of them, what resources are available, how well they are doing, etc.; and
5. *administers* reward and punishment.

There can be several media of downward communication such as written orders, poster and bulletin boards, company periodicals and hand-books, information racks, loud-speakers, grapevine, annual reports, group meetings and the labour union. Of all these, orders are the most frequent.

In Japan, the media extensively used for downward communication are KANBAN and Morning Meetings. Kanban means display of information through sign boards, charts, graphs, etc. Morning meetings of workers are held before the start of the day's work and during tea breaks generally for 5 to 10 minutes. In these meetings the supervisor first addresses the group. He then discusses the day's task, its distribution and the resources required for its completion. After the supervisor's address, a senior workman addresses the group telling about the quality related problems of the previous day's output and measures for avoiding the same. During these meetings workers are also allowed to give suggestions, raise grievances and do mutual leave planning with the help of the supervisor.

Upward Communications

Communications which flow from the subordinates to superiors are called upward communications. These communications generally act as a feedback. They enable the management to know how far downward communications have been understood and carried out. They also help the management to know the grievances or suggestions of the subordinates and the way in which the management is seen by the subordinates.

There can be several media of upward communication, such as face-to-face contacts, group meetings, grievance procedure, use of gripe boxes, opinion surveys, letter to the editor of the company's periodical, called "house organ", an open-door policy, exit interviews and so on. Many companies, now-a-days, create their web sites, called "blogs", which, besides attracting job-seekers, act as a platform for exchanging ideas with employees.

https://rbigradeb.com/

Horizontal Communications

These are also known as lateral, interactive or cross-wise communications. They generally refer to communications among peers, who are working on the same level of the organisation. The production foreman and the maintenance foreman communicate directly without going through their managers. In this way, lateral communication avoids the much slower procedure of directing communications through a common superior.

Important *purposes* of horizontal or interactive communications are as follows:

1. **Task coordination** The department heads may meet monthly to discuss how each department is contributing to achieve overall goals.
2. **Problem solving** The members of a department may assemble to discuss how they will handle a threatened budget cut; they may employ brainstorming techniques.
3. **Information sharing** The members of one department may meet the members of another department to give them some new data.
4. **Conflict resolution** The members of two departments may meet to discuss any conflict between them.

External Communications

These are proactive, consistent and ongoing communications with external agencies, like current and potential customers, government departments, competitors, trade unions, financial institutions, raw material suppliers, etc. These communications aim at building the company's image and influencing policies and decisions in company's favour.

FORMS OF COMMUNICATION

Broadly speaking, there can be three forms of communication: oral, written and non-verbal.

Oral Communication

In oral or verbal communication, information is given directly, either face to face or through a telephone or intercom system. Generally, in meetings, lectures, interviews, conferences, etc. the communication is oral. Some of the merits of oral communication are: (a) It is a time and money saving device. (b) As there is an element of personal touch, it is comparatively more effective. (c) Doubts can be clarified on the spot and the communication can be understood easily. (d) Important points may be emphasised through body language. (e) The effects of communication can be easily measured. (f) It provides for greater flexibility.

Oral communication, however, suffers from certain limitations. These are: (a) It is not useful where the parties are very far from each other, even beyond telephonic range. (b) It is not suitable for lengthy communications. (c) There is no permanent record of communication. (d) It is especially affected by previous attitudes of the parties. (e) If the communicator is poor in vocal expression, oral communications are likely to be misunderstood and misinterpreted.

https://rbigradeb.com/

Written Communication

Written communication, which is always in black and white can take the form of a report, statement, circular, note, manual, handbook, letter, memo, standard condensed language or company lingo. etc. Some of the merits of written communication are as follows: (a) It is suitable for lengthy communications. (b) If the parties are far from each other, even beyond telephonic range, written communication is the only way out. (c) It can be kept as a permanent record and at times be referred to as evidence. (d) There are fewer chances of missing out a point. (e) Written communication serves as a solid base for taking action against a subordinate who disobeys it.

Some of the disadvantages of written communication are as follows: (a) There is a greater chance of the communication being misunderstood. (b) It is very time consuming. (c) There is no scope for face to face discussion. (d) It is difficult to maintain secrecy about the matter communicated. (e) It suffers from a lack of flexibility. (f) Poorly written messages followed by numerous clarifications both written and oral, may lead to a lot of confusion.

Non-verbal Communication

All of us constantly send clues about our feelings—not by what we say, but by what we do. *This is called non-verbal communication.* Three important forms of non-verbal communication are body language (example facial expression, posture, gestures, etc.), time (example being late or early), and space (example, how close one gets during a conversation or seating arrangements in a committee meeting). Sometimes, the tone of voice (genuine or fake), laughing and yawning and environmental context, called *paralanguage* may also become the part of nonverbal communication.

One of the biggest challenges facing international managers is that the nationals of each country typically use their language and speech in a different way. In one culture people will lower their voice to indicate the seriousness of a situation, whereas in another culture they will speak very loudly to convey the same message. In one culture people will talk rapidly and can be regarded as highly credible, whereas in another country they will speak slowly and achieve the same result.

INFORMAL COMMUNICATION

In Chapter 10, we have read in detail about an informal organisation. One of the functions of informal organisation is communication. Known as the *"grapevine",* this structureless network of informal communication flourishes in all organisations because communication is a natural human tendency. People who know each other in the organisation talk together informally. One thing they have in common is the organisation they work for, so they talk about the happenings in the organisation.

The grapevine carries two types of information: work-related and people-related. Employees want to know what is going on in the organisation. When they are not kept informed through formal channels, they seek information from the grapevine. Likewise, they are curious about the people they work with. The grapevine carries the type of personal information not generally communicated through formal channels. For example, a manager cannot announce his bad mood officially to his subordinates. The best way to do this would be to put this information on the grapevine so that it reaches the subordinates informally.

https://rbigradeb.com/

Some Characteristics of a Grapevine

1. Grapevine information is mostly oral. But it can be written also, as in the case of two employees working in two branches of a company exchanging information through teleprinter.
2. Although the general impression is that the grapevine operates like a long chain in which A tells B, B tells C, C tells D, and so on, but research shows that it follows a cluster chain, which means that A, instead of telling one person, tells 3 or 4 persons and out of these 3 or 4 persons, 1 or 2 persons again pass on the information to 3 or 4 persons each. In other words, only a few in the grapevine spread the information. The majority does not repeat it. Persons who keep the grapevine active are called liaison individuals.
3. Research on grapevine accuracy shows that out of the total communication bits, well over three-fourths are accurate. But the inaccurate bits, though small in proportion are more devastating in effect. In fact, these inaccurate bits alone should be called rumours but many times the word rumour is used for the whole grapevine.
4. A grapevine is more a product of the situation than it is of the person. For example, one can find grapevine humming with activity during periods of excitement and insecurity, such as during a threat of a lay-off.
5. A grapevine has remarkable speed. Its fast speed makes it quite difficult for the management to stop rumours or to release significant news in time to prevent rumour formation.
6. A grapevine helps management in interpreting its policies to the workers and communicating their reactions and feelings to the management.

Control of Rumour

Researchers have shown that rumour is a product of *interest* and *ambiguity* in a situation. If a person has no interest in a situation, he has no cause to spread rumour about it. Similarly if, there is no ambiguity in a situation, a person has no cause for spreading rumours. Hence, a manager can prevent rumour by not allowing these two causes to develop. However, if a rumour has started, it should be stopped soon by:

- supplying facts fact-to-face without mentioning the rumour itself. Repeating the rumour can result in its being as well remembered as the facts that refuse it,
- allowing participation to members in determining some part of the situation which affects them, and
- seeking cooperation of dependable informal leaders in combating rumour.

THE COMMUNICATION PROCESS

Whether formal or informal, the basic communication process is still the same. It involves six steps: ideation, encoding, transmission, receiving, decoding and acting.

Communication starts in the mind of the sender (ideation). The sender has an idea that he wants to communicate to the receiver. The sender then develops a message to convey the idea (encoding). Language skills are important at this point. Some people seem to know just how to phrase message to get their ideas across, while others have a great deal of difficulty in expressing themselves. Once developed, the message is transmitted (transmission). It may be spoken or written. Or, it may be

https://rbigradeb.com/

communicated non-verbally by a smile, a nod or a shrug of the shoulder. Once transmitted, the message is received and the receiver attaches meaning to it (decoding). There are problems in attaching meaning to the message. Words often mean different things to different people, and the same word may have many different meanings. Further, we interpret (or decode) a message on the basis of past experience, making certain assumption about its meaning. The final step in the communication process is action. The receiver acts or responds in some way. This is *feedback*. Without feedback, the sender cannot be certain if the message was received and the proper meaning attached to it. With feedback, any distortion in meaning can be corrected by another communication.

Because the above communication situation, involving just two persons, includes not only the flow of information to the receiver but also the flow of feedback to the sender it forms a closed circuit and is called the *circuit communication* model.

BARRIERS TO COMMUNICATION

There is no such thing as perfect communication. There are continuous forces at work—called barriers which tend to distort communication and promote disorganisation. We may summarise these barriers as under:

1. ***Badly expressed message*** People may talk too fast. They may lack coherence. They may organise their ideas poorly or may omit certain essential details. They may structure their sentences awkwardly or may make errors in their selection of words. All of these may distort a message. A story is often told about the confusion created when the sentence "Jerusalem—there is no city like it", which appeared in the Hebrew version of the city's sight-seeing booklet, was translated in its English version thus: "Jerusalem—there is no such city." Whirlpool's research showed that customers wanted clean refrigerators, which could be interpreted to mean that they wanted easy-to-clean refrigerators. After asking more questions Whirlpool found out that what consumers actually wanted was refrigerators that looked clean with minimum fuss. As a result, Whirlpool designed new models that hide fingerprints.

2. ***Faulty organisation*** In a large-scale enterprise where the chain of command is too long or the span of control too big, communication will be poor. This is because successive transmissions of the same message are decreasingly accurate. According to Koontz and O' Donnel, in oral communication, something in the order of 30 per cent of the information is lost in each transmission.

3. ***Distrust of communicator*** Some executives are noted for their habits of countermanding or modifying their original communications. Such executives invariably lose the trust and confidence of their subordinates. Subordinates do not take their communications seriously.

4. ***Restricting communication*** In downward communication, a superior may withhold a part of the information from his subordinates under the belief that they do not need it. Similarly, in upward communication, the subordinate may omit unfavourable parts of the information which he thinks will not be liked by his superiors. This is called *filtering*. Most people do not want to be the bearer of bad news or reveal their mistakes to their boss.

5. ***Poor retention*** Studies[5] show that employees retain only 50 per cent of communicated information.

6. ***Different backgrounds*** One reason for distortion of meaning is that different individuals often interpret the same communication differently; each individual uses his own frame of reference. This

[5]R. Bellows, T.Q. Gilson and G.S. Odiome, *Executive Skills* (Englewood, N.J.: Prentice-Hall, 1962), pp. 60–61.

https://rbigradeb.com/

frame of reference is based on particular experience and knowledge. Thus, when people with different knowledge and experiences try to communicate, they often have trouble getting their meanings across.

7. ***In-group language*** Often, occupational or social groups develop their own terminology or in-group language. This special language, though provides a means for precise and quick communication within the group, creates severe communication breakdown when outsiders or other groups are involved.

8. ***Inattention*** Another common barrier is that many receivers simply do not pay attention to the message. One reason people do not pay attention is selective listening. Selective listening results from a common tendency to block out information that conflicts with what we believe. When we listen to a speech or read a newspaper, we generally pay attention only to those things that confirm our beliefs. Sometimes people do not pay attention to communication because they are victims of communication overload or because the information is unsolicited. The source of communication, and the way in which it is presented also determine for its recipient how much attention he gives it. Major barriers to horizontal communication are inter-departmental rivalries, incorrect grouping of activities, inter-personal conflicts and indifference toward organisational goals.

9. ***Physical barriers*** These are environmental factors which prevent or reduce the sending or receiving of communication. They include physical distance, distracting noises, and similar interferences.

10. ***Poor understanding*** In downward communication a superior may not have full understanding of the information to be able to interpret it to the workers. Just as a photograph can be no clearer than the negative from which it is printed, the superior cannot transmit more clearly than he understands.

PRINCIPLES OF EFFECTIVE COMMUNICATION

The success of manager depends on how well he communicates. Therefore, communication is the most vital management tool. The management, in order to have effective communication, should keep the following principles of communication in mind:

1. The manager who wants to communicate must be clear in his mind about the objective of his communication. He should know what he wants to communicate. As W.H. Whyte[6] has remarked, "the great enemy of communication is the illusion of it." Many executives mistake the form of communication for its matter and pay too much attention to media and devices and too little to purpose and context.
2. The communication should be in easily understandable language. For this it is necessary to know and understand the audience. For example, if the manager is writing a letter to the Board of Directors on the subject of a new wage incentive plan, he would have to word it differently from the one which he submits to the people in the shop. The reason for this is that the educational background and understanding of the two groups differ.
3. Communication should be adequate and complete in all respects. If all the necessary information has not been supplied, people make assumptions about the missing information. This can result in concluding an incorrect meaning.
4. The medium of communication must be carefully selected. The medium to be selected depends on the subject matter, urgency of communication, situation, etc.

[6]W.H. Whyte, *The Organisation Man* (N.Y.: Simon and Schuster Inc., 1956).

https://rbigradeb.com/

5. Messages should not be mutually conflicting and should be in line with the overall objectives and policies of the concern. This will avoid chaos and confusion in the organisation.
6. There is also a need for the right climate in the organisation. There should be a good superior-subordinate relationship characterised by openness and trust so that everybody may feel free to communicate and to make suggestions on his own. The physical setting should also facilitate communication.
7. There should be follow up of communication to know whether or not the receiver has understood the message correctly and to know his reaction feedback is necessary to ensure understanding. This does not occur automatically; it must be encouraged.

A vice-president in large corporation was having trouble with his division managers who occasionally responded inappropriately to his memos. An external consultant was invited to find a solution of this problem. The consultant designed a work session to be held from 9 a.m. to lunch on a regular work day in the staff meeting room. Before the meeting, several memos from the vice-president to the division managers were selected and prepared on a glass slide which could then be shown on a screen via a projector. With the vice-president and the consultant present, all division managers after reading each memo on the screen, were asked 3 questions:

- What do you think the message says?
- What priority would you give to the message?
  High: Take care of the matter immediately,
  Medium: Take care of the matter relatively soon,
  Low: Take care of the matter when I can get to it.
- What action would you take?

After every one responded to the 3 questions by writing his answers, each manager was asked to read his response to the total group. Considerable differences occurred among the managers. Later, the vice-president explained what he meant the memos to say, what priority he desired and what action he wanted.

As a result of the above strategy following changes occurred:

(i) A number of misunderstandings were corrected and learning took place both on the part of the vice-president and the division managers.

(ii) A norm concerning inter-personal communication was changed. Prior to the session, few of the division managers after receiving a memo from the vice-president communicated with him directly to seek clarification of the memo even when the message was ambiguous. But now there was greater dialogue, both face-to-face and through telephone, between the vice-president and his subordinates.

8. The communicator should not act in any way which contradicts his message. A communicator is judged not only by what he says but also by what he does. Actions speak louder than words. Hence, the action of the communicator should be in line with the message conveyed.
9. Every executive should realise that the grapevine is a powerful channel in an organisation. Generally, it is better to use the grapevine than to try to fight it.
10. There should be provision for adequate training facilities to the executives for improving their skills in report-writing, effective speaking, lecturing, interviewing and listening. Good listening is one of the weakest points of executives in oral communication, especially when they are talking

https://rbigradeb.com/

to persons below them in the organisation structure. Nature has given man two ears but only one tongue. This is a gentle hint that he should listen more than he talks.

Following are some *commandments for good listening:*

1. *Be interested in listening.* Chesterton once remarked, "There is nothing like an uninteresting subject. There are only uninterested persons."
2. *Rise above your personal hostility.* Also give up your usual role of authority.
3. *Concentrate on listening.* Listening is a conscious, positive act requiring will power. It is not a simple, passive exposure to sound.
4. *Minimise distractions.* Do not doodle, tap, or shuffle papers.
5. *Be patient.* Allow plenty of time. Do not interrupt. Don't start for the door or walk away. Do not get angry.
6. *Ask reflective questions.* These questions help to bring out the real problem because many times the problem which the communicator speaks about is not the real problem.
7. *Empathise with the communicator.* Try to put yourself in his place so that you can see his point of view.

COMMUNICATION NETWORKS

When just two persons are involved in communication we call it the *circuit communication* model. But when there are several groups of senders and receivers of information in an organisation interconnected by communication channels, they are viewed as a *communication network*. Figure 16.1 portrays a partial communication network of an organisation.

All communication networks possess some basic *characteristics* which differentiate them from each other. These are as follows:

1. **Size of Network** The size of a network is measured in terms of the number of decision centres it interconnects. Some communication networks are very big, others are small. In general, the larger the network, the greater are the problems of communication. However, large networks with several interconnecting communication links have been found to be more effective where problems are more complex and ambiguous. Figure 16.1 has five decision centres. Sales department has the largest number (3) of outgoing channels.

2. **Extent of Modification Taking Place in the Message** In Fig. 16.1 communication network the same original message flows through all the stages without modification but in some others a change in the message occurs as it passes through different links. The first pattern has the advantage of uniformity. Every one in the network is exposed to identical information. Nonetheless, the uniformity of this pattern may be advantageous only for simple problems. For complex matters a message may need to be modified at different stages according to the needs of the people.

3. **Feedback or Closure** Communication networks also differ from each other in the way in which their communication cycles close. In some networks the cycle closes as the receiver of the message acknowledges its receipt and accepts it. But in some others the cycle does not close because the receiver does not accept the message but attempts to alter it. In Fig. 16.1 there would be five (one for each communication channel) feedback loops if we assume that the cycle closes as the receiver acknowledges its receipt and accepts it.

https://rbigradeb.com/

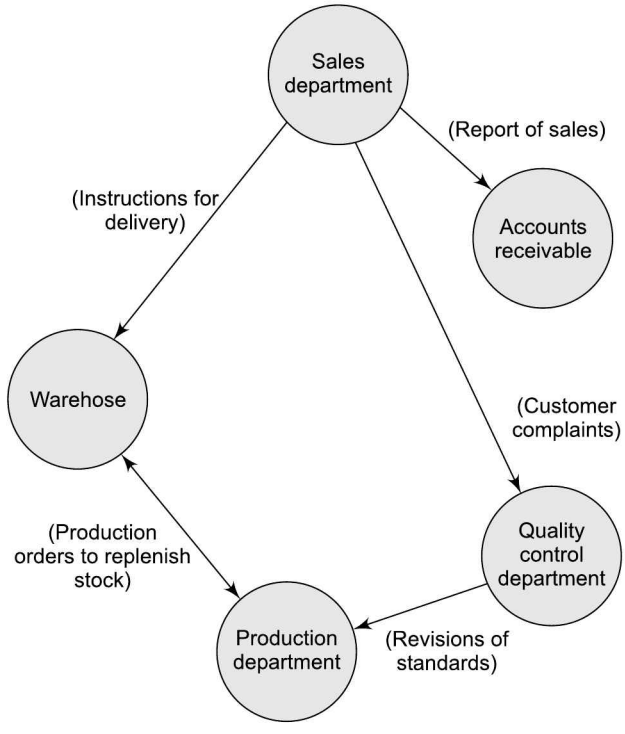


Fig. 16.1 A partial communication network

4. **Communication Pattern** Within the group or decision centre communication networks also differ from each other in the extent to which they are centralized or decentralized within each decision centre.

Four major types of *small-group communication networks* are shown in Fig. 16.2. These are the Circle, Free (Decentralised) Circle. Wheel and Chain networks. Each black circle represents an individual in a working group, and the solid line connects the individual with the other members of the group he or she normally interacts with in performing a task.

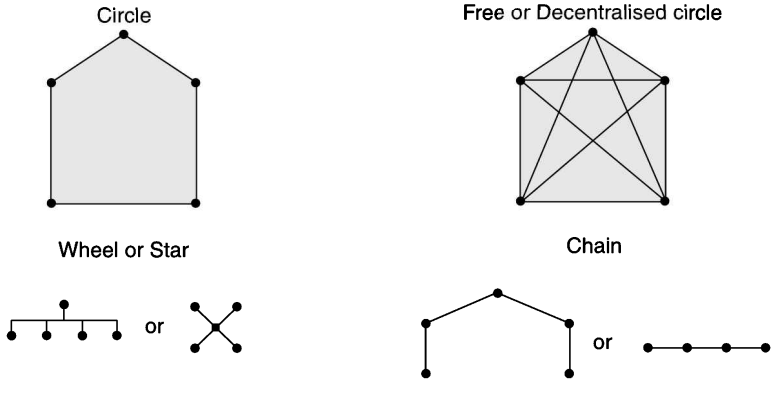


Fig. 16.2 Small-group communication networks

https://rbigradeb.com/

In the circle network, for example in a meeting, an individual normally converses with the person on his right or left, but not with any other member of the group. In the free circle group all members converse frequently and equally with all other members of the group. The wheel network, popularly referred to as an autocratic situation, is a typical organisational set-up. The distinguishing characteristic of this network is that the members do not normally communicate with one another. They interact with the hub of the wheel, the leader of the group. The chain network has all the appearances of an organisational chain of command. *A* reports to *B,* who reports to *C*, and so on. In actual practice, this network may appear within an assembly line working group or a group whose members are all at the same organisational level or rank. The two end positions might be occupied by people who tend to be introverted and prefer normally to communicate with only one person. In the middle positions, the normal interactions may be determined primarily by friendship.

Early classical studies of simple communication networks carried out by Bavelas and Barrett[7] in laboratory conditions have shown that each network causes different levels of morale, speed and accuracy, as shown in Table 16.1.

Table 16.1 Performance of the Circle, Chain and Wheel Communication Networks

	Circle	*Chain*	*Wheel*
1. Speed of performance	Slow	Fast	Very fast
2. Accuracy	Poor	Good	Good
3. Flexibility to change	Very fast	Slow	Slow
4. Emergence of leadership	None	Marked	Very pronounced
5. Morale	Very good	Poor	Very poor

It will be seen from Table 16.1 that the wheel and chain networks give the best job performance but they also have the lowest morale and show less flexibility to changes. In a circle or free network, since every one in the group is free to utilize whatever channels of communication he desires, most of the group's time is spent in discussion and useless debates and very little work is accomplished. But the morale in such groups is high because each person's device is appreciated and carefully evaluated.

On the other hand, experiments by M.E. Shaw,[8] using more complex problems have shown that the circle is faster and makes fewer mistakes than the wheel. The reason for this seems to lie in the fact that when the task is complex, individuals may refuse to accept the dictates of the central person without sufficient information. This forces the central person to handle more and more messages. In consequence, the speed of performance is slowed down. This is not so in a circle network.

CHECKS ON IN-PLANT COMMUNICATION

Communication occupies a major portion of the manager's time and attention. Much of this time and effort may be wasted if the communication practices in vogue are either ineffective or are less useful

[7]A. Bavelas and D. Barrett, "An experimental approach to organisational communication", *Personnel,* March 1951, pp. 366–371.

[8]M.E. Shaw, "Some effects of unequal distribution of information upon group performance in various communication nets", *Journal of Abnormal and Social Psychology,* Oct. 1954, pp. 547–553 and "Some effects of problem complexity upon problem solution efficiency in different communication nets", *Journal of Experimental Psychology,* Sept. 1954, pp. 212–217.

https://rbigradeb.com/

than assumed. For this reason, the manager should check his communication programmes and examine each of the three phases: transmission, media and reception. The tests generally used for this purpose are: (a) morale studies, (b) evaluation of reading ease and interest, and (c) communication audits.

Morale Studies

Questionnaire surveys of employee opinions usually include a communication dimension or sub-scale. They may ask for detailed reactions to particular practices and media. Respondents' answers and comments provide valuable evidence on how they view upward and horizontal communication and what they see as desirable supplements to current practice.

Evaluation of Reading Ease and Interest

This method seeks to classify written materials, such as employee handbooks, house organs, union newspapers, etc. in terms of the ease with which they may be read and the interest which they evoke. Two principal techniques used to measure reading ease are the Robert Gunning technique (known as the Fox Index) and the Rudolph Flesch technique. Under this second technique, reading ease is correlated with the length of words and sentences.

Communication Audits

These audits generally seek to measure the information known to various groups of managers and employees and compare this information with what has been made available to them. One more purpose of these audits may be to make a content analysis of employee publications and to discover who reads them and what features attract greatest interest and approval.

COMMUNICATION IN INDIAN INDUSTRIES

In India, in almost all enterprises in the public sector and in a great many in the private sector, only a secondary place has been given to communication.

Managements of these enterprises do not handle downward communications with employees particularly well. Some of the existing problems are as follows:

1. Management dictates to employees too much and listens too little.
2. Too little of what is communicated is understood by the employees.
3. Too little of what is communicated is of concern to the employees.
4. Too much propaganda is communicated.
5. There is too little candour.
6. Communication bears too little relation to the possibility of change.

Upward communication which has to flow against the stream of authority is even poorer. In a study[9] of a giant-sized departmentally-managed public sector organisation, it has been found that very few upward communications are made on such vital matters as poor work performance, unfavourable reactions by others, unfavourable opinions and attitudes of workers, and breach of procedure in doing a

[9]Lalmani Prasad, "An assessment of upward communication in a public sector organisation," *Lok Udyog*, Vol. x, No. 4 July 1976.

https://rbigradeb.com/

job. The percentage of subordinates claiming to communicate this information upward is very nominal (less than 10 per cent). It is only in respect of favourable work performance and problems relating to work that more than 75 per cent of the subordinates usually communicate to their superiors. Nine per cent of the messages transmitted by subordinates get lost in transit. Here also the loss is particularly of those messages which are in respect of unfavourable reactions, attitudes and criticisms. Upward communication of unfavourable reports is usually delayed. Distortion and manipulation of information takes place primarily in upward communication of reports about practices not followed properly.

SUMMARY

- Communication may be defined as the process of passing information and understanding from one person to another. Communication provides employees both the skill to work and the will to work.
- Communication can be *formal or informal.* Formal communication can be either vertical, lateral or external. Vertical communication is communication that moves up and down the organisation's chain of command. Lateral communication is between persons in two different departments. It improves coordination. External communication is with external agencies like customers, financial institutions, raw material suppliers, etc. It aims at building the company image and influencing policies and decisions in company's favour. The *three forms of formal communication are:* oral, written and non-verbal.
- Informal communication occurs outside the organisation's formal channels. A particularly quick and pervasive type of informal communication is the "grapevine".
- Whether formal or informal, the six steps of the communication process are: ideation, encoding, transmission, receiving, decoding and acting. *Encoding* is the process by which the sender converts the information to be transmitted into the appropriate words, symbols or gestures. *Decoding* is the process by which the receiver interprets the message. If the decoding matches the sender's encoding, the communication has been effective.
- Barriers to effective communication include badly expressed messages, faulty organisation, distrust of the communicator, restricting communication, poor retention, different backgrounds, in-group language and inattention. Many of these barriers can be overcome through the use of feedback and simple language.
- There can be three types of communication networks (circle, wheel and chain) in a working group. Experiments have found that wheel and chain networks are faster and more accurate than the circle for simple tasks, while for complex tasks, circle networks are quicker and more accurate. Group member satisfaction is higher in decentralized circle networks.
- In India, in almost all enterprises in the public sector and in a great many in the private sector only a secondary place has been given to communication.

KEY TERMS

Feedback This is passing of information and understanding in the reverse of the usual direction, that is, from receiver to sender.

Filtering This is a biased choice of what is communicated, on the part of either the sender or the receiver.

https://rbigradeb.com/

Communication Network This is a system of decision centres (or individuals) interconnected by communication channels.

Grapevine This is a structureless network of informal communication.

Kanban This is a Japanese term which means display of information through signboards, charts, graphs, etc.

Ingroup Language This is the language or terminology developed by a group for its internal use.

Gripe Boxes These are boxes in which the employees can drop their anonymous complaints.

Exit Interviews These are interviews of employees, held at the time of their quitting an organisation, with the object of knowing the reasons for quitting.

Open-door Policy Under this policy organisations extend a general invitation to their employees to informally drop in the manager's room any time, and talk over their grievances.

Para Language As a part of non-verbal communication this consists of tone of voice, laughing, yawning and environmental context.

Review Questions

1. Define communication and describe the important steps involved in a communication process.
2. What is communication? Describe its importance.
3. Distinguish between "formal" and "informal" communication. Describe the various directions in which the formal communication generally flows.
4. What is communication? Describe its various forms.
5. Explain the principal barriers to communication and suggest measures to make communication effective.
6. Explain the principles of effective communication.
7. Describe important communication networks in work-oriented groups. How will you check the effectiveness of the communication system prevailing in your organisation?
8. "Communication is sharing of understanding." Comment.
9. Write short notes on:
   (a) Communication Process
   (b) Checks on in-plant communication
   (c) Characteristics of grapevine
10. Fill in the blanks:
   (a) Rumour is a product of interest and _____.
   (b) Attaching meaning to the received message is called _____.
   (c) According to W.H. White, the great enemy of communication is the _____ of it.
   (d) In "wheel" communication net work job performance is very _____.
   (e) Forces which tend to distort communication are called _____ to communication.
   (f) Of the three patterns, the one in which the leadership is most pronounced is the _____ pattern.

   [(a) Ambiguity, (b) Decoding, (c) Illusion, (d) Fast, (e) Barriers, (f) Centralised, wheel or star.]

https://rbigradeb.com/

Project

1. The goals of this exercise are as follows:
   (a) To experience how speaker's style of speaking facilitates or inhibits listening
   (b) To understand that effective listening requires efforts on the part of the listener

   The following steps are involved in the implementation of this exercise:

   Step 1 The teacher announces a subject of topical interest and asks any two students (say A and B) to discuss the topic and others to listen to the conversation.

   Step 2 Both A and B are asked to speak only *after* each has first accurately *restated* the ideas expressed by the other and to that person's satisfaction. Each of them can seek clarification from the other till he is fully satisfied. This checking of each other's ideas is followed throughout the conversation which continues for ten minutes.

   Step 3 All other students maintain silence and only write down their observations.

   Step 4 When the conversation is over the teacher:
   - Asks A and B to describe the difficulties they experienced in listening to each other. These may relate to the tone of the speaker, speed of speaking, length of sentences, noise, etc.
   - Checks the above responses with the responses collected from all other participants and discusses the consequences of poor listening and poor speaking.

Case — Ensuring Effective Communication

In the New India Insurance Company, two of the sessions in the ten-session supervisory development programme are concerned with the topic of communication and its importance in managerial success. Near the end of the first session, Ram Dayal, supervisor of the billing department, volunteered to comment that even though he found the topic to be interesting and agreed that it was important, something vital was missing in the company's training programme. "As a supervisor, my problem is that people just do not know how to listen," he said. "With a lot of my people, after I spend a great deal of effort instructing them as to exactly what to do, they are just as likely to be doing something entirely different when I check on their progress later. What we should do is set up a course in good listening and have all our employees take it."

Discussion Questions

(a) Do you agree with Ram Dayal that communication can be improved by having people develop better listening skills?

(b) Do you think Ram Dayal is effective as a communicator? How might he improve?

https://rbigradeb.com/

CHAPTER

17

LEADERSHIP

Learning Objectives

This chapter will enable the reader to:

- **Define** leadership
- **Present** the difference between a leader and a manager
- **Describe** the characteristics of leadership
- **Relate** the functions of a leader
- **Discuss** the traditional theories of leadership, including the traditional, behavioural and contingency approaches
- **Examine** the situational forces determining the choice of leadership style
- **Identify** the new approaches to leadership such as charismatic and transformational approaches
- **Describe** leadership assessment
- **Relate** leadership style in Indian organisations and worker participation in management

https://rbigradeb.com/

The success of every industrial enterprise is dependent upon the quality of its leadership. For example, the Tata Iron & Steel Co., Jamshedpur or the Reliance, would not have attained their present success but for the able leadership of J.N. Tata and Dhiru Bhai Ambani respectively. In a business enterprise, several tasks, such as determining the objectives of the enterprise, designing the methods to achieve them, directing and coordinating the activities of various departments, etc. can be successfully performed only if there is able leadership. In the words of George R. Terry,[1] "The will to do is triggered by leadership and lukewarm desires for achievement are transformed into burning passion for successful accomplishment by the skillful use of leadership." According to Peter Drucker,[2] "Leadership is the lifting of man's visions to higher sights, the raising of man's performance to a higher standard, the building of man's personality beyond its normal limitations." Alford and Beatty[3] define leadership as the ability to secure desirable actions from a group of followers voluntarily without the use of coercion. According to Keith Davis,[4] leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor which binds a group together and motivates it towards goals.

DIFFERENCE BETWEEN A LEADER AND A MANAGER

1. A person *emerges* as a leader. The question whether he will or will not emerge as leader always depends on a number of situational factors. A manager, on the other hand, is always put into his position by *appointment.*
2. A leader always has some *personal power* (i.e., ability to influence) that enables him to lead. He may or may not have *positional power* (i.e., the right to command). A manager, on the other hand, always has some *positional power.* He may or may not have personal power. If he has also personal power, then he will be that much more effective as a manager.
3. A leader focuses on people and generally seeks those very objectives which are the objectives of his followers. Thus there is *mutuality of objectives* between the leader and his followers. A manager, on the other hand, focuses on systems and structures and seeks those objectives which his subordinates do not regard as their own. Thus there is *clash of objectives.*
4. A leader generally looks at the horizon and not just the bottom line. He is innovative, challenges the status quo and believes in *doing right things.* A manager, on the other hand, is generally bureaucratic, accepts the status quo and believes in *doing things right,* according to the rules, to cope with complexity.

It should be noted that in today's changing business environment, notwithstanding the above difference, even managers are in leadership roles. Therefore, in this chapter, the terms 'leaders' and managers' are used interchangeably.

CHARACTERISTICS OF LEADERSHIP

Some important characteristics of leadership are as follows.

1. ***Leadership implies the existence of followers*** We appraise the quality of a person's leadership in practice by studying his followers. We ask: How many and what kind of followers does he have?

[1]George R. Terry, *Principles of Management* (Illinois: Richard D. Irwin Inc., 1960), p. 442.
[2]Peter Drucker, *Practice of Management* (New Delhi: Allied Publishers Pvt Ltd. 1970), p. 159.
[3]L.P. Alford and H.R. Beatty, *Principles of Industrial Management* (N.Y.: Ronald Press, 1951), p. 111.
[4]Keith Davis, *Human Behavior at Work* (New York: McGraw-Hill, 1967), p. 96.

https://rbigradeb.com/

How strong is their commitment as a result of his leadership? How long will their commitment last? By answering questions of this nature we get to know the quality of leadership. We must not, however, forget that leaders within organisations are also followers. The supervisor works for a branch head, who works for a division manager, who works for the vice-president of a department and so on. Thus, in formal organisations of several levels, a leader has to be able to wear both hats gracefully, to be able to relate himself both upward and downward.

2. ***Leadership involves a community of interest between the leader and his followers*** In other words, the objectives of both the leader and his men are one and the same. If the leader strives for one purpose and his team of workers for some other purpose, it is no leadership. In the words of G.R. Terry, "Leadership is the activity of influencing people to strive willingly for mutual objectives."[5]

3. ***Leadership involves an unequal distribution of authority among leaders and group members*** Leaders can direct some of the activities of group members; that is the group members are compelled or are willing to obey most of the leader's directions. The group members cannot similarly direct the leader's activities, though they will obviously affect those activities in a number of ways.

4. ***Leadership implies that leaders can influence their followers or subordinates in addition to being able to give their followers or subordinates legitimate directions*** In other words, leaders not only tell their subordinates what to do by way of command but also influence by their behaviour and conduct. The use of command by leaders succeeds only in bringing about a temporary behavioural change in the followers. Permanent attitudinal change in followers comes through the use of influence only. According to Hersey and Blanchard[6] leadership of the first type though successful is not effective. The second type of leadership is both successful and effective.

FUNCTIONS OF A LEADER

When we think of leadership, we generally think of *executive leadership*, which focuses on the functions of senior managers in guiding an organisation to fulfill its mission and meet its goals. Krech and Crutchfield[7] give a list of 14 functions performed by executive leadership *in general*. These functions fall into three categories as described below:

Setting and Achieving Organisational Goals

Under this category, the functions of a leader are as follows:

Goal-Setter A leader may either establish organisational goals and objectives himself, or he may participate with his superiors or subordinates in establishing them. Thus the president of a company perhaps in collaboration with the board of directors or with his staff, determines the nature of the commodities or services with which the company will be concerned.

Planner This function is intermediate between the determination of goals and their execution. In this connection, the leader makes decisions concerning the ways and means by which the organisational goals can be achieved. A foreman not only assigns tasks to his subordinates but he may also plan work schedules and devise operational procedures.

[5]Ibid.
[6]Paul Hersey and Kenneth H. Blanchard, *Management of Organisational Behaviour*, 3rd ed. Prentice Hall of India, N.D.
[7]D. Krech and R.S. Crutchfield, *Theory and Problems of Social Psychology* (New York: McGraw-Hill, 1948).

https://rbigradeb.com/

Executive In his role as executive, a leader is responsible for seeing that the appropriate activities of the organisation are carried out. A foreman assigns tasks to workers and sees that these tasks are properly executed.

Planning Operations of the Organisation

The second group of functions performed by the leader is connected with the operations of his organisation. Six functions can be differentiated in this category.

Expert The leader is an expert in the principal activities of the organisation. Frequently, supervisors are promoted from line positions primarily because of the proficiency they displayed on the lower job. The technical information and skills supervisors possess are useful in aiding and instructing their subordinates in effective work procedures.

External Group Representative There are many reasons why it may be necessary or desirable to have a single representative of an organisation to deal with outside individuals or groups. The organisation may be too large to function as an entity in this activity because taking a large number of workers from their duties may interrupt work schedules and thus be uneconomical or agreements may be more easily achieved by the individual than group action, and so on.

Surrogate for Individual Responsibility The leader relieves other members of the group of certain responsibilities, and they in turn place their trust in his decisions. In an informal group of workers, one individual may be given the responsibility of conveying complaints to the superior. The others trust him to present their points of view and accept any approach he may wish to follow in doing his job.

Controller of Internal Relationships within the Organisation It is the task of the leader of an organisation to see that the various departments in it coordinate their activities.

Administrator of Rewards and Punishments The leader encourages, upgrades and promotes deserving workers, and reproves, transfers and fines poor workers. Even leaders in informal groups concern themselves with discipline. The leader of such a group may call upon its membership to oust an errant member.

Arbitrator and Mediator The leader seeks to maintain harmony among the members of the organisation. The president of an organisation tries to keep the peace among competitive and ambitious vice-presidents. The leader of an informal group tries to prevent it from breaking up into opposing factions.

Symbolic Figure for the Group

The leader's activities and influences in this connection are likely to be so subtle as to be overlooked. Five functions can be differentiated in this category.

Exemplar In many organisations, the leader serves as an exemplar, a model for others to emulate. The military leader who leads his troops into battle, the office manager who is invariably 15 minutes early at his desk in the morning, the foreman of a crew of power linemen who always checks his safety equipment before climbing a pole, are all seeking to influence the members of their groups by being good examples. They are constantly shaping the behaviour of their subordinates all day and every day, whether consciously or unconsciously.

Symbol of the Group In this role the leader provides a kind of continuity and stability for the group, standing for it despite changes in circumstances and membership. Thus the chairman of the board of

https://rbigradeb.com/

a company who may in fact exercise little or no control over it may in the minds of the stockholders, the workers, and the public stand as a visible sign of the purposes, the spirit, and the very properties of the company.

Ideologist The leader functions as an ideologist. By presenting his ideas concerning the group, he is a source of beliefs about it. The official ideology as given by the leader may or may not reflect the ideas of the group. For example, the designated spokesman for an informal group of workers may convey to the superior altogether incorrect notions with respect to the complaints and dissatisfactions of the workers.

Father Figure The leader may function as a father figure, fulfilling an emotional role for the members of the group. By identifying themselves with their leader, the members of a group draw strength and feelings of security. Statements from workers such as "the old man will always be behind us" typify this situation.

Scapegoat The leader functions as a scapegoat. He provides a ready target for the aggressions of the members of the group. Failure can be projected upon him. A department head in a plant may attribute the inadequate production in his department to insufficient cooperation on the part of the plant manager.

TRADITIONAL APPROACHES TO LEADERSHIP

Over the years, there has been considerable research on the leadership process. In essence, this research attempted to provide an insight into such questions as "What characteristics does a good leader possess?" or "What is the most effective leadership style?" Following are three important approaches to studying leadership: (a) Traits approach, (b) Behavioural approach, and (c) Contingency approach.

Traits Approach

Early notions about leadership deal with it almost entirely in terms of personal abilities. There is an emotionally held belief that some men are leaders because they have god-like attributes which they have not earned but rather with which they have been endowed with and if we can identify these qualities we shall have the clue to the leadership problem. Numerous trait studies have been made of the physical, intellectual, and social characteristics of leaders. According to George R. Terry, traits generally found associated with leadership are mental and physical energy, emotional stability, knowledge of human relations, empathy, objectivity, personal motivation, communication skills, teaching ability, social skills and technical competence. According to Fayol, the leader should have good health and physical fitness, intelligence and mental vigour, moral qualities, knowledge and managerial ability. Ordway Tead[8] gives a list of ten qualities necessary for leadership. These are: physical and nervous energy, sense of purpose and direction, enthusiasm, friendliness and affection, integrity, technical mastery, decisiveness, intelligence, teaching skills, and faith.

Qualities of a Leader Although the trait theory advocates have failed to build a comprehensive model of leadership, their work has articulated and forced into sharp focus the qualities of a leader. One can group these qualities into three broad categories: *physical qualities, moral qualities,* and *mental qualities.* Following is a brief description of these qualities supported by examples from the lives of a number of leaders. A budding leader can emulate these examples and profitably inculcate these qualities in his thought and action.

[8]Tead, Ordway, *The Art of Leadership* (N.Y.: McGraw-Hill, 1935)

https://rbigradeb.com/

Physical qualities That a leader must possess a high degree of *physical and nervous energy* is almost axiomatic. He must have a sense of robust joy in his mission and a great vigour of body and mind to stand up to the stress and strain of his high office and responsibility. Thomas Edison, a man without formal education, who patented in his life time 1093 inventions, was reputed for his vigour and endurance. He usually worked 18 or more hours a day. His widely reported ability to get by with no more than four hours of sleep with an occasional catnap was no exaggeration.

Moral qualities First among moral qualities is *moral courage.* This enables a person, on the one hand, to stick to his goal without faltering, and on the other, to own the responsibility of his action, should the action prove blameworthy later on. A perfect example of owning one's responsibility is provided by Abraham Lincoln. After the battle of Gettysburg, Lincoln urged General Meade to pursue Lee in his retreat, attack him, and with one bold stroke, end the war. A friendly note came with the above order: "The order I enclose is not of record. If you succeed, you need not publish the order. If you fail, publish it. Then if you succeed, you will have all the credit of the movement. If not, I will take the responsibility."

Next comes the *sense of fair play and justice.* A leader must possess this quality to be able to motivate his men into action. Here is an illustration from the life of Thomas Jefferson, a great United States President: The one point on which the President was adamant was, that he absolutely refused to appoint kinsmen. Nepotism was a hateful idea. "No one", Jefferson said, "would believe that a relative was given a job because he happened to have a merit." To take another example, Montgomery was dead against the then prevailing practice of British generals to appoint to their staff the sons of wealthy and influential Dukes and Earls who may prove helpful in their future career outside the army. Pure merit was the only way of getting an appointment during his days.

Finally, a leader should have *integrity,* that is, a consistency of motives as evidenced in the leader's public and private affairs. During the Second World War when the supply of meat was rationed in England, Winston Churchill used to receive no more quota of meat than the least important person in the country.

Qualities of head and heart First among these, is *vision.* Leaders are visionaries. They manage for the future, not the past. Visionary leaders create mental and verbal pictures of desirable future states and share these visions with their organisational partners, including customers, suppliers and employees. Next comes *emotional intelligence.* Leaders are emotionally intelligent so that they are neither frustrated by failure nor overjoyed by success. They react to the behaviour of others in a cool, just and fair manner, instead of emotionally. Gandhi, Lenin, Lincoln and several other leaders possessed this quality. One day a Congressman persuaded Lincoln to give him an order transferring certain regiments. Rushing to the War Office with the order, he put it on the War Secretary, Stanton's desk; and Stanton, who always abused and scorned Lincoln, said very sharply that he would do no such thing. "But", the politician protested, "you forget I have an order here from the President." "If the President gave you such an order", retorted Stanton, "he is a damned fool". The Congressman rushed back to Lincoln, expecting to see him rise up in wrath and dismiss the Secretary of War. But Lincoln listened to the story, and said with a twinkle in his eye: "If Stanton said I was a damned fool, then I must be, for he is nearly always right. I will just step over and see him myself!" He did and Stanton convinced him that his order was wrong and Lincoln withdrew it.

Next comes *knowledge.* A leader's knowledge of a subject or technique must be greater than that of his followers. If it is not so he has no justification to lead them. He can, therefore, never afford to stop learning. If Albert Einstein is the leader of twentieth century scientists and Pablo Picasso of modem artists, they are so because of their mental qualities—their deep and intimate knowledge of the subject.

https://rbigradeb.com/

Knowledge of a subject is important but what is more important is the knowledge of human nature. Charles Schwab, one of the highest paid executives in the United States Steel Industry, is known for this knowledge. One day at noon when Schwab was passing through one of his steel mills, he came across some of his employees smoking. Immediately above their heads hung the "No Smoking" sign. Schwab walked over to the men, handed each one cigar, and said, "I will appreciate it, boys, if you smoke these on the outside." They admired him because he said nothing about breaking the rule and gave them a little present and made them feel important.

A leader must possess *decisiveness*. Vacillation is fatal for a leader. But rigidity of decision is equally bad. It is the way of an autocrat. As Thomas Carlyle said, "A foolish consistency is the hobgoblin of a little mind."

Another quality that is crucial for leadership is *empowerment*. Leaders empower employees to assume ownership of problems or opportunities and to be proactive in implementing improvements and making decisions in the best interests of the organisation. Empowerment threatens many managers who are accustomed to wielding their power, often coercively through fear of punishment or sanctions. True power is not based upon formal position and authority, but rather aids in spreading power downward and outward and developing leadership at lower levels of the organisation.

Then comes *intuition*. This ability comes from the right part of an individual's brain. It enables a leader to take decisions under circumstances where the complete data necessary for reaching a rational decision (by the use of his left brain) are not available or are too costly to be gathered immediately.

Last but not least, is *value congruence*. This occurs when leaders integrate their values into the company's management system. For example, if a leader has set for himself openness, trust, autonomy and collaboration as important values, his behaviour must reflect them. Employees quickly recognise leaders who do not apply the values they espouse or who do so inconsistently. This incongruence causes employees to constantly doubt management's message.

Traits approach has been *criticised* on the following grounds:

1. This approach (with the possible exception of intelligence and emotional maturity) has failed to identify any traits as being absolutely essential for leadership. Numerous trait studies have been made of the physical, intellectual and social characteristics of leaders. By 1950 there had been over 100 such studies but surprisingly only 5% of the traits identified were common throughout.
2. There is the problem of defining traits. The number of descriptive adjectives which can be used for any trait is tremendously large. Are they all similar or different? Which adjective should be used for which trait?
3. There is the problem of measuring traits. How are we to know the amount of a particular trait which a leader should possess? The words "too much" or "too little" are very vague in their meaning.
4. There is difficulty in methodology also. To be able to establish the cause and effect relationship between traits and leadership, pre-leadership traits of a person need to be measured. But this is never done. His post-leadership traits are measured. Hence one never knows whether these are the same traits which brought him into a position of leadership.
5. The approach overlooks the situational nature of leadership qualities. The fact is that with the same traits a person may become a successful leader in one situation and may fail in another situation.
6. The approach implies that training cannot make a man a leader if he is devoid of certain inborn qualities. Peter Drucker also seems to hold this view. He says that leadership cannot be created or promoted. It cannot be taught or learned". Leadership, according to him, requires certain basic attitudes which are very inborn and are very difficult to change.

https://rbigradeb.com/

Despite the fact that this approach has little predictive value, it is still alive, but now the emphasis has shifted away from personality traits and moved toward job-related skills and competencies.

Behavioural Approach

The inability to find answer to their question "What determines leadership?" in the traits approach led researchers to look at the behaviours that specific leaders exhibited. They wondered if there was something unique in the way that effective leaders behave i.e., the way they deal with people—communicate, give direction, motivate, delegate, plan, conduct meetings, and so on. Prominent in the behavioural approach is the assumption that leaders are *not born* but *can be trained.*

Under behavioural approach researchers have studied leadership behaviour from three points of view: motivation, authority and supervision.

Motivation From the point of view of motivation leadership behaviour can be either *positive* or *negative.* In positive behaviour the leader's emphasis is on rewards to motivate the subordinates. In negative behaviour the leader's emphasis is on penalties and punishments. The leader tries to frighten the subordinates into higher productivity. The result is that subordinates' enough time is lost in covering; i.e., protecting themselves against management. There is useless documentation, recording and filing of letters and papers because people fear that these may be needed by them any time in future for their defence.

Authority From the point of view of authority, leadership style can be autocratic, democratic or free-rein. A description of these styles is given below.

Autocratic leadership In this type of leadership, the leader alone determines policies and makes plans. He tells others what to do and how to do it. He demands strict obedience and relies on power. An autocratic leader may sometimes be paternalistic or benevolent also who uses rewards for obtaining obediene from his employees.

Both the forms of autocratic leadership (authoritarian and benevolent) are disliked by employees. In one form, the employee remains under constant fear. In other form he remains under constant gratitude. In both the forms, the leader is the key person. The whole operation of the organisation depends upon him. In his absence it may function inadequately or not at all.

Merits

1. This type of leadership, can *increase efficiency, save time and get quick results*, especially in a crisis or an emergency situation.
2. The paternalistic form of this style of leadership *works well with employees who have a low tolerance for ambiguity*, feel insecure with freedom and even minor decision-making requirements and thrive under clear, detailed and achievable directives.
3. Chain of command, and division of work (who is supposed to do what) are *clear and fully understood by all.*

Demerits

1. The apparent efficiency of one-way communication often becomes a false efficiency since one-way communication, without feedback, typically leads to misunderstandings, communication breakdowns and costly errors.

https://rbigradeb.com/

2. The autocratic leader is *alone in his decision-making*. He receives little, if any, information and ideas from his people as inputs into his decision-making. This is generally dangerous in today's environment of technological and organisational complexity.
3. Today, most people resent authoritarian rule which excludes them from involvement and reduces them to machine-like cogs without human dignity or importance. They express their resentment in the form of massive *resistance, low morale and low productivity*.

Democratic leadership In this type of leadership (also known as participative or person-oriented leadership) the entire group is involved in and accepts responsibility for goal setting and achievement. Subordinates have considerable freedom of action. The leader shows greater concern for his people than for high production. A part of the leader's task is to encourage and reinforce constructive inter-relationships among members and to reduce intra-group conflict and tensions. He serves more as a coordinator or agent for the group. Hence the group is not dependent upon him as an individual and can functions effectively in his absence.

While a democratic leader is not the key figure like an authoritarian leader, he is still the boss and can not avoid the exercise of authority any more than he can avoid responsibility for what happens to his organisation.

Merits

1. When people participate in and help formulate a decision, they support it (instead of fighting or ignoring it) and work hard to make it work, because it is their idea and, now, a part of their life and their ego. In other words, the participative leader has the critical factor of built-in-personal motivation working for him.
2. The leader consistently receives the benefit of the best information, ideas, suggestions, and talent—and operating experience—of his people.
3. This style of leadership permits and encourages people to develop, grow and rise in the organisation (both in terms of responsibility they can assume and service they can contribute).

Demerits

1. The participative style can take enormous amounts of time and, may degenerate into a complete loss of leader's control. Subordinates may show greater absenteism and tardiness.
2. Some leaders may use this style as a way of avoiding responsibility.

Free Rein In this type of leadership, also called laissez faire leadership, the leader exercises absolutely no control. He only provides information, materials and facilities to his men to enable them to accomplish group objectives. This type can be a disaster if the leader does not know well the competence and integrity of his people and their ability to handle this kind of freedom.

Figure 17.1 shows the spectrum of a wide variety of leadership styles moving from a very authoritarian style at one end to a very democratic style at the other end, as suggested by Robert Tannenbaum and Warren H. Schmidt.[9] As the spectrum demonstrates, there are a number of alternative ways in which a leader can relate himself to the group. At the extreme left of the spectrum, the emphasis is on the leader—on what he is interested in, how he sees things, how he feels about them. As we move towards

[9]Robert Tannenbaum and Warren H. Schmidt. "How to Choose a Leadership Pattem", *Harvard Business Review,* 51 No.3 (May–June 1973).

https://rbigradeb.com/

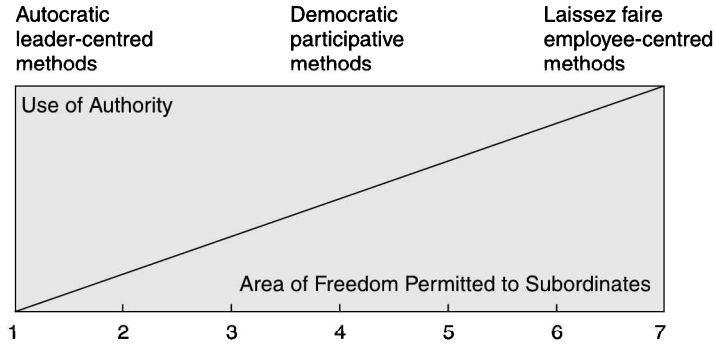


Fig. 17.1 Spectrum of leadership styles

the employee-centred end of the spectrum, however, the focus is increasingly on the subordinates—on what *they* are interested in, how they look at things, how they feel about them. The centre of the spectrum finds a more equitable balance between the authority exercised by the leader and the amount of participation the group can exercise.

Various points on the spectrum presented in Fig. 17.1 are described below.

1. The leader "*tells*" subordinates what his decision is.
2. The leader "*sells*" his decision i.e., persuades subordinates to accept it.
3. The leader *invites questions* from subordinates to give them a fuller explanation of his thinking.
4. The leader presents only a *tentative decision* subject to change.
5. The leader *presents only the problem*, invites solutions and then makes his decision.
6. The leader presents the problem and *lets the group make a decision within certain limits* of action.
7. The leader *permits the group to make decision within limits defined by the situation*.

Rensis Likert[10], whose ideas are the result of research at the University of Michigan, identifies the following four kinds of leadership which he calls *systems of management*.

1. Exploitative authoritative
2. Benevolent authoritative
3. Consultative
4. Participative

Likert makes a study of the following eight organisational variables in each of these systems: leadership, motivation, communication, interaction, decision-making, goal-setting, control and goal preference.

Participative or system-4 management, according to Likert, is the most acceptable leadership style because it improves the quality of a decision, increases its acceptability, improves communication, leads to willing acceptance of average goals, and makes full use of a wide range of motivations not merely financial but also those of status, achievement, challenge, etc.

[10]Rensis Likert, *New Patterns of Management*, McGraw Hill, 1961.

https://rbigradeb.com/

Exploitative authoritative or system-1 management, according to Likert is the most undesirable form of leadership style because it motivates people through fear, throttles upward communication and stifles subordinates' initiative and creativity.

According to Douglas McGregor[11] one outstanding characteristic of a classical organisation is that it fosters dependence in subordinates on their leader for the satisfaction of many of their needs such as promotion, performance evaluation, consistent discipline, right of appeal etc. *This being incongruent with participative leadership, the leader must first reduce the subordinates' dependence on limits make participative leadership successful.*

Supervision From the point of view of supervision, leadership style can be either employee-oriented or production-oriented. An employee-oriented leader is one who cares more for the welfare of his subordinates than for production. Similarly, a production-oriented leader is one who cares more for production than for the welfare of his subordinates. Two important studies under this category are the Ohio State University study and Management Grid. These studies *measure leader behaviour* on two dimensions: employee orientation and production orientation. Unlike the authority-based model given by Tannenbaum, these two dimensions are not the opposite ends of a single continuum but the independent dimensions. This means that a manager can be simultaneously high on both the dimensions.

Ohio State University Model In Fig. 17.2 "*initiating structure*" refers to the leader's behaviour in structuring the job of the follower and establishing well-defined patterns of organisation and communication. "*Consideration*" is the leader's behaviour showing mutual trust, respect and friendship. These two types of leader behaviours are independent. Some leaders follow structure but provide little consideration; others are considerate, but provide little structure. Many leaders, however, do not fit into either of these two categories. They use a fairly even mix of structure and consideration. Still other leaders spend very little time using either structure or consideration behaviours. They are relatively

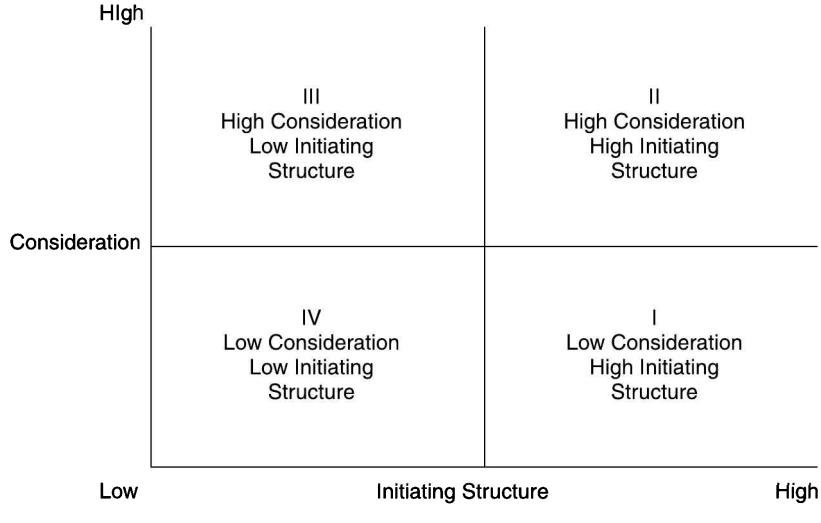


Fig. 17.2 The Ohio State model

[11]Douglas McGregor "Getting effective leadership in the industrial organisation", *Advanced Management*, 9, 1944.

https://rbigradeb.com/

uninvolved with their subordinates. Thus, it is possible to show four broad styles of leadership on the Ohio State model. The data above the behaviour of a leader are gathred by means of a questionnaire called Leader Behaviour Description Questionnaire (LBDQ) which is given in *Appendix 1*.

Managerial Grid Robert Blake and Jane Mouton (experimental psychologists at the University of Texas) use a chart called Managerial Grid[12] to describe five types of managerial styles. They make use of the terms "*concern for production*" and "*concern for people*". These two dimensions (concern for people and concern for production) are plotted on a 9-point scale on two separate axes as shown in Fig. 17.3. Concern for production is shown on the horizontal axis and concern for people is shown on the vertical axis. There are thus 81 combinations of concerns represented on the grid. But the authors' main emphasis is on the styles in the 4 comers and at the middle of the grid because these are the ones we see most often. These are as under:

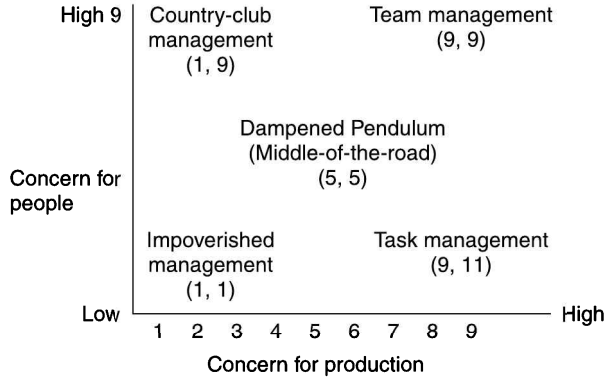


Fig. 17.3 Managerial Grid

1. ***Task management*** Here the management shows maximum concern for production and least concern for people. Therefore, it is also called "*authority-obedience*" *approach.*

2. ***Country-club management*** This is reverse of task management. Here the management shows maximum concern for people and least concern for production. Assumption is that contented people will produce as well as contented cows. It is the "*love conquers all" approach.*

3. ***Impoverished management*** Here the management shows least concern both for production as well as people. The manager wants just enough being done to get by. He also ignores human relationships. It is the "*speak no evil, hear no evil, see no evil" approach.*

4. ***Team management*** Here the management shows maximum concern both for production as well as people. Maximum concern for production is based on decisions arrived at with workers' participation and maximum concern for people is based on the workers' task-related morale and not just good social relations. The assumption is "*one plus one can add up to three*".

It should be noted that although the team management and the task management are similar in their concern for production, their ways of achieving production are vastly different. Similarly. although the team management and the country-club management are similar in their concern for people, their

[12]Robert R. Blake and Jane S. Mouton, *The New Managerial Grid*, Houston: Gulf Publishing, 1978.

https://rbigradeb.com/

bases of concern are different. Whereas the country-club management seeks to increase people's morale based on non-work aspects of the situation such as good social relations, the team management seeks to increase workers' task-related morale.

5. ***Dampened pendulum or the middle-of-road style*** Here the management shows a balanced concern for production and people. Neither too much production is expected nor too much concern for people is expressed. The manager follows the middle position. "*Get results but do not kill yourself.*"

According to Blake and Mouton, team management (9, 9 approach) is the best. This is based on active participation, mutual trust, open communication, mutual goal-setting and effective conflict resolution. The Blake and Mouton managerial grid is widely used as a training device.

Let us go back to the Ohio State University model of the behavioural approach (Fig. 17.2). This seems to suggest that the best style of leadership is one that combines both high consideration (democracy and support) and high initiating structure (high goal-setting). While this seems to make sense, it does not always hold true in practice. Consider, for example, the following research findings:

1. First-line supervisors in a manufacturing plant were supervising a group of relatively inexperienced workers performing simple jobs. A study of their leadership effectiveness indicated that Style I (Low Consideration High Initiating Structure) was the most effective style for these supervisors
2. A study of district sales managers supervising experienced salesmen found the most effective leadership style to be Style III (High Consideration Low Initiating Structure).
3. Managers of scientists in a research and development laboratory were found to be more effective if they were using Style IV (Low Consideration Low Initiating Structure).

Thus, we can conclude that *there is no one best style of leadership under all conditions*. In many situations, Style II leadership is the most effective. In others, however, Style I, Style III, or even Style IV may be more effective. Effective leadership style varies with the *situation.* The major situational forces that researchers have identified are described in a subsequent section. (Read "Situational Forces determining choice of Leadership Style"). The effective leader needs to analyse the situation and find out which style would be most appropriate for the given circumstances. He should integrate the forces operating in relation to the particular situation in question. A simple cook-book approach for selecting the best leadership style does not exist.

Contingency Approach

The contingency approach to leadership (initially called *Zeitgeist*—a German word meaning "spirit of the time") views the leader as a product of the times and the situation. It attempts (a) to identify which of the situational factors are most important under a given set of circumstances, and (b) to predict which leadership style will be most effective under those circumstances.

Important among contingency leadership models are:

1. Fiedler's model,
2. Hersey and Blanchard's model, and
3. Robert J. House's model.

Fiedler's Model

This model postulates that the effectiveness of leadership style depends on situational favourableness, i.e., the ease and difficulty with which the leader can influence his subordinates. Situational favourableness,

https://rbigradeb.com/

according to Fiedler[13], depends on three factors: (a) leader-member relations, (b) task structure, and (c) position power. Good leader-member relations, highly structured task, and high position power represent a very favourable situation for a leader, one in which it should be easy to influence subordinates. The combination comprising poor relationships with subordinates, unstructured task and low power is a leader's nightmare. According to Fiedler, leader-member relations are good if the leader is respected and accepted by his group. They are poor if his group distrusts and rejects him. The task is highly structured if it is clearly outlined, and highly unstructured if it is vague. The leader's position power is high if he has the power to hire and fire, promote and transfer, increase or decrease salaries. It is low if he has no such power.

Fiedler has found that the task-oriented or the authoritarian leader is most effective in extreme situations, i.e., both when the situation is very favourable *and* very unfavourable. But when the situations are moderately favourable or unfavourable the best leadership style is employee-or relationship-oriented. (Since moderately favourable or unfavourable situations are most common for supervisors and managers, the implication is that in general the employee-oriented leadership would be most effective in managing human resources in the large majority of organisational situations).

Why is the task-oriented leader successful in very favourable situations? Fiedler offers the following explanation:

In the very favourable conditions in which the leader has power, informal backing and a relatively well-structured task, the group is ready to be directed and the group expects to be told what to do. Consider the captain of an airliner in its final landing approach. We would hardly want him to turn to his crew for a discussion on how to land.

As an example of why the task-oriented leader is successful in a highly unfavourable situation, Fiedler cites "…the disliked chairman of a volunteer committee which is asked to plan the office picnic on a beautiful Sunday. If the leader asks too many questions about what the group ought to do or how he should proceed, he is likely to be told that "we ought to go home."

The leader who makes a wrong decision in this highly unfavourable type of situation is probably better off than the leader who makes no decision at all, which may be interpreted as total abdication of leadership.

Fiedler suggests that leadership styles are relatively inflexible and therefore, leaders should be matched to an appropriate situation, or the situation changed to match the leader.

Hersey and Blanchard Model

Hersey and Blanchard[14] believe that the relationship between a manager and subordinates moves through four phases as subordinates develop and "mature" and that *managers need to vary their leadership style with each phase.* In the initial phase—when subordinates first enter into the organisation—they need to be instructed in their jobs and told about the organisation's rules and procedures. At this stage a high task orientation by the manager is most appropriate because low-task orientation will cause anxiety and confusion among the subordinates. In addition, the manager should be low in relationship because subordinates cannot yet be regarded as colleagues.

As subordinates mature and as manager's trust in them increases he can become high in relationship though there is still the need for him to be high in task.

[13]F.E. Fiedler, A *Theory of Leadership Effectiveness,* McGraw-Hill, N.Y. 1967.

[14]Paul Hersey and Kenneth H. Blanchard: *Management of Organisational Behaviour,* Prentice Hall of India, N.D. 1977.

https://rbigradeb.com/

In the third phase the subordinates are expected to grow so much in maturity that the manager need no longer be high in task though he can continue to be supportive and considerate in order to strengthen the subordinates' resolve for greater responsibility.

Finally, as subordinates become highly mature, motivated and self-directing the manager can reduce his concern both for the task and the relationship.

This model *(called the life cycle model)* recommends flexibility in leadership style, which must constantly change to suit the ability and experience of the subordinates.

Robert J. House's Model

According to Robert House,[15] there can be four types of leadership behaviour: directive, supportive, achievement-oriented and participative. A *directive leader* is one who lets subordinates know what is expected of them, gives them specific guidance on what should be done and how it should be done, schedules the work to be done, maintains definite standards of performance and asks people to follow definite rules and regulations. A *supportive leader* is one who is friendly and approachable and shows concern for the status and well-being of his subordinates. An *achievement-oriented leader* is one who sets challenging goals, has confidence in his subordinates and emphasises excellence. A *participative leader* is one who takes decisions after consultation with his subordinates.

House's theory (*called the path-goal theory*) suggests that each of the above four types of leadership behaviour may be motivating or satisfying to the extent that the behaviour increases subordinate's goal attractiveness (*i.e.,* valences) and clarifies the paths to these goals. This in turn depends upon a number of contingency factors such as the characteristics of the subordinates, their perceptions about their ability, nature of task, etc. Thus, on the question of characteristics of subordinates Robert House says that they can be of two types—*internals* and *externals.* Those who believe that what happens to them occurs because of *their behaviour* are called internals. Those who believe that what happens to them occurs because of *luck* or *chance* are called externals. This distinction is similar to the origin-pawn distinction made by De Charms. An origin is a person who perceives his behaviour as determined by his own choosing; a pawn is a person who perceives his behaviour as determined by external force beyond his control. According to House, internals (or "origins") are more satisfied with participative leadership style whereas externals (or "pawns") are more satisfied with directive style. Another contingency factor is perception of one's ability. According to House, the higher the degree of perceived ability relative to task demands, the less the subordinate will accept directiveness. Finally, we have the nature of task. When the task is of the routine type, i.e., structured so that goals and paths to those are clear, directive leadership may result in decreased satisfaction because subordinates may view it as an imposition of unnecessary close control. Similarly, the more dissatisfying the task the more the subordinates will resent directiveness because "if you have got a lousy job you do not want a lousy boss also:"

SITUATIONAL FACTORS DETERMINING CHOICE OF LEADERSHIP STYLE

We have seen above that leaders do not have mystical powers over people. The situation does play a role. There are four types of situational factors which are significant to a manager while choosing his leadership style:

[15]Robert J. House, "A Path-Goal Theory of Leader Effectiveness", *Administrative Science Quarterly*, 16 No.5 (Sept. 1971)

https://rbigradeb.com/

1. factors in the manager himself,
2. factors in his subordinates,
3. factors in the general situation, and
4. factors in the organisational system.

Forces in the Manager The nature of the manager himself—his attitudes, values, knowledge and skill, experience and maturity, emotional flexibility—all of which have been developing since birth, influence his feelings, assumptions, perceptions and behaviour.

One important determinant of a manager's choice of style to deal with subordinates in a specific situation is based on his *attribution* of the internal or external causes of the behaviours of his subordinates. For example, if a manager observes an employee producing defective units, the manager may attribute the problem to internal factors within the person's control, such as poor effort, commitment or lack of ability. Alternately, the manager could attribute the problem to external factors, such as bad material or defective equipment. Depending on these attributions, the manager will decide whether to use punishment (reprimand, demotion, firing) or corrective solutions (problem finding, job redesign, training) to resolve the problem.[16]

Douglas McGregor[17] says that a manager's assumptions about human nature determine his choice of style. He classifies these assumptions in two broad categories under the terms: "Theory X" and "Theory Y". Theory X includes the following assumptions:

(a) The average person has an inherent dislike of work, and tries to avoid it when possible. He does, not what the boss expects but what the boss inspects.
(b) The average person is by nature self-centred and different to overall organisational goal achievement.
(c) The average person is resistant to change.
(d) The average person lacks ambition, dislikes job responsibilities, and prefers to be closely directed.
(e) The average person desires job security and economic rewards above all else.

McGregor says that the above assumptions about human nature give rise to the need for coercion and control, and fear and punishment in organisations. The manager who makes these assumptions is likely to follow a high *authoritarian leadership approach.* In McGregor's opinion, these assumptions are incorrect and should be replaced by another set of assumptions which he calls Theory Y. The assumptions of this theory are as under:

(a) The average person is not by nature passive or resistant to organisation's needs.
(b) The average person exercises self-direction and control in the service of objectives, to which he is committed.
(c) Commitment to objectives is a function of rewards, associated with their achievement.
(d) The average person, under rewarding conditions, not only accepts but seeks responsibility.
(e) The capacity to exercise a relatively higher degree of imagination, ingenuity and creativity in the solution of organisational problems is widely, not narrowly, distributed in the population.

[16]Don Hellriegel, John W. Slocum, Jr., and Richard W. Woodman, *Organisational Behaviour*, 6th edition, St. Paul, M N West, 1972.

[17]Douglas McGregor, *The Human Side of Enterprise*, N.Y.: McGraw-Hill, 1960.

https://rbigradeb.com/

(f) Under the conditions of modem industrial life, the intellectual potentialities of the average person are only partially utilised.

It is clear that the above set of assumptions has quite *different implications* for leadership. If it is assumed that man has the potential for development, the capacity for assuming responsibility and the readiness to direct his own behaviour towards organisational goals, it follows that the manager has to act more as a sympathiser and supporter than as a director and controller. He is thus likely to have a *democratic style with an occasional touch of laissez faire.* In other words, Theory Y relies heavily on self-control and self-direction of an employee as opposed to the reliance on external control of his behaviour in Theory X.

The above theories are important for a manager for two more reasons, as described below:

(a) They draw the manager's attention to a very important phenomenon called the *Pygmalion Effect,* which is also referred to as the *self-fulfilling prophecy.* This means that employees tend to mould the way the manager expects them to. There is strong tendency for people to conform to other people's perception of them. The children who are perceived to be bright do, in fact, become bright. Those who are thought to be dull become dull. The manager who wants employees to be active, responsible and innovative should behave with them, as if they already are active, responsible and innovative. He will find that his behaviour is justified, for most of his employees have come up to his expectations. In brief, a leader should always watch his thoughts for they become his actions—he must watch his actions for they, in turn, become his subordinates' character.

Goethe said: "Treat a man as he is and he will remain as he is; treat a man as he can and should be, and he will become as he can and should be". So, a manager must believe in the unseen human potential. Otherwise he will get only *status quo* performance—business as usual. *"Yad Bhavam Tad Bhavate"* is an important truth.

(b) Theory X offers a manager an *easy rationalisation* for ineffective organisational performance: "It is due to the nature of the human resource with which we must work". Theory Y, on the other hand, places the problems squarely in his lap. If employees are lazy, indifferent, unwilling to take responsibility, theory Y implies that the causes lie in the manager's methods of *organisation and control.*

Factors in the Subordinates Kerr and Jermier[18] propose that there may be certain factors in the subordinates which may work as "*substitutes*" for leadership and make leader behaviour unnecessary and redundant. For example, crafts persons or professionals such as accountants or software engineers may have so much *experience*, *ability* and *training* that they do not need task leadership to perform well and be satisfied. Similarly, there may be certain factors in the subordinates which may work as "*neutralizers*" that prevent the leader from behaving in a certain way or that counteract the behaviour. For example, subordinates *who do not particularly care about organisational rewards* (such as artists or musicians) will neutralize both, person-oriented and task-oriented leadership attempts.

Factors in the General Situation Important factors in the general situation which have a bearing on manager's choice of his leadership style are as follows:

[18]Steven Kerr and John M. Jermier, "Substitutes of Leadership. Their Meaning and Measurement" *Organisational Behaviour and Human Performance*, Dec., 1978.

https://rbigradeb.com/

1. ***Leadership style of the manager's supervisors*** If the manager's own boss is a high-task leader, he will expect the manager to operate in the same manner. It is as difficult for a manager with a democratic style to work under an authoritarian superior as it is for one with an authoritarian style to work under a democratic superior. Those managers tend to be promoted who best reflect the values of their superiors or the organisation and whose leadership is congruent with those values.

2. ***Job demands*** If the job is complex and the followers lack ability, the manager would use a high level of task behaviour—Style I or II. But if the job is simple, Style III or IV may be more appropriate. According to Lawrence,[19] who made a detailed study of six firms in the plastics, food, and container industries, *different functional departments of an organisation need different leadership styles.* For example, the leadership of the production department needs to be different from the leadership of the research department. This is due to the differences in the environments which the two departments need. A research department seems to work better when it has free and frequent communication between all members of the research group, when its goals and targets which are fairly general and long-range are set by the researchers themselves and when the control in the department is carried out more by informal ground rules than by formal rules and prescribed procedures. In this setting the leadership style which works best is participative and egalitarian. Let us turn next to the environment that seems to work best for a production department. Here the work goes on best when more emphasis is placed on superior subordinate communication channels, when ground rules are formalised and codified into procedural manuals and when goals are set by superiors in terms of specific and short-term targets. In such a setting, a directive style of leadership works best.

3. ***Pressure of time*** If there is an emergency or crisis or the job has to be rushed through, the leader cannot wait for the opinions and suggestions of his followers.

Factors in the Organisational System Important among these factors are division of work, organisation structure and production technology.

1. ***Division of work*** The way in which the work is divided and the activities are organised influences the choice of style of leadership. Democratic supervision is best carried out in those work groups where due to the physical proximity, people have frequent contact with one another and find it easy to share the information they need to coordinate their jobs. In such work groups, called "integrated task teams", all problems are handled on a face to face basis with a minimum of bureaucratic friction among specialised functional areas. Such conditions do not prevail in many other forms of departmentation which makes democratic supervision difficult.

2. ***Organisation structure*** Tall organisations frequently lead to high supervisory ratios and therefore tend to encourage authoritarian supervision. With a relatively small number of subordinates, the supervisor is in a position to give detailed instructions and to exercise authoritarian control over each one. In a flat organisation structure, with a relatively large number of subordinates, this type of supervision is often physically impossible. Since the supervisor frequently cannot make a decision on every problem, he tends to delegate more and appear more democratic. The Sears, Roebuck and Company study of tall vs. flat organisational structures concludes: "Flatter, less complex structures, with a maximum of administrative decentralisation, tend to create a potential for improved attitudes, more effective supervision, and greater individual responsibility and initiative among employees. Moreover, arrangements of this type encourage the development of individual expression and creativity which are so necessary

[19]Paul R. Lawrence and J. W. Lorsch, *Organisation and Environment* (Cambridge: Harvard University, 1967).

https://rbigradeb.com/

to the personal satisfaction of employees and which are an essential ingredient of the democratic way of life.[20]

3. ***Production technology*** Production technology, as suggested by Woodward[21] also seems to limit the amount of discretion which subordinates can be given and the style of supervision used. She and her research associates studied 100 manufacturing firms of different technological complexities in Great Britain. This led to the classification of the firms into three groups:

1. Unit or job order
2. Large batch and mass production
3. Long run process production

The conclusions of this study about the style of leadership are as under:

(a) *Participative leadership is most effective for a job order firm where production* is *done according to customer specifications.* Here the firm secures the order, develops the product and manufactures it (in the order mentioned). The cycle begins with marketing and ends with production. This sequence requires the firm to be especially adept at sensing market changes and being able to adjust to those changes. But more importantly, the production development function holds the key to the firm's success. This function must convert customer specifications into products which are acceptable to both, the customer and the production personnel. Participative leadership is required for promoting the kinds of interactions and communication patterns which are able to solve the market and product development problems associated with *job* order, or unit production.

(b) *Participative leadership* is *also more effective than authoritarian leadership for process manufacture:* Here, the cycle begins with product development. The key to success is the ability to discover a new product through scientific research—a new chemical or fabric—which can be produced by already existing facilities or by new facilities once a market is established. The development, marketing, and production functions in process manufacturing, all tend to demand scientific personnel and specialised competence at the highest levels in the organisation. This concentration of staff expertise accounts for the higher ratios of staff to line personnel in process manufacturing. Since the success of these firms depends upon adjustment to new scientific knowledge, participative management is more effective than authoritarian.

(c) *Authoritarian leadership* is *more effective in the case of firms using mass production technology (such as autos, foods, clothing, etc.)*: Here the product is standardised and the market for the product also exists. The leader's only job is to manufacture the product through fairly routine means. To be able to do this job efficiently, the leader must clearly define the duties and responsibilities of his workers and adhere to the unity of command principle.

NEW APPROACHES TO LEADERSHIP

Nowadays, most business organisations are facing a crisis requiring dramatic changes in their task, technology, structure and people. It is felt that the change required is too big to be accomplished by leaders born of traditional approaches in which they not only *contract exchange of rewards* for employee efforts but also *manage by exception*, i.e., intervene only if standards are not met. Two new

[20]James C. Worthy, 'Organisational Structure and Employee Morale", *American Sociological Review,* 15, No.2, April, 1950.
[21]Joan Woodward, *Industrial Organisation: Theory and Practice* (London: Oxford University Press, 1965).

https://rbigradeb.com/

approaches which have become very important in this situation are the charismatic approach and the transformational approach to leadership.

Charismatic approach is a throw back to the old traits approach. It defines a charismatic leader in terms of certain personal traits and skills which enable him to exercise profound and extraordinary effects on his followers so that they voluntarily identify with the organisation, its standards of conduct and willingly seek to fulfill its purpose. Situations that promote charismatic leadership include a crisis requiring dramatic changes or following who are very dissatisfied with the status quo. The traits and skills of a charismatic leader include:

- Ideological vision
- Use of personal example
- Impression management
- Social sensitivity
- Empathy
- High expectation for subordinates and
- Self-confidence and confidence in subordinates

There may be two types of charismatic leaders; ethical and unethical. The following are the points of distinction between the two:[22]

Ethical Charismatic Leader	*Unethical Charismatic Leader*
1. Uses power to serve others	1. Uses power only for personal gain
2. Aligns vision with followers' needs and aspirations	2. Promotes own personal vision
3. Considers and learns from criticism	3. Censures critical or opposing views
4. Stimulates followers to think independently and to question the leader's view	4. Demands own decisions be accepted without question
5. Open, two-way communication	5. One-way communication
6. Coaches, develops and supports followers; shares recognition with others	6. Insensitive to followers' needs
7. Relies on internal moral standards to satisfy organisational and societal interests	7. Relies on convenient, external moral standards to satisfy self-interests

Transformational approach defines a leader as one who leads his organisation through successful transformations by *shifting the values, beliefs and needs of his followers*. He makes necessary policy changes in their recruitment, selection, promotion, training and development, provides them high expectations, vision and sense of mission, instills pride and trust, promotes intelligence, rationality and careful problem-solving, and gives personal attention and coaching. Researchers on transformational leadership have found that an effective transformational leader has the following characteristics:

1. He is charismatic.
2. He identifies himself as a change agent.
3. He is courageous.
4. He is value driven.
5. He believes in people and has strong confidence in their ability.

[22]Jane M. Howell and Bruce J. Avolio, "The Ethics of Charismatic Leadership: Submission or Liberation?" *Academy of Management Executive*, May 1992.

https://rbigradeb.com/

6. He is a life-long learner.
7. He is a visionary.
8. He can skillfully deal with ambiguity, complexity and uncertainty.

LEADERSHIP ASSESSMENT

It is, of course, desirable to assess a leader's performance to determine whether or not he is doing the job required of him by his superiors or by his group. If his function is goal attainment, then the time required to reach the goal becomes a criterion to measure leadership effectiveness. If it is to keep the group needs satisfied, then a poll of individual needs would answer the leadership effectiveness question. If the leader's function is to engage in certain behaviours, then a comparison of these desired behaviours with the actual ones yields an assessment.

There are probably as many leader behaviour checklists as there are purposes of leadership assessment. Work patterns profile given in (Appendix 2) is an example of a schedule which can be used to study the time spent by a leader in each leadership activity.

While leadership is usually assessed over a past period of time, it is sometimes desirable to apply assessment to the future, that is, to predict potential leadership effectiveness. The leaderless group discussion (LGD) offers one way of doing this. In this situation, a leaderless group is formed to discuss some problem, and each member is evaluated on his leadership abilities by researchers. Then this leadership score is correlated with his leadership performance in a real-life situation. If the correlation is significantly high, the leaderless group discussion technique may serve as a predictor of future leadership abilities.

LEADERSHIP STYLE IN INDIAN ORGANISATIONS

India is one of the countries where even today sons and great grandsons of entrepreneurs automatically get promoted to the top with no tests given or questions asked. This is management by inheritance or management by chromosomes, with the result that most of the companies in India are highly centralised and family-oriented in their organisational structure and are authoritarian in their approach to their employees. In 1960 Myers[23] from his interviews with industrialists, government officials, labour leaders and managers in both Indian and foreign-owned firms, concluded that though there are some exceptional companies, "many Indian top managements are relatively authoritarian in their relationships with lower managements and with labour". The prevalence of a high degree of control was also highlighted in Ganguli's study[24] of leadership behaviour in a state-owned engineering factory. In a survey by Punekar and Savur[25] of the relations between white-collar employees and their supervisors in 11 different organisations such as banks, insurance companies, manufacturing firms, government offices, a state-owned public utility company and an educational institution, it was found that only three superiors out of the sample of 73 believed that subordinates can work without supervision and only six thought that giving responsibility to the white-collar employees is the best way to get the work done. Most superiors (70 per cent) expressed the belief that subordinates can only work with supervision and have no sense of responsibility.

[23]C.A Myers, *Industrial Relations in India* (Bombay: Asia Publishing House, 1960), p. 166.
[24]H.C. Ganguli, *Structure and Process of Organisation* (Bombay: Asia, 1964).
[25]S.D. Punekar and M.G. Savur, *Management of White Collar Relations* (Bombay: Popular Prakashan, 1969).

https://rbigradeb.com/

Having surveyed some available research data on the value systems of Indian managers vis-a-vis managers in some other countries, Nitish De[26] found in early seventies that though Indian managers profess a belief in group-based participative decision-making, they *have little faith in the capacity of workers for taking initiative and responsibility.*

There is no question that leadership roles are changing in the new environment. Five key leadership roles which are gaining prominence are:

- A strategic vision to motivate and inspire
- Empowering employees
- Sharing internal knowledge
- Gathering external information
- Challenging the status quo and enabling creativity

Transformational leadership is becoming very important as organisations are meeting the challenge of dramatic change in the 21st century. For example, CEOs of Tata Steel and L&T have led their companies through successful transformations. Ratan Tata bought Corus, formerly British Steel, in 2007 and completed the integration process, a formidable challenge for the best of companies, without a whiff of trouble. It is now the sixth largest steel maker in the world. A.M. Naik of L&T divested non-core businesses to focus on the company's engineering strengths which transformed L&T into a company with great management depth and the capability to execute international projects, staving corporate takeover raids.

WORKER PARTICIPATION IN MANAGEMENT IN INDIA

We have seen earlier how participative management is considered the most desirable form of leadership. It is supposed that this form of leadership resolves a contradiction between democracy in society and authoritarianism in the work place. But the overall experience of participative practices in India such as joint management councils, work committees, etc. has been totally unsatisfactory.[27] These practices have for various reasons realised neither the social purpose of developing an egalitarian society nor the industrial purpose of higher production or satisfaction of workers. Researches have further revealed that the average Indian worker feels more comfortable in nurturing than in participating relationships at work. He is still too much under the sway of the "master and servant" relationship evolved under foreign domination over the centuries. He manifests signs of dependence, a need for approval and seeks protection for his self-concept from people in authority. Sinha and Sinha[28] have identified six characteristics of the Indian middle class population. These are lack of commitment, preference for personalised relationship, dependency proneness, lack of team orientation, a strong hankering for "araam" and a preference for showing off even at the cost of essentials. These characteristics may explain why participation has failed in Indian industry. Some other reasons for the failure of joint management councils supported by the findings of studies made by V.G. Mhetras (1966)[29] and N.R. Sheth[30] (1972), are as under:

[26]Nitish De, "Dilemmas of Indian Managers", *Management in Government,* July–Sept. 1974.

[27]P. Verma and S. Mukherji, *Industrial Relations in Government: Dynamics and Key Issues,* Technical Report No. 71, 11M, Ahmedabad, 1975.

[28]Sinha and Sinha, "Middle class values in organisational perspectives", *Journal of Social and Economic Studies,* Vol. 2, 1974.

[29]V.G. Mhetras, *Labour Participation in Management* (Bombay: Manakatalas, 1966). This study covers 5 companies.

[30]N.R. Sheth, *The Joint Management Councils—Problems and Prospects* (New Delhi: Shri Ram Centre for Industrial Relations and Human Resources, 1972).

https://rbigradeb.com/

1. Politicalisation of the labour unions has prevented joint management councils from drawing the crucial distinction between their role as instruments of collective bargaining with the management and as participants in managerial decisions. Workers' representatives on these councils feel dissatisfied with their role as decision-makers in respect of welfare activities only. They want to be given authority to share decisions on more important subjects of collective bargaining like wages and bonus in which they say the workers are most keenly interested.
2. Trade unions have a genuine fear that in the joint management councils the workers are likely to be more amenable to the influence of the employers. They may be brainwashed by the management.
3. There is also an apprehension that the workers, not having the expertise for management, are likely to be at a disadvantage vis-a-vis the management when complex matters are discussed.
4. The management has been chary of giving as much information to the workers as they need to make the councils a genuine success.
5. The middle management and supervisors are generally hostile to workers' participation because they resent their actions being questioned on the shopfloor. The fact that the management sometimes sides with the workers' representatives and reprimands the supervisors weakens their authority.

SUMMARY

- Leadership may be defined as the ability to influence and direct the task-related activities of the members of group. A leader is a goal-setter, planner, executive, expert, group representative, administrator of rewards and punishments and a symbol of the group.
- Three approaches to the study of leadership are: The traits approach, behavioural approach and contingency approach.
- The traits approach has not proved useful since no major traits have been identified that constantly distinguish leaders from non-leaders. The behavioural approach has focussed on leadership styles. Studies of leadership styles have distinguished between a task-oriented, authoritarian or initiating structure and an employee-centred, democratic or participative style. These studies seem to suggest that there is *one best* leadership style—one which combines democracy with high production. But this is refuted by the contingency approach which says that leadership is situational. This means that there are a number of factors peculiar to a situation which determine the effectiveness or otherwise of a leadership style. Important among contingency models are: Fiedler's model, Hersey and Blanchard's model and Robert J. House's model.
- There are four types of factors which seem to determine effective leadership. These are factors in the leader himself, factors in his subordinates, factors in the general situation, and factors in the organisational system.
- Two new approaches to leadership are the charismatic approach and the transformational approach.
- Nitish De has found that Indian managers have little faith in the capacity of workers for taking initiative and responsibility. This is one reason why worker participation in management has not become very popular in India. Researchers have further revealed that the average Indian worker feels more comfortable in nurturing than in participating relationships.

https://rbigradeb.com/

- Joint management councils have failed due to several reasons such as trade unions' opposition, lack of expertise of workers in management matters, hostility of middle management, and so on.

APPENDIX

1. LEADER BEHAVIOUR DESCRIPTION QUESTIONNAIRE

By Edwin A. Fleishman

Ohio State University, Bureau of Business Research

This is a 48-item questionnaire divided into two independent areas of leadership called "Initiating Structure" and "Consideration". The first area includes 20 items and the second is made up of 28 items. The scale is designed to find answers to the question "What does your own supervisor actually do"? All the 48 items are presented with a 5-point continuum answer scale that has scoring weights of zero to four, depending on the item orientation to the total dimension. The highest possible score is 112 for 'Consideration' and 80 for 'Initiation'.

Consideration

Item No.

1. He refuses to give in when people disagree with him.
2. He does personal favours for the foremen under him.
3. He expresses appreciation when one of us does a good job.
4. He is easy to understand.
5. He demands more than we can do.
6. He helps his foremen in their personal problems.
7. He criticises his foremen in front of others.
8. He stands up for his foremen even though it makes him unpopular.
9. He insists that everything be done his way.
10. He sees that a foreman is rewarded for a job well done.
11. He rejects suggestions for changes.
12. He changes the duties of people under him without first talking it over with them.
13. He treats people under him without considering their feelings.
14. He tries to keep the foremen under him in good standing with those in higher authority.
15. He resists changes in ways of doing things.
16. He 'rides' the foreman who makes a mistake.
17. He refuses to explain his actions.
18. He acts without consulting his foreman first.
19. He stresses the importance of high morale among those under him.
20. He backs up his foremen in their activities.
21. He is slow to accept new ideas.
22. He treats all his foremen as his equals.
23. He criticises a specific act rather than a particular individual.

https://rbigradeb.com/

24. He is willing to make changes.
25. He makes those under him feel at ease when talking with them.
26. He is friendly and can be easily approached.
27. He puts suggestions that are made by foremen under him into operation.
28. He gets the approval of his foremen on important matters before going ahead.

Initiating Structure

1. He encourages overtime work.
2. He tries out his new ideas.
3. He rules with an iron hand.
4. He criticises poor work.
5. He talks about how much should be done.
6. He encourages slow-working foremen to greater effort.
7. He waits for his foremen to push new ideas before he does.
8. He assigns people under him to particular tasks.
9. He asks for sacrifices from his foremen for the good of the entire department.
10. He insists that his foremen follow standard ways of doing things in every detail.
11. He sees to it that people under him are working up to their limits.
12. He offers new approaches to problems.
13. He insists that he be informed on decisions made by foremen under him.
14. He lets others do their work the way they think best.
15. He stresses being ahead of competing work groups.
16. He needles the foremen under him for greater effort.
17. He decides in detail what shall be done and how it shall be done.
18. He emphasises meeting of deadlines.
19. He asks foremen who have slow groups to get more out of their groups.
20. He emphasises the quantity of work.

Most items are answered as

1. Always
2. Often
3. Occasionally
4. Seldom
5. Never.

2. WORK PATTERNS PROFILE

(The Ohio State University Personnel Research Board)

The profile includes 14 descriptions of leadership activities that have been found within leadership jobs. By using questionnaire and interview methods, each person studied in the organisation indicates the proportion of the time spent on each activity.

Note: Before each item below, please write the approximate percentage of time spent in the responsibility described.

https://rbigradeb.com/

(%) 1. *Inspection of the organisation:* Direct observations and personal inspection of installations, buildings, equipments, facilities, operations, services or personnel—for the purpose of determining conditions and keeping informed.

(%) 2. *Investigation and research:* Acts involving the accumulation and preparation of information and data (usually prepared and presented in the form of written reports).

(%) 3. *Planning:* Preparing for and making decisions that will affect the aims or future activities of the organisation as to volume or quality of business or service (including thinking, reflection and reading, as well as consultations and conferences with persons relating to short-term and long-range plans).

(%) 4. *Preparations of procedures and methods:* Acts involving the mapping of procedures and methods for putting new plans into effect, as well as devising new methods for the performance of operations under existing plans.

(%) 5. *Coordination:* Acts and decisions designed to integrate and coordinate the activities of units within the organisation or of persons within units, so as to achieve the maximum overall efficiency, economy and control of operations.

(%) 6. *Evaluation:* Acts involving the consideration and evaluation of reports, correspondence, data, plans, decisions or performances in relation to the aims, policies, and standards of the organisation.

(%) 7. *Interpretation of plans and procedures:* Acts involving the interpretation and clarification for assistants and other personnel of directives, regulations, practices and procedures.

(%) 8. *Supervision of technical operations:* Acts involving the direct supervision of personnel in the performance of duties.

(%) 9. *Personnel activities:* Acts involving the selection, training, evaluation, motivation or disciplining of individuals, as well as acts designed to affect the morale, motivation, loyalty, or harmonious cooperation of personnel.

(%) 10. *Public relations:* Acts designed to inform outside persons, regarding the programme and functions of the organisation, to obtain information regarding public sentiment, or to create a favourable attitude towards the organisation.

(%) 11. *Professional consultation:* Giving professional advice and specialised assistance on problems of a specific or technical nature to persons within or outside the organisation (other than technical supervision and guidance of own staff personnel).

(%) 12. *Negotiations:* Purchasing, selling, negotiating contracts or agreements, settling claims, etc.

(%) 13. *Scheduling, routing and dispatching:* Initiating action and determining the time, place, and sequence of operations.

(%) 14. *Technical and professional operations:* The performance of duties specific to a specialised profession (e.g., practice of medicine, conducting religious service, classroom teaching, auditing records, operating machines or equipment).

(100%) Total time spent in major responsibilities.

KEY TERMS

Traits Approach to Leadership This approach assumes that successful leadership is correlated with *what* the leader is i.e., his personality traits and characteristics.

https://rbigradeb.com/

Behavioural Approach to Leadership This approach assumes that the successful leadership is correlated with what the leader *does* i.e., his behaviour.

Contingency Approach to Leadership This approach assumes that successful leadership is correlated with the *identification of the most important situational factors* under a given set of circumstances.

Situational Approach to Leadership This approach assumes that successful leadership is correlated with identification of the forces in the leader, in his subordinates, in the general situation, and in the organisational system.

Review Questions

1. What is leadership? Describe the functions of a leader.
2. "Leaders are not born but made." Comment.
3. "The successful leader accurately understands himself, the organisation, the individuals and the group he is dealing with and the broader social environment in which he operates." Discuss.
4. Is leader the same as manager? Discuss.
5. What factors should govern the selection of a style of leadership by a manager?
6. Point out some important qualities that make for successful leadership. Define the concept of empathy.
7. Define leadership and give its characteristics.
8. "Leadership is situational". Comment.
9. "A successful leader is not necessarily effective." Comment.
10. What is Managerial Grid as developed by Blake and Mouton?
11. What are the important features of Robert J. House's contingency leadership model.
12. State the important features of Fiedler's contingency model of leadership,
13. Give five important reasons for the failure of joint management councils in India.
14. Write short notes on:
    (a) Charismatic leader
    (b) Transformational leader
    (c) Substitutes for leadership
    (d) Pygmalion effect
15. Fill in the blanks:
    (a) Whether a person would emerge as a leader or not depends on a number of _____ factors.
    (b) _____ trait has been found to be absolutely essential for leadership.
    (c) In _____ leadership decision-making is centralised.
    (d) Individuals who believe that what happens to them occurs because of luck or chance are called _____.
    (e) Job order and process manufacture require _____ leadership.
    (f) The overall experience of worker participation in management in India has been totally _____.

    [(a) Situational, (b) No, (c) Authoritarian, (d) Externals, (e) Participative, (f) Unsatisfactory.]

https://rbigradeb.com/

Projects

1. Using the information in this chapter prepare a *questionnaire* to know about the leadership style of a supervisor and the characteristics which he or she appears to reflect.
2. Joseph Conklin* proposes ten questions for self-examination to help you understand your capacity for leadership. Answer the following questions and discuss why they are important for leadership:
   (a) How much do I like my job?
   (b) How often do I have to repeat myself?
   (c) How do I respond to failure?
   (d) How well do I put up with second guessing?
   (e) How early do I ask questions when making a decision?
   (f) How often do I say "thank you"?
   (g) Do I tend to favour a loose or strict interpretation of the rules?
   (h) Can I tell an obstacle from an excuse?
   (i) Is respect enough?
   (j) Have I dispensed with feeling indispensable?

Cases Getting Effective Leadership and Successful vs Effective Leadership

1. Getting Effective Leadership

For several months, the supervisors of a large corporation have been very dissatisfied with the new division head. Before the arrival of the new division head, the department had functioned as a cohesive, effective unit, combining hard work with equal amount of leisure. The new division head has very strong ideas about the type of environment his employees should have. As one supervisor puts it, it resembles a full scale military operation. No longer are employees allowed to place personal belongings on the walls of their offices or have occasional informal gatherings during office hours. The bottom line has become productivity first, with the employees' feelings being considered as an afterthought. Grass-root employees as well as supervisory personnel are very upset about the changes in structure, and their dissatisfaction is beginning to show up in their performances. Because of the decreased productivity levels, the supervisors have been informed that if they don't shape up their subordinates, "the axe will fall on several heads". The frustration and anger is now beginning to come to a full boil and the supervisors have decided to meet to discuss the situation.

Discussion Questions

1. Identify the leadership style of the division head from the angle of Managerial Grid.
2. From the viewpoint of Theory X and Y, what assumptions did the new head make about the way in which people work most effectively?

*Joe Conklin, "What it takes to be a leader", *Quality Progress*, November 2001, 83.

https://rbigradeb.com/

2. Successful vs Effective Leadership

Super Engineering Company was a multi-locational light engineering company. It had manufacturing facilities at Hyderabad, Pondicherry and Indore. The company adopted budgetary system with main emphasis on production and expense budgets. The budget targets used to be set on the basis of analysis of production facilities and production operations. While two units located at Hyderabad and Pondicherry were working properly and were able to meet their budget targets, Indore unit was not able to do so.

Mr P. Manohar was transferred to Indore unit as plant manager. He joined the company about eight years back as engineer trainee and became the assistant plant manager at Hyderabad unit, the biggest of the three units. Manohar was very ambitious and a little bit autocratic. He believed in the exercise of authority and control to carry out his instructions. He was high achiever and believed in getting things done. He got quick promotions in the company.

Immediately after joining at Indore unit as plant manager, Manohar made preliminary study of the plant and issued instructions to all departments to reduce their expenses by five per cent. A fortnight later, he instructed the departments to increase production by ten per cent. He also instructed all supervisors to strictly adhere to budgets. He introduced several new reports and watched the operations very closely. He suspended two supervisors in the second month for not meeting the budget targets. Subsequently two supervisors left the plant.

With all his efforts, the unit was very much on the right track and within six months exceeded the new budgeted production figures by eight per cent. On setting the plant right, he was called back at Hyderabad unit as plant manager where vacancy arose. However, shortly after he left for Hyderabad, the productivity at Indore unit fell below the earlier level and the budget was again in trouble.

Discussion Questions

1. Analyse Manohar's style of leadership at Indore unit.
2. Why was there a drop in productivity at the unit after Manohar left it?

https://rbigradeb.com/

CHAPTER

18 MANAGERIAL CONTROL

Learning Objectives

This chapter will enable the reader to:

- **Define** control
- **Explain** the steps in a control process
- **Describe** the need for and the benefits of control
- **Discuss** the essentials of an effective control system
- **Examine** the problems of a control system
- **Describe** the various control techniques grouped as:
  - (a) Past-oriented control techniques and future-oriented control techniques
  - (b) Market control techniques, bureaucratic control techniques and clan control techniques; and
  - (c) Old control techniques and new control techniques

https://rbigradeb.com/

Control is one of the important functions of management. The main object of control is to bring to light the variations between the standards set and performance and then to take necessary steps to prevent the occurrence of such variations in future. It is the process through which managers assure that actual activities conform to planned activities. In the words of E.F.L. Brech,[1] "Control is checking current performance against predetermined standards contained in the plans, with a view to ensuring adequate progress and satisfactory performance". According to George R. Terry,[2] "Controlling is determining what is being accomplished, that is, evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans".

STEPS IN A CONTROL PROCESS

There are three basic steps in a control process:

1. Establishing standards
2. Measuring and comparing actual results against standards
3. Taking corrective action

Establishing Standards

The first step in the control process is to establish standards against which results can be measured. Since entire operations cannot be observed, each organisation must develop its own list of key result areas for the purpose of control. Some key areas in all business organisations are: profitability, market position, productivity, personnel development, employee attitudes and public responsibility. An executive who wishes to control a particular key area often finds that the work in question has several characteristics. He must, therefore, determine the **level of performance or "par"** for *each* characteristic in *quantitative terms*. Pars expressed in vague or general terms such as, "costs should be reduced" or "orders should be executed quickly" are not as specific as "overheads must be reduced by 12 per cent" or "all orders must be executed within three working days." Even pars in areas such as public relations, while hard to express in quantitative terms, can be defined more accurately by adding more specific details, about the number and type of customer complaints.

Pars should be *accepted* by the individuals involved.

Pars need to be *flexible* in order to adapt to changing conditions. For instance, a new salesman who proves to be an above-average performer should have his sales standard adjusted accordingly. Similarly, expected delivery times need to be adjusted if the local highway is being repaired.

Generally speaking, the pars should *emphasise the achievement of results* more than the conformity to rules and methods. If they do not do so, then people will start giving more importance to rules and methods than to the final results. "Doing the right things" will give place to "doing things right". This would displace organisational goals.

All pars should later on form part of the standard for a particular key area.

[1]E.F.L. Brech, *Principles and Practice of Management* (London: Pitman, 1972).
[2]George R. Terry, *Principles of Management* (Homewood, III: Richard D. Irwin, 1968) p. 543.

https://rbigradeb.com/

Measuring and Comparing Actual Results against Standards

The second step in the control process is to measure the result and compare it with the predetermined pars. One important point to be considered here is whether measurement and comparison are to be done at various stages in the throughput process or at the end. If the purpose of control is to catch trouble while it is forming then this should be done at various strategic points before the end of the throughput process. A fault to be avoided, however, is to allow too long a period of time to pass between performance measurements. Frequency of measurements depends on the nature of the task being controlled. Thus, quality control of items coming off an assembly line often requires hourly monitoring because significant changes can take place any time in any run of items. But this is not so when developing a product or appraising an employee.

Taking Corrective Action

After comparing the actual performance with prescribed standards and finding the deviations, the next step that should be taken by the manager is to correct these deviations. Corrective action should be taken without wasting time so that the normal position can be restored. The manager should also determine the correct causes for deviation. The causes for deviation may be of different types, such as inadequate and poor equipment and machinery, inadequate communication system, lack of motivation of subordinates, defective system of training and selection of personnel, defective system of remuneration, etc. The remedial action that should be taken depends on the nature of causes for variation.

NEED FOR CONTROL SYSTEM

A control system is needed for four purposes:

1. to measure progress;
2. to uncover deviations;
3. to indicate corrective action; and
4. to transmit corrective action to the operation.

To Measure Progress

There is a close link between planning and controlling the organisation's operations. We have discussed in Chapter 4 how in the planning process, the fundamental goals and objectives of the organisation and the methods for attaining them are established. The control process continually measures progress towards goals. As Fayol[3] so clearly recognised decades ago, "In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established". As the navigator continually takes readings to ascertain *where he is* relative to a planned course, so does the manager take readings to see where his enterprise or department is on the charted and predetermined course.

To Uncover Deviations

Once a business organisation is set into motion towards its specific objectives, events occur that tend to pull it "off target". Major events which tend to pull an organisation "off target" are as follows:

[3]Henri Fayol, *General and Industrial Management* (N.Y.: Pitman Publishing Corporation, 1949), p. 107.

https://rbigradeb.com/

Change Change is an integral part of almost any organisation's environment. Markets shift, new products emerge, new materials are discovered and new regulations are passed. The control function enables managers to detect changes that are affecting their organisation's products or services. They can then move to cope with the threats or opportunities that these changes represent.

Complexity Today's vast and complex organisations, with geographically separated plants and decentralised operations make control a necessity. Diversified product lines need to be watched closely to ensure that quality and profitability are being maintained; sales in different retail outlets need to be recorded accurately and analysed; the organisation's various markets—foreign and domestic—require close monitoring.

Mistakes Managers and their subordinates very often commit mistakes. For example, wrong parts are ordered, wrong pricing decisions are made, problems are diagnosed incorrectly, and so on. A control system enables managers to catch these mistakes before they become serious.

Delegation As we discussed in Chapter 8, when managers delegate authority to subordinates, their responsibility to their own superiors is not reduced. The only way managers can determine if their subordinates are accomplishing the tasks that have been delegated to them is by implementing a system of control. Without such a system, managers will not be able to check on their subordinates' progress, and so not be able to take corrective action until after a failure has occurred.

To Indicate Corrective Action

Controls are needed to indicate corrective actions. They may reveal, for example, that plans need to be redrawn or goals need to be modified or there is need for reassignment or clarification of duties or for additional staffing or for conforming to the way the work should be done.

To Transmit Corrective Action to the Operation

Controls are needed to transmit corrective action to the operation while it is progressing so that the transformation subsystem modifies its inputs or its production plan to reduce any discrepancy or error and keeps the output "on course". The thermostat is a classic example of this operating principle. When the room temperature drops below a desired level, the control mechanism in the transformation subsystem at once transmits this information (called "feed forward") and the temperature begins to rise till it reaches the selected level.

Control-related information flows in most of our modern organisations also follow the above-mentioned thermostat operating principle. They make available to the transformation subsystem at all times the information about operating results in various forms, such as electronic impulses, written or spoken words, reports, etc. to serve as the basic input for comparison with the standards and for automatic decision-making. The transformation subsystem thus takes the shape of a closed loop as shown in Fig. 18.1. However, the system is closed only in the short run. Human intervention is involved to adjust the system periodically, according to a subjective impression of the environment. Thus, the overall system is open, but we have closed loop control once the system is set.

BENEFITS OF CONTROL

A well developed control system

- increases productivity,

https://rbigradeb.com/

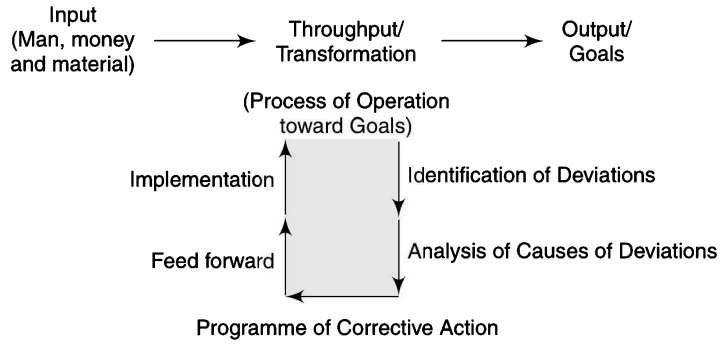


Fig. 18.1 Transformation subsystem as a closed loop

- reduces defects and mistakes,
- helps meet deadlines,
- facilitates communication,
- improves safety,
- lowers cost, and
- gives the workers control over their environment.

ESSENTIALS OF EFFECTIVE CONTROL SYSTEM

The essentials of an effective control system are as follows.

Suitable

The control system should be appropriate to the nature and needs of the activity. Controls used in the sales department will be different from those used in finance and personnel. Similarly, a machine-based method of production requires a control system which is different from the system that is used in labour intensive methods of production. Hence, every concern should evolve such a control system as would serve its specific needs.

Timely and Forward Looking

Although an ideal control system, as in certain electric controls, should be able to detect deviations *before* they occur, the same is not possible in personnel and marketing controls which always include a time lag between the deviation and corrective action. In any case, the feedback system should be as short and quick as possible and the information should reach the superior before it is too late to head off failures.

Objective and Comprehensible

The control system should be both objective and understandable. Objective controls specify the expected results in clear and definite terms and leave little room for argument by the employees. They avoid red

https://rbigradeb.com/

tape and provide employees with direct access to any additional information which they may need to perform their task. Employees are not made to go up and down the hierarchy to get the information.

When the precise purposes, for which the control system exists, are not understood it is difficult, if not impossible, to establish criteria for its evaluation and review.

Flexible

The control system should be flexible so that it can be adjusted to suit the needs of any change in the basic nature of the inputs and/or the sizes, varieties or types of the same product or service. One way of introducing flexibility into a control system is to make the adjustments automatic. Both flexible budgets and standard costs, for example, provide a shifting standard for expenses, as the volume of work goes up or down. A similar type of adjustment is in effect when the sales quotas are tied to general business activity. In all such plans, *the basis for shifting the control standard is built right into the system.*

Economical

Economy is another requirement of every control system. The benefit derived from a control system should be more than the cost involved in implementing it. To spend a dollar to protect 99 cents is not control. It is waste. Eighty years ago this was clearly understood by the men who built Sears, Roebuck—the world's biggest retail store. In the early days of the mail-order business, the money in incoming orders was not counted. The orders were weighed, unopened. (These were, of course, the days when currency was still metallic.) Sears, Roebuck had run enough tests to know what average weights correspond to overall amounts of money—and this was sufficient control.

Prescriptive and Operational

A control system in order to be effective and adequate must not only detect deviations from the standards but should also provide for solutions to the problems that cause deviations. In other words, the system should be prescriptive and operational. It must disclose where failures are occurring, who is responsible for them, and what should be done about them. It must focus more on action than on information.

Acceptable to Organisation Members

The system should be acceptable to organisation members. When standards are set unilaterally by upper level managers, there is a danger that employees will regard those standards as unreasonable or unrealistic. They may then refuse to meet them. Status differences between individuals also have to be recognised. Individuals who have to report deviations to someone they perceive as a lower level staff member may stop taking the control system seriously.

Reveal Exceptions at Strategic Points

A control system should be such as to reveal exceptions at strategic points. Small exceptions in certain areas have greater significance than larger deviations in other areas. Five per cent deviation from the standard in office labour cost is more important than 20 per cent deviation from the standard in cost of postage stamps. That we can quantify something is no reason for measuring it. The question is "Is this what a manager's attention should be focussed on?"

https://rbigradeb.com/

Motivate People to High Performance

A control system is most effective when it motivates people to high performance. Since most people respond to a challenge, successfully meeting a tough standard may well provide a greater sense of accomplishment than meeting an easy standard. However, if a target is so tough that it seems impossible to meet, it will be more likely to discourage than to motivate effort. Standards that are too difficult may, therefore, cause the performance of organisation members to decline.

Should Not Lead to Less Attention to Other Aspects

Control over one phase of operations should not lead to less attention to other aspects. For example, if controls put pressure on employees to increase output, the quality of work, care of equipment, and prevention of waste should not be neglected.

Should be Periodically Reviewed and Evaluated

Every control system should be periodically reviewed and evaluated in relation to its objectives to see how effective and efficient the design proved to be or why it failed.

PROBLEMS OF THE CONTROL SYSTEM

Unanticipated Magnitude of Change

Control systems are mostly designed to cope with changes of a certain magnitude. Certain decisions are made regarding which of the variables in the system can change, how much they will change, and what actions can be taken to correct these changes. The system is designed around these variables. For example, management recognises that not all employees will show up each day on a production line and that production problems will occur because of equipment or material problems.

Therefore, it provides for alternative labour sources and for maintenance men or production engineers who can be called when technical problems occur. These corrective actions are programmed into the foreman's decision rules. But these corrective actions can work only when the assumptions are met, e.g., when only one or two employees do not show up or only one machine at a time breaks down. If 90 per cent of the workers go home after lunch because they have had food poisoning after eating in the cafeteria or if the whole assembly line has to close down because of a power failure, there is very little the foreman can do to correct the change. The variables have gone outside the range that the control system was designed to handle. It may be cheaper to accept an occasional production stoppage, rather than pay the cost of designing and operating a control system that can be adapted to *all* potential variations.

Lack of Timeliness of Feedback

Information feedback must be timely to be effective. Time lags in feedback can cause severe problems. Such time lags tend to slow down the adaptive process, that is, they increase the length of time it takes for the control system to respond.

It is easy to see how time lags can develop in a control system. Organisational control systems, particularly at higher levels in the organisation, often depend on written reports for their sensed

https://rbigradeb.com/

information and on written memos or directives as the corrective feedback. But it obviously takes time to write and transmit such information. If the activity is changing rapidly, the problem will be entirely different by the time the corrective feedback reaches the activity.

Wrong Information

When the information fed back to a control system is wrong, incorrect decisions are made. Some examples of wrong reporting are: A line worker drops a part under the work bench and pulls a replacement from stock without recording either transaction. An inventory clerk makes an error in counting. A quality control department misplaces a decimal point in setting the standards for accepting and rejecting units off an assembly line. A department supervisor decides to perform jobs in a different order than prescribed. Typical results are inaccurate job costing, excess inventory or stockout problem, too many defective units being accepted or too many good units being rejected and missed due dates.

Information Overload

Information overload is another problem in a control system. If managers at all levels receive identical details about any event they may be overburdened and may neglect their immediate responsibilities. They may also suggest remedies *before* their subordinates are given an opportunity to take action. Thus, in planning a control system, one must keep in mind the *quantity* and *type* of information that should reach every manager.

Management Information System (MIS) is an organised method by which managers at all levels in the organisation are presented with needed information in the right form and at the right time so that they are in a position to perform their tasks well. Broadly speaking, an organisation's MIS must provide three types of information required by managers at the three levels of hierarchy (first line, middle and top.) At the first line level the required information relates to operational control. At the middle level it relates to tactical planning and control and at the top level it relates to strategic planning. The table below gives examples of information needed at these three levels in different functional areas:

Table 18.1 Control Activities in Different Functional Areas

Functional Area	***Level***		***First-line***
	Top	***Middle***	
Production	New plant location, plant capacity	Product mix, Work overtime or second shift, Material delivery	Scheduling of jobs on specific machines Wastage and cost overruns
Marketing	New market penetration	Media planning, Sales promotion	Sales contacts to be made by a sales man in the next week
Finance	Alternative sources of financing	Maximum levels of credit to customers	Actions to be taken against defaulting borrowers
Personnel	Welfare policy	Performance appraisal Promotion	Leave recording

https://rbigradeb.com/

It may, however, be remembered that MIS is different from knowledge management which we have described in Chapter 12. *Whereas knowledge management is focused on information derived from the analysis of data, information management is focused on the data itself.*

Worker's Resistance

Setting the right standards or control limits is very difficult in the control of human systems. Human behaviour is complicated, and it is not easy to impose controls without leading to conflicts. Employees regard any control system as a tool to exert pressure on them. Thus a control system must first be "sold" before it is introduced. Leadership and motivation are significant factors in the control of human systems.

Employees dislike controls due to a variety of reasons:

1. ***Failure to accept objectives*** If a person fails to accept certain objectives, he may find the control mechanism that pushes him toward those objectives a distinct annoyance. Thus, a worker may not care to reduce waste if he thinks that this is not going to make any difference to his employer who is very rich.

2. ***Unreasonable standards*** A person may dislike control because he thinks the standard of performance set for him is too high. Thus, a salesman may object to his quota or the production department to a schedule for reducing inventories.

3. ***Too many controls*** Too many controls act as irritants. But there is no simple rule to warn a manager as to which additional control is going to prove as the last straw on the camel's back.

4. ***Inaccurate measurements*** Sometimes, people dislike controls because they believe that the measurement of their performance is inaccurate and consequently they do not get credit for the work they do. Thus, a man in the maintenance department might say, "You cannot measure the breakdowns that did not happen".

5. ***Short time-span of appraisal*** Sometimes, people complain that the time span of appraisal is too short to enable a fair assessment of their performance.

6. ***Disclosure of unpleasant facts*** Many people do not like controls because they fear exposure of their weaknesses before their peers and subordinates. There is also the fear of an unfavourable report leading to demotion, cut in pay, reprimand, or dismissal.

7. ***Wrong persons trying to control*** Senior people dislike controls when they come from their juniors in the management hierarchy. Thus, a line person may not like being controlled by a staff person and may say "Who does he think he is?"

8. ***Opposite social pressure*** People pay greater regard to the performance norms prescribed by their groups than to the formal standards set by the manager.

CONTROL TECHNIQUES

Control techniques are almost as diverse as the activities of business. The following are three important ways in which they are classified:

(a) Past-oriented control techniques and future-oriented control techniques
(b) Market control techniques, bureaucratic control techniques and clan control techniques
(c) Old control techniques and new control techniques

https://rbigradeb.com/

Past-oriented Control Techniques and Future-oriented Control Techniques

Past-oriented control techniques are also known as *post-action* controls. They measure results *after* the work is completed—it is post-mortem. Examples of such controls are most accounting records, inspection of goods and services and school grade reports. These controls can be used to plan future steps before repeating the same operation. They can also be used as a basis for rewarding, disciplining, training or promoting individuals.

Future-oriented control techniques are also known as *steering* controls or *feed-forward* controls. They measure results *before* the work is completed. They serve as warning-posts principally to direct attention rather than to evaluate. Examples of such controls are cash flow and funds flow analysis, network planning, etc. which enable managers to keep a watch on an operation while it is progressing and to see that they will have problems in such areas as cash or on-time delivery unless they take prior action. Mail order companies, to cite another example, have found that the weight of incoming mail gives an early indication of the volume of business. With this warning of ups and downs in the volume of work, they are able to adjust work assignments in order to reduce expenses or to make prompt deliveries of unusually large volumes.

The two types of control we have discussed above *are not alternatives to each other*. Most organisations use both these types. With a future-oriented control (which enables corrections to be made before the system output is effected) a manager would still want to measure the final system output since nothing can be expected to work perfectly enough to give the confidence that the final output will always be exactly as is desired.

Market Control, Bureaucratic Control and Clan Control Techniques[4]

Market control techniques establish control by drawing comparisons of prices and profits of previous years, or of other organisations. The prices which organisations assign to their products or services are considered as an accurate reflection of the effectiveness of their internal control.

Bureaucratic control techniques (such as rules, policies, hierarchy of authority, operating budgets and periodical statistical reports), establish control by requiring employees to comply with them.

Clan control techniques establish control by generating trust, tradition, commitment and shared belief.

Although all three types may appear in an organisation yet each is best suited to a particular type of organisation. Thus, market control techniques are best suited to profit organisations operating in a competitive environment, bureaucratic control techniques are best suited to non-profit organisations where prices and competitive markets do not exist, and control techniques are best suited to matrix organisations and small family-owned organisations, which should follow hundred per cent commitment rule.

[4]William G. Ouchi, "A Conceptual Framework for the Design of Organisational Control Mechanisms", *Management Science*, 25 (1979).

https://rbigradeb.com/

Old Control Techniques and New Control Techniques

Old control techniques are those techniques which have been long used by managers. Most of these techniques are financial or accounting-based directed toward the control of money. *New control techniques* provide the kind of information that are not readily available with the old techniques. As engineers are far ahead of managers in their ability to measure what is going on, these techniques act as better future-oriented devices directed toward the *control of time*.

We give below a brief description of some techniques under each category.

Old Control Techniques

Budgeting A budget is a statement of anticipated results during a designated time period expressed in financial and non-financial terms. As indicated in the preceding section, three essential steps in the control process include establishing standards, comparing results with standards, and taking corrective action. In terms of these steps, the preparation of budgets is, in effect, the step of establishing clear and unambiguous standards of performance mostly in monetary terms.

Budgets cover a designated time period—usually a year. At stated intervals during that time period, actual performance is compared directly with the budget targets and deviations are quickly detected and acted upon.

The budgeting process begins when top management sets the strategies and goals for the organisation. Usually, lower level managers will then devise budgets for their sub-units within these guidelines set by top management. The budgets will then be reviewed by the superiors of these managers; the superiors will eventually integrate lower level budgets into their own budget and send it up the chain of command for review. This process continues until the organisation's overall budget has been approved by the board of directors. A budget department or budget committee may assist line managers in budget preparation and review.

Communication of *planning premises* is essential if the subsidiary budgets at lower levels are to be prepared consistently. The production manager, for instance, must know what assumptions to make about wages, availability of raw materials, volume of sales etc. Similarly, the sales manager must know about how soon and at what cost a certain new product will be ready for the market. Therefore, someone must provide a forecast or guess that can be used consistently in all the subsidiary budgets.

Types of budgets On the basis of the purpose for which budgets are prepared, they may be classified as follows:

1. *Personnel Budget* It is a personnel programme expressed in monetary terms usually for one year. The personnel manager can compare his expenditures under various heads with the budgeted provisions and with those of other companies. This enables him to know whether he is spending high or low, whether he is getting his money's worth and whether he is in danger of losing his better men.

2. *Sales budget* It is a comprehensive sales programme and plan for developing sales. It lays down the sales potential in terms of quantity, value, period, product, etc. Sales forecasting is the basis for preparing this budget. A sales budget is prepared by the sales manager with the assistance of salesmen and market research officers. The factors to be considered for preparing sales budget are population trend, consumer's purchasing power, price trend of the product, nature of competition, past sales, extent of advertising, etc.

https://rbigradeb.com/

3. *Selling and distribution cost budget* This budget lays down the cost of selling and distribution of the product during the budget period. It includes advertising cost, research and development cost, transport cost, etc. This budget is jointly prepared by the sales manager, advertising manager and the distribution manager.

4. *Production budget* This budget is based on the sales budget. It lays down the quantity of units to be produced during the budget period. The main purpose of this budget is to maintain an optimum balance between sales, production and inventory position of the firm. This budget is also known as the "output budget".

5. *Production cost budget* This budget is based on the production budget. It lays down the estimated cost of carrying out production plans.

Further, the production cost budget is subdivided into various sub-budgets like raw materials budget, labour budget, production overhead budget, etc. *The raw material budget* lays down the quantity of raw material required for production during the budget period. This budget is prepared by the head of the manufacturing department. *The labour budget* lays down the estimates of labour requirements necessary to carry out estimated production during the budget period. It may include both direct and indirect labour requirements. In some cases, indirect labour requirements may be shown in the manufacturing expenses budget instead of in the labour budget. *The production overhead budget* gives the estimates of all production overheads to be incurred during the budget period. It breaks up the production overheads into three parts, viz., fixed, variable, and semi-variable.

6. *Capital expenditure budget* This budget outlines specifically, capital expenditures for plant, machinery, equipment, inventories and other items. It also points out the plans concerning investment, expansion, growth, improvements, replacements, etc.

7. *Cash budget* This budget gives the anticipated receipts and disbursements for the budget period and shows the cash position arising from it. It indicates the requirement of cash at various points of time and helps the management in planning and arranging cash to meet the needs of the business concern. Thus, it ensures that the concern never has any shortage of cash required. Cash budget helps the management in controlling and coordinating the activities which involve receipt and payment of cash.

8. *Master budget* A master budget gives a summary of all the functional budgets and shows how they affect the business as a whole. In other words, it is compiled from various subsidiary or functional budgets. It provides detailed particulars regarding production, sales, cash, fixed assets, etc. The need for a master budget containing a *summary* of all the subsidiary budgets arises because business concerns are too large to permit the detailed planning of all the aspects of the business in one budget.

Advantages of budgetary control The following are some of the important advantages of budgetary control:

1. *The different functional budgets clearly indicate the limits for expenses and also the results to be achieved in a given period.* This helps the enterprise in having a planned approach for its various activities. This also keeps everybody in the enterprise alert and encourages the optimum use of its resources.
2. *Budgets make it possible to coordinate the work of the entire organisation.* In devising budgets, managers take into account information provided by the sub-units of their organisation. The interaction between managers and subordinates that takes place during the budget development process helps define and integrate the activities of all members in the organisation.

https://rbigradeb.com/

3. *Since budgets are generally prepared with the consultation of managers at different levels, they provide to the enterprise the fruit of combined wisdom* Lower level managers are motivated in accepting and meeting budgets that they have had a hand in shaping.
4. The budgetary control brings together the activities of various departments in an overall perspective and *this promotes cooperation and team spirit among the employees.*
5. *Through budgetary control, the deviations from the predetermined subjective standards are found out* and the management is enabled to take suitable corrective action immediately. This minimises wastage and losses.
6. *The budget system helps people learn from past experience* Once the budget period is over, managers can analyse what occurred, isolate errors and their causes, and take steps to avoid those errors in the next budget period.
7. *Budgets improve communication* A plan cannot be put into effect unless it is communicated to those who must carry it out. In the process of developing the budget with those responsible for its implementation, managers can communicate their own objectives and plans most effectively.

Limitations of budgetary control Some of the limitations of budgetary control are as under:

1. Budgets are mostly inflexible and rigid and do not respond to internal or external environmental changes. In so far as they are in error, because of these unmanageable changes, they lose their validity as a standard. A district sales manager, for example, cannot be held accountable for a drop in sales if a truckers' strike prevents delivery of merchandise to his customers.
2. Budgets are of little help in handling the here-and-now problems that supervisors have. They are useful only in analysing the past and charting the future. They do not "manage", but merely serve as a tool to be used by management.
3. In a budgetary control programme people show anxiety to spend their current budget to the hilt so that their budget for the next financial year is not reduced. They show little concern to evaluate the result of their spending. In fact, all their effort is directed at increasing the budget for the next year. 'Performance' in the budget-based organisation means the ability to maintain or increase one's budget.
4. A good manager is discouraged from taking initiative and undertaking activities for which provision has not been made in the budget, even though they are useful for the enterprise. On the other hand, a bad manager can hide his inefficiency behind the budget which does not examine whether last year's expenditure was at all, necessary and whether there were more economical alternatives to the expenditure that could yield the desired results.

***Zero-base budgeting* (ZBB)** Under traditional budgeting, a manager starts with the *current* level of operation as an established base instead of re-evaluating all programmes. This type of budgeting, therefore, does not answer questions such as: Are current programmes efficient and effective? What are the alternatives? Should current programmes be eliminated or reduced in order to fund higher-priority new programmes or to improve profits? This is not so under zero-base-budgeting which is done every year from a scratch. A manager here, is required to evaluate each item's worth to the company, from the ground up, and justify every rupee spent in terms of current corporate goals. It is, therefore, better to term it as "De nova budgeting" or budgeting from the beginning.

Cost Accounting The cost of production determines the profit earned by an enterprise. In view of this fact, modem management has given much importance to cost accounting and cost control. Standard costing is one of the techniques of cost control and it is being increasingly used by modem business

https://rbigradeb.com/

concerns for the purpose of cost reduction and cost control. The objective of standard costing is the same as that of budgetary control. *The system involves a comparison of the actuals with the standards and the discrepancy is called variance*. The various steps involved in standard costing are:

1. Setting of objective cost standards for various components of cost—such as raw materials, labour and overheads. The standards fix the limits within which the different types of expenses must be kept.
2. Measurement of actual performance.
3. Comparison of actual cost with the standard cost laid down.
4. Finding the variance of actual cost from the standard cost.
5. Finding the causes of variance.
6. Taking necessary action to prevent the occurrence of variance in future.

Standard costing differs from budgeting in a number of ways:

1. Standards are set by some systematic technique and are more "objective" whereas budgets are more "subjective".
2. Standards refer to specific, detailed units of processes or products, whereas budgets relate to departments and general grouping of units.
3. Standards are subject to revision less frequently than budgets.

Responsibility Accounting Responsibility accounting can be defined as a system of accounting under which each departmental head is made responsible for the performance of his department.

Under this system, each department is made a semi-autonomous profit centre, i.e., a centre responsible for the generation of profit. A department generates profits by "selling" its output either to an outside customer or to other departments or profit centres in the same organisation. The prices at which one profit centre sells its output or services to other profit centres are called *transfer prices*. The transfer prices for "selling" the output of one department or profit centre to the other department or profit centre may be fixed in anyone of the following ways:

1. ***Markup on actual cost*** Many companies just add a margin of profit of say, 10 per cent of the process cost as the transfer cost. For example, assume that a steel company has a pig iron plant which supplies pig iron to the steel plant which in turn supplies steel to the finishing plant. If all the three plants of the company are to be judged by the profits they earn, the pig iron plant will supply iron to the steel plant at a price arrived at by adding 10 per cent to its process cost. This will be the purchase cost of the steel mill. Similarly, whatever the production cost of the steel plant, a 10 per cent mark up would be allowed on that and that would become the purchase cost of the finishing plant. Thus each centre will show separate profits.

Fixing transfer prices on the basis of a mark up on actual cost is not a good method. This is because it passes on the inefficiency of one department to the other.

2. ***Markup on standard cost*** Under this method, the markup on standard cost is allowed. Departments working at less than the standard efficiency would have a lower profit since their costs would be higher than the standard costs. This method has the advantage of brining out the efficiency of each department, However, one great disadvantage of this method is that the ultimate sale price of the product becomes very high since it includes the markups on standard costs for each department.

3. ***Market price*** Under this method, the transfer price is fixed at a price equivalent to the one prevailing in the market at the time of transfer. The receiving department thus pays to the selling department

https://rbigradeb.com/

the same price which it would have paid to an outsider seller. This is a good method because under it the true profitability of a department as an independent unit is revealed. The only limitation of this method is that very often market prices are not available for the semi-finished output of one department which the receiving department is using as an input.

4. ***Negotiated prices*** In certain special circumstances, transfer prices may be fixed on the basis of negotiations between departmental heads.

A profit centre resembles a business in miniature. Like a separate company, it has an income statement that shows revenue, expense, and the difference between them, which is profit. The income statement for a profit centre, therefore, is a basic management control document which motivates the manager to reduce all *controllable* expenses in order to increase the profit for his profit centre.

Financial Statements and Ratio Analysis The Trading Profit and Loss Account and the Balance Sheet of a company are the usual financial statements which are prepared ex post (in retrospect) to indicate what financial events occurred since the last statements. Depending on the company, the period covered by a financial statement could be the previous year, the previous quarter, or the previous month. The usefulness of these statements for applying control measures is limited by the fact that they cover only past events. However, they can provide managers with useful information about trends. Managers can also use these statements to compare their organisations with other organisations and can thus evaluate their own performance. In addition, they are used by people outside the organisation to evaluate the organisation's strengths, weaknesses and potential.

Ratio analysis seeks to extract information from a financial statement in a way that will allow an organisation's performance in different areas to be evaluated. It involves selecting two significant figures from a financial statement and expressing their relationship in terms of a percentage or ratio.

The ratios most commonly used by organisations are the following:

1. ***Liquidity ratios*** They measure the company's ability to pay back short-term debts by converting assets quickly into cash. In other words, they are a measure of a company's liquidity. One such ratio is the current ratio. It is expressed by the fraction: Current assets ÷ Current liabilities.

2. ***Debt ratios*** While liquidity ratios are used to measure a company's short-term financial position, debt ratios are computed to assess its ability to meet long-term commitments. The simplest debt ratio is total debt divided by total assets. This ratio tells us what proportion of the company's assets is owned by its creditors.

3. ***Profitability ratios*** These ratios express profits as percentage of sales or of total assets to depict the company's efficiency of operation. A profit of Rs 4 lakh, for example, is unimpressive if it is derived from a total sales of Rs 40 crore or a capital investment of Rs 100 crore.

4. ***Operating ratios*** These ratio measure how efficiently the manufacturing and sales are being carried out. Some of the more common operating ratios are the inventory turnover ratio and the total assets turnover ratio. The inventory turnover ratio is defined as sales ÷ inventory. For example, if a company has sales of Rs 10 lakh and an average daily inventory of Rs 2 lakh, it may be said to be turning over its inventory five times. A high rate of inventory turnover is frequently a positive sign. It suggests that these assets are being used efficiently by the firm.

The total assets turnover ratio is expressed as sales ÷ total assets. This ratio gives an indication of how effectively the firm's assets are being used. Too low a ratio may indicate the need for either an increased sales effort or possibly the liquidation of the company's less productive assets.

https://rbigradeb.com/

The training cost per employee or the average travelling expenditure per trip or the number of personnel staff per 100 people in the total company population are examples of ratios which throw light on the efficiency of personnel department.

The ratio analysis comparisons can be made in one of two ways: (a) comparisons over a time period—the present ratio compared with the same organisation's ratio in the past; and (b) comparison with other similar organisations or with the industry as a whole. The first type of comparison will indicate how the organisation's performance or condition has changed; the second type will suggest how well the organisation is doing relative to its competitors.

Return on investment Also known as the Du Pont system of financial analysis this ratio is expressed by the following formula:

$$\text{ROI} = \frac{\text{Sales}}{\text{Investment (Fixed and working capital)}} \times \frac{\text{Profit}}{\text{Sales}}$$

This ratio is computed on the basis of capital turnover (sales ÷ investment) multiplied by earnings as a proportion of sales (profit ÷ sales). This calculation recognises that one division, with a high capital turnover and a lower percentage of earnings to sales, may be more profitable in terms of return on investment than another with a high percentage of profits to sales but with low capital turnover.

Break-even Analysis Break-even analysis is another control device used in business firms. It involves the use of a chart to depict the overall volume of sales necessary to cover costs. It is that point at which the cost and revenue of the enterprise are exactly equal. In other words, it is that point where the enterprise neither earns a profit nor incurs a loss.

Figure 18.2 depicts a simple break-even chart for a single product of a company. The horizontal axis in this figure identifies units of sales. The vertical axis identifies both costs and revenues. We can easily know from this figure that Rs 10,000 is the total revenue and Rs 23.000 (approximately) are the

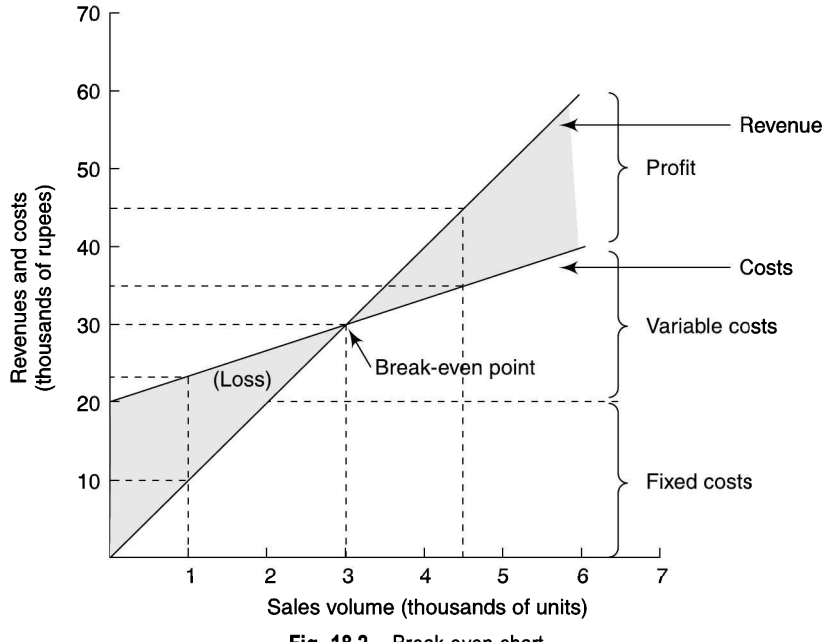


Fig. 18.2 Break-even chart

https://rbigradeb.com/

total costs associated with a sales volume of 1,000 units. Threrefore, at a sales volume of 1,000 units we should expect an overall loss of Rs 13,000. Similarly, at a sales volume of 4,500 units we should expect an overall profit of Rs 10,000 (Rs 45,000 in revenue minus Rs 35,000 in costs). Our break-even point lies at a sales volume of 3,000 units. At this point revenue exactly covers the cost.

Break-even analysis can be used both as an aid in decision-making and as a control device. The specific areas where break-even analysis can help in decision-making include

1. identifying the minimum sales volume necessary to prevent a loss;
2. identifying the minimum sales volume necessary to meet established profit objectives;
3. providing information helpful in making decisions on the effect of raising or lowering prices; and
4. providing data helpful in decisions to drop or add product lines.

As an aid to control, break-even analysis provides one more yardstick by which to evaluate company performance at the end of a sales period. One can compare the actual profit of the past period with what it should have been according to the break-even analysis.

The following are the two difficulties of drawing a break-even chart for a multi-*product* firm:

(a) A break-even chart with the *X*-axis measuring "units sold" cannot be prepared, since many unlike types of products are sold by the same firm.
(b) A break-even analysis becomes difficult also because the firm might be selling many products with different profit margins.

However, a series of break-even charts can be made to show the results of sales of different product mixes. Break-even charts of the sales of the individual products are also useful.

Audit Audit is a very common control technique used in financial management. Internal audit is conducted by an internal auditor who is an employee of the organisation. He makes an independent appraisal of financial and other operations. In addition, he appraises company's policies, plans, and management performance. He pinpoints defects in the policies or plans and gives suggestions for eliminating the defects. As internal audit is conducted regularly, it keeps the employees always alert.

External audit is an independent appraisal of the organisation's financial accounts and statements. The purpose of external audit is to ensure that the interests of shareholders and other outside parties connected with the company are safeguarded against the malpractices of the management. The external auditor is a qualified person and he has to certify the annual profit and loss account and balance sheet after careful examination of the relevant books of accounts and documents. In case the external auditor is negligent in performing his duties or becomes party to any fraud or error committed by the management, he will be liable under both civil and criminal laws.

Marketing audit examines six major components of the company's marketing situation. These are: marketing environment, marketing organisation, marketing strategy, marketing planning and control systems, marketing functions and marketing productivity.

Personnel audit is a systematic and comprehensive analysis of all activities and the result of a personnel programme. It ensures a complete review, at regular intervals of the effectiveness and utility of the various personnel functions and activities, policies and procedures.

Reports A major part of control consists of preparing reports to provide information to the management for purposes of control and planning. The following are certain types of reports which are prepared and submitted to the management regularly.

https://rbigradeb.com/

1. ***Top Management***
   (i) Profit and loss statement
   (ii) Balance sheet
   (iii) Position of stock
   (iv) Cash-flow statement
   (v) Position of working capital
   (vi) Capital expenditure and forward commitments together with progress of projects in hand
   (vii) Sales, production and other appropriate statistics
2. ***Sales Management***
   (i) Actual sales compared with budgeted sales to measure performance by
      (a) products;
      (b) territories;
      (c) individual salesmen; and
      (d) customer.
   (ii) Standard profit and loss by products
      (a) for fixing selling prices; and
      (b) to concentrate sales on most profitable products.
   (iii) Selling expenses in relation to budget and sales value, analysed by
      (a) products;
      (b) territories;
      (c) individual salesmen; and
      (d) customers.
   (iv) Bad debts and accounts which are slow and difficult in collection.
   (v) Status reports on new or doubtful customers.
3. ***Production Management***
   To buyer: Price variations on purchases analysed by commodities.
   To Foreman
   (a) Operational efficiency for individual operators, duly summarised as department averages
   (b) Labour utilisation report and causes of lost time and controllable time
   (c) Indirect shop expenses against the standard allowed
   (d) Scrap report.
   To Works Manager
   (a) Department operating statement
   (b) General works operating statement (expenses relating to all works expenses not directly allocable or controllable by departments)
   (c) Plant utilisation report
   (d) Department scrap report
   (e) Material usage report.
4. ***Special Reports***
   These reports may be prepared at the request of the management accountant or the manager. The necessity for them may arise on account of the need for a more detailed information on matters of interest first revealed by the routine reports. Some of the matters in respect of which such reports may be prepared are:
   (a) Taxation, legislation and its effect on profits

https://rbigradeb.com/

(b) Estimate about the earning capacity of a new project
(c) Break-even analysis
(d) Replacement of capital equipment
(e) Special pricing analysis
(f) Make or buy decisions.

Some important considerations in drawing up these reports are as follows:

Information Quality The more accurate the information, the higher its quality and the more securely managers can rely on it when deciding what action to take. However, the cost of obtaining information increases as the quality of the information desired goes up. How accurate the information needs to be will vary with the situation. But, in general, information of higher quality that does not add materially to a manager's decision-making capability is not worth the added cost.

Information Timeliness The information provided by a report must suggest action in time for that action to be taken. Just when information is considered timely, however, will depend on the situation. For example, reports destined for top-level managers to monitor progress on long-range objectives may be considered timely if they arrive at quarterly intervals. The cost of making them available weekly would not be justified, since long-range plans are neither reviewed nor modified at such frequent intervals. However, middle and lower level managers responsible for ongoing operations and activities may need a weekly or even daily report on machine downtime if delays are to be minimised. The quality control managers must get a daily or weekly report on all customer rejections. On a monthly or quarterly basis, such information would merely be ancient history and would be of no value to the manager.

Timeliness may also be determined by company policy or by events rather than by the calendar. Information on inventory, for example, is provided to the manager responsible for recording only when a previously established minimum level for the inventory is being approached. Requiring inventory on a calendar basis—such as every week—when inventory levels for most items are well above their record point would usually not be worth the added cost, since action would not be implied by the information.

Information Quantity and Relevance A report that provides too little information can be ineffective, because it may lead managers to make wrong or late decisions that worsen problems instead of solving them. Conversely, a report that provides managers too much information can also prove ineffective because that may not isolate what they need from a flood of irrelevant facts and figures. A good report should fill or evaluate information so that only the most relevant information is supplied to the appropriate manager. In addition, a good report should condense information, so that what is relevant may be absorbed in a short period of time.

Gantt Chart Figure 18.3 is a sample Gantt chart, sometimes referred to as a bar chart, employed to plan and track jobs on the shop floors. The chart is named after Henry C. Gantt. The example indicates that job A is behind schedule, job B is ahead of schedule and job C has been completed, after a delayed start for equipment maintenance. Note that whether the job is ahead of schedule or behind schedule is based on where it stands compared to where we are now. In Fig. 18.3 we are the end of Wednesday and job A should have been completed. Job B has already had some of Thursday's work completed. This information can be used to schedule overtime and to shift workers from one job to another.

Standing Orders, Rules, Limitations Standing orders, rules and limitations are also control techniques used by the management. The manager who authorises his subordinates to make certain decisions or delegates some of his powers, lays down the limits for them. Limits may be decided on the basis of the nature of work and status of the subordinate. Standing orders are issued by the management and they

https://rbigradeb.com/

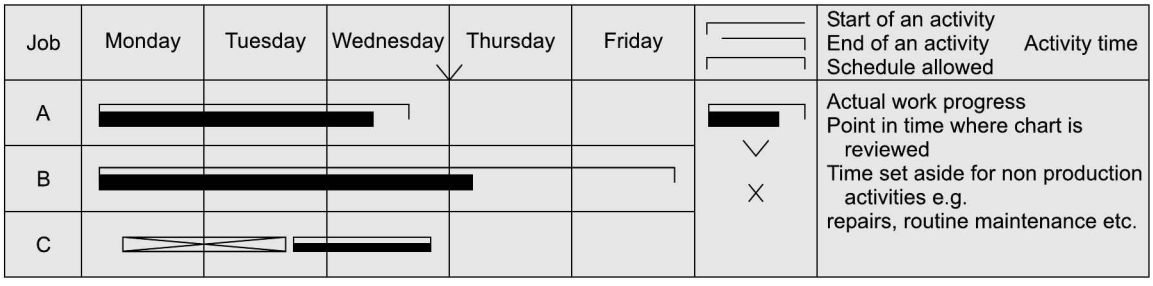


Fig. 18.3 Gantt Chart

are to be observed by the subordinates. They may be concerned with the rules, regulations, discipline, procedures, conditions, timings, etc.

Personal Observation A manager can also exercise fruitful control over his subordinates by observing them while they are engaged in work. Personal observation helps the manager not only in knowing the workers' attitude towards work but also in correcting their work and methods, if necessary. Moreover, when the worker knows that he is being observed by his superior, he will be alert and will not waste his time. But in some cases he may also resent being observed and may develop resistance. In any case, this method is very costly and cannot work in large concerns.

New Control Techniques

These techniques which are of recent origin do not markedly overlap the traditional control devices, but provide the kind of information not readily available with the traditional methods. Therefore, when these control techniques are used, it is usually *in addition to* the control devices described in the preceding section.

PERT and CPM The two major techniques under this heading are PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method). Both techniques were developed independently, although virtually at the same time, around 1957–58. PERT was first developed for the US Navy in connection with the Polaris weapons system and is credited with reducing the completion time of the programme by two years. CPM was developed jointly by Du Pont and Remington Rand of USA in order to facilitate the control of large, complex industrial projects.

Both PERT and CPM are primarily oriented towards achieving better managerial control of time spent in completing a project. Under both the techniques, a project is decomposed into activities and then all activities are integrated in a highly logical sequence to find the shortest time required to complete the entire project. The main difference between PERT and CPM lies in the treatment of time estimates. PERT was created primarily to handle research and development projects in which time spans are hard to estimate with any degree of accuracy. Consequently, PERT time spans are based on probabilistic estimates. CPM, on the other hand, is usually concerned with projects that the organisation has had some previous experience with. Time estimates, therefore, can be made relatively accurately.

The use of both PERT and CPM has spread rapidly today in controlling *time-critical* projects such as reinforcing a weak dam, constructing a building at an Olympic site or completing contracts that include penalty payment clauses. Many companies, make use of these techniques for working out the cost estimates of a project also.

https://rbigradeb.com/

Steps involved in developing the network Both under PERT and CPM, the purpose is to divide the project into a number of operations and then to draw a picture of the order in which and of the time when these operations should be started and completed. This picture is known as the Project Graph or Arrow Diagram. The following steps are involved in drawing this diagram:

1. The first step is to break down the whole project into a number of clearly identifiable activities and events. An activity is the actual performance of a task. Each activity requires some time and resources for its completion. The commencement or completion of an activity is called an event. An event is that particular instant of time at which some specific part of a plan has been achieved. An event does not signify any expenditure of time or resources. Any two events are always joined by some activity. The preceding event is called the "tail event" and the following is called the "head event".
2. Once the list of various activities is ready, we have to examine each activity in relation to the other activity and ask ourselves the following questions:
   (i) What other activity/activities must be completed before this activity can start (precedence)?
   (ii) What other activity/activities can be done while this activity is being done (concurrence)?
   (iii) What activity/activities cannot start until after this activity is done (subsequence)?
3. The next step is to draw the diagram portraying the precedence, concurrence and subsequence of all activities and events. On this diagram, all activities are shown by arrows and all events are shown by circles. The diagram also tells us the time required for the completion of each activity. In CPM diagrams, a single time estimate is written against each activity. In PERT, however, each activity is assigned three-time estimates (optimistic, most likely, and pessimistic), plus a fourth which is based on the other three. The optimistic time is the shortest time the activity should take if everything goes well and no mishaps occur. The pessimistic time is the longest time the activity could conceivably take when everything that could go normally wrong goes wrong, barring outright catastrophe. Most likely time is the time the activity should take under normal circumstances. Generally the three time estimates for each activity are combined into a weighted average, called *expected activity time.* This is written below the other three estimates.
4. Finally, the critical path is determined. The critical path is the longest path through the network in terms of the amount of time the entire project will take. It indicates a series of activities which must be done in sequence and which will take longer than the other sequences of jobs that can go along simultaneously. It is critical because the time spent on the activities that lie along this path must be shortened if the total time of project is to be shortend. For example, if in a project three activities A, B and C are to be completed, of which activities A and B (requiring six days and three days, respectively) can simultaneously be carried out but activity C (requiring two days) can start only on the completion of the first two activities, then the critical path would be along the activities A and C as shown in Fig. 18.4.

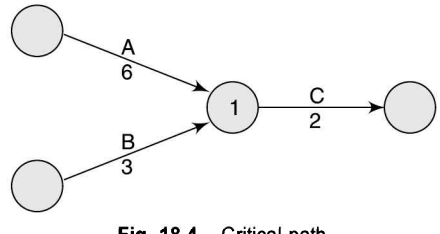


Fig. 18.4 Critical path

If A takes six days, and B three days, the shortest elapsed time to reach event 1 when activity C can start would be six days. Thus there is no point in spending money to expedite activity B but there may be a good reason for expediting A if the total time is to be shortened.

https://rbigradeb.com/

Paths other than the critical path are called sub-critical. The difference in length (time) between the critical and a sub-critical path represents the cushion for the sub-critical sequence and is known as the *slack or float.* It indicates that there is extra time available for activities along the sub-critical paths while those lying along the critical path are in progress. If the activities lying along the critical path can be speeded up sufficiently, the slack time along other paths may disappear, and the critical path may change. One of the ways in which PERT and CPM provide for completion time to be reduced is to find ways to transfer resources from activities on the sub-critical paths to activities on the critical paths. Jobs that have slack time can be delayed without affecting completion dates; so manpower and/or funds can be shifted to jobs that are critical.

Example: Table 18.2 provides relevant information about a pipe installation project:

Once the crew is assembled, it can proceed to deactivate the pipe, erect the scaffold, and remove the old pipe, which will take five days in all if the scaffold is erected while the deactivation is in progress.

But making the drawings will also take three days. The new pipe and valves cannot be ordered until the drawings are completed, and obtaining pipe and valves and doing the fabrication necessary will take five more days, or eight days altogether. So there would be no point in expediting the removal of the old pipe since there is a few days "float" (extra time) for this part of the job. But a day could be sliced off the elapsed time by putting more men on the fabrication because the valves will be ready for installation four days after the drawings are complete. Also, since the new pipes will not be ready for installation for eight days, there is no reason to take the old ones out of service on the first day; deactivation need not begin until the third day.

Table 18.2 Work Detail of a Pipe Installation Project

Event	*Job Description*	*Time required to perform the job (days)*
0–1	Assemble the crew	1
1–2	Make the drawings	3
1–5	Deactivate pipeline	1
2–3	Procure pipe	3
2–6	Procure valves	4
3–6	Fabricate pipe	2
4–5	Erect scaffold	3
5–6	Remove old pipe	2
6–7	Install new pipe	6
6–9	Insulate	3
7–8	Pressure test	1
8–10	Start up	1
9–10	Remove scaffold	2

We assume that the time given is more or less accurate as it is based on a good amount of past experience. A CPM approach will, therefore, be used.

From the above information we can construct the network as shown in Fig. 18.5.

https://rbigradeb.com/

Note: Broken lines show dummy activity which neither requires any time nor any resources. It merely shows the theoretical dependence of a certain operation on the other operation although in practice the two operations may be carried out simultaneously.

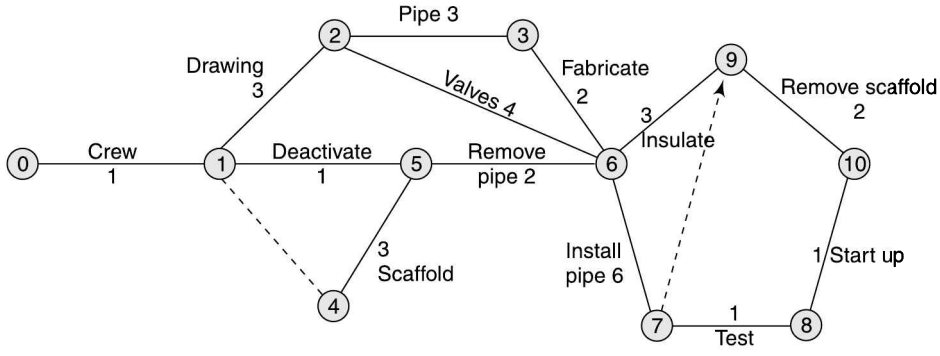


Fig. 18.5 Arrow diagram of a pipe installation project

In Fig. 18.5, the critical path is 0–1–2–3–6–7–8–10–9. The total completion time for the entire project determined by this path is 19 days. If events on the critical path are delayed, then the entire project will be delayed, and the scheduled completion date will not be met. Jobs 1–5, 2–6, 4–5, 5–6 and 6–9 are sub-critical. They contain some slack or float time.

Uses of PERT and CPM

1. *It ensures actual planning.* In PERT, a manager is forced to plan. He is required to identify all key events and activities and their sequencing and inter-relationships. He is also required to probe all possibilities, uncertainties and pitfalls to compute the most likely time. Therefore, if he is incompetent or a non-planner, he cannot hide, his incompetence for long.
2. *It makes every manager fully aware of his responsibilities.* Every manager comes to know the precise start time for his work, its cost requirements and its relationship with other works.
3. *It ensures improved management of resources.* This is largely accomplished by transferring resources from the sub-critical paths to the critical path. It is termed trade-off of resources.
4. *It facilitates improved decision-making.* Management can simulate the effects of alternative decisions on paper or on a computer instead of tampering with expensive operations.
5. *It facilitates future-oriented control.* The network needs are constantly reviewed and updated on the basis of feedback from the lower levels of management. This ensures advance action and management by exception at upper levels.
6. *It ensures simultaneous performance of different parts of the work.* This shortens the total time required for the project.

Limitations of PERT and CPM

1. They are suitable mainly in cases where time is the essence of a programme or where cost and time are so related that by controlling time, cost is controlled.
2. Estimates of time, cost and events are seldom available with the precision required for effective control through PERT. Errors in estimates of the numerous interlocking points of the chart may add up to a situation to make the PERT chart erratic and unreliable as control technique.

https://rbigradeb.com/

3. PERT has a limited application to one-time non-repetitive projects. It does not help control in continuous processing and production because once a recurring sequence of events is clearly established a continuing control becomes unnecessary. Used with very complex projects, it is claimed that PERT becomes expensive, reports become complex and difficult to tailor to management levels, and the effective trade-off of resources is troublesome.

Statistical Process Control Charts Since goods coming out of a production process always vary in specifications, it is significant for the manager to distinguish tolerable minor variations from major variations which require process correction. Tolerable minor variations are those which are inherent in the process and cannot be controlled. Thus, inputs may vary or the transformation process may not be repeated in exactly the same way or there may be imprecision in the measurement of the quality of products. All other variations are major variations which warrant process correction.

Statistically computed 'upper control limit' and 'lower control limit' lines on these charts make the above distinction clear. All random samples of measurements falling within these limits are supposed to differ from each other due to inherent causes and suggest that the process is in-control. Conversely, observations falling outside these limits suggest that the process is out-of-control and they warrant further investigation to see if some special cause can be found to explain why they fall outside the limits.

Employee Relation Index This is a quantitative technique of measuring the overall effectiveness of the entire personnel programme. In this technique a personnel index is prepared taking into account a number of strategic items such as absence, separation, visits to dispensary for occupational disease, suggestions made by employees through suggestion system, formal grievances, work stoppages etc. These items are given weights according to their importance. An employee relations index of 100 indicates average industrial relations, of below 100 poor industrial relations and of above 100 good industrial relations.

Human Resources Accounting It is now being increasingly realised that control techniques, which rely primarily on capital asset ratios such as return on assets, return on investment or return on equity are fundamentally flawed for 2 reasons: *one,* capital is no longer the most important inputs for a modern industrial enterprise to function and *two,* capital has become a commodity instead of a scarce resource. It is readily available for a price that is commensurate with risk. The most important asset of an enterprise are the people who sustain it and the relationships they develop both—internally and externally. Working on this idea, human resources accounting refers to the method of reflecting the rupee value of the human assets in the company's balance sheet.

The following poem by Webster (The Value of a Balance Sheet) highlights the need of the human asset being shown in a company's balance sheet.

'Though your balance sheet is a model of
what balance sheets should be;
Typed and ruled with great precision in a
type that all can see;
Though the grouping of the assets is
commendable and clear;
And the details which are given more
than usually appear;

https://rbigradeb.com/

Though investments have been valued at
the sale price of the day;
And the auditor's certificate shows everything
O.K.;
One asset is omitted—and its worth
I want to know;
That asset is the value of the men who
run the show."

In India (as in many other countries), the law does not demand the value of the human asset to be reflected in the company balance sheet. This injects an air of illusion and unreality into the quality of the balance sheet and the auditor's certificate that it shows a true and fair view of the company's state of affairs. The fact is that a balance sheet that does not reveal the current value of a company's human assets does not, to say the least, portray the true and fair picture of the company's affairs. This is because the present and future earnings of a company always depend upon the quality of its human organisation. To understand this, we may think of two companies in the same business. Both are of the same size and have identical equipment and technology. One, however, has a greater potential for future earnings because its personnel are superior to the other with regard to such variables as the following:

1. Level of intelligence and aptitudes
2. Level of training
3. Level of performance goals and motivation
4. Quality of leadership
5. Quality of communication—upward, downward and lateral
6. Quality of decision-making
7. Quality of control process
8. Capacity to achieve effective coordination.

One should, however, remember that it is not always easy to compute the value of the human assets in an organisation. Computation is not difficult in those cases where the task of an employee can be quantitatively measured. But difficulty arises where the nature of the task and its impact is intangible, as in the case of, say, public relations or research or when the task falls in the sphere of management—planning, decision-making or leadership.

The following methods are generally used to compute the value of human resources of a concern:

(a) ***Valuation at cost*** Under this method, the employees of an organisation are evaluated on the basis of the cost which the organisation has incurred in selecting and training them. It should be noted that under the traditional accounting system, this cost is treated as a revenue expenditure and is charged to the profit and loss account. But in human resources accounting, this cost is capitalised and is shown as an asset on the balance sheet.

(b) ***Valuation at economic cost*** Under the first method, the human asset is shown in the balance sheet at its historical cost which is not enough if the balance sheet is to serve as a health chart of the organisation. It is essential for this purpose to show all assets (including the human asset) on the balance sheet at their economic value. This is the capitalised value of future benefits expected from each asset. The present capitalised value of every employee in an organisation can be found out by estimating his remaining future

https://rbigradeb.com/

earnings from employment (assuming the present promotion policy and pay scales to be constant) and then discounting them at the appropriate rate of interest. The aggregate of such present discounted values is then shown as the value of the human resources assets on the balance sheet. It is however questioned as to how the capitalised value of future expenses can be an asset? It is the value of the benefit expected to accrue that should be capitalised and not the amount to be spent for the use of the asset.

(c) ***Valuation at replacement cost*** Employees can also be valued at their replacement cost, i.e., the amount which will be needed to replace them completely. It should be noted that it is always impossible to replace the present personnel by a new set of people and still have the same organisation. Also, it is difficult to put an accurate figure to the cost replacing an individual.

(d) ***Valuation at opportunity cost*** Under this method, employees are valued at just how much the other competing organisations would bid for them. The sum of the highest bids for all employees indicates their worth.

(e) ***Valuation at excess profits*** Under this method, the excess of company profits over the industry average is considered as solely attributable to its employees and is, therefore, credited to them as their worth.

(f) ***Valuation according to attitudinal index*** Under this method, an employee attitude index is first calculated. It is then multiplied by the wage bill under the premise that the resulting figure will show how much of the investment in the employees is being returned by them to the company. The problem here is that the employees can project a favourable attitude to lift their value.

Bench marking This technique involves a comparison of selected performance indicators of an organisation with those from different organisations, typically in the same industry, or with comparable organisations that are considered "best in class".

SUMMARY

- Control is a very important process through which managers ensure that actual activities conform to planned activities. It involves three basic steps: (a) establishment of standards; (b) measurement and comparison of results against standards; and (c) taking corrective action.
- A control system is needed for four purposes: (a) to measure progress; (b) to uncover deviations; (c) to indicate corrective action, and (d) to transmit corrective action to the operation.
- Most control methods can be grouped into two basic categories: steering controls, which detect performance deviations *before* a given operation is completed, and post-action controls in which past experience is applied to future operations.
- For a control system to be effective, it must be suitable, forward-looking, objective, flexible, economical, prescriptive, acceptable, motivating and focused on strategic control points.
- A control system may fail if (a) the magnitude of change (which forms the basis of control) far exceeds the anticipated amount; (b) there is a communication barrier; (c) there is time lag in feedback; (d) there has been some mistake in setting the standards; (e) there is resistance from the employees.
- All control techniques can be broadly divided into two: old and new. Budgeting is the most widely used among the old techniques. Budgets have both advantages and limitations. Their advantages are that they improve coordination and communication, boost motivation and morale and increase learning from past experience. Their disadvantages are that they are rigid, inflexible, expensive and curb the initiative of a good manager. Other old techniques are standard costing, responsibility

https://rbigradeb.com/

accounting, financial statements, ratio analysis, break-even analysis, internal and external audits, reports, rules and personal observation.

- The new control techniques are PERT, CPM and Human Resources Accounting. PERT and CPM illustrate the tasks involved in a project, the time (or cost) it will take to complete them and the interrelationships between those tasks. In this way, a project can be planned and integrated more efficiently, and the project completion date (or cost) can be determined and controlled more easily.
- Many corporations nowadays are realising the need to prepare and present reports about the current value of their employees. This is known as human resources accounting.
- William Ouchi classifies all control techniques into market, bureaucratic and clan control techniques which are respectively suited to profit, non-profit and family organisations.

KEY TERMS

Standard It is a specific measurable outcome in a key area, which serves as the basis for evaluating performance in that area.

Break-even Point It is that point on the break-even chart where the cost and revenue of the enterprise are exactly equal.

Internal Audit It is an audit of accounts, an evaluation of the application of policies, programmes and methods, and the attainment of objectives in a fairly broad area of operations, done by the company's auditor on a continuing basis.

Critical Path This is the longest sequence of connected activities through the network, and is defined as the path with zero slack time.

Slack Time For some activities in a project, there may be some leeway in, when an activity can start and finish. This is called the slack time in an activity.

Closed Loop System A closed loop system is one in which the information and output data are looped back up the system for necessary corrections.

Zero-base Budgeting This is a budgeting process which requires each manager to justify his entire budget from scratch (i.e., zero base).

Gantt Chart This is a visual description of the current status of a job. The chart reveals which jobs are lagging behind the normal rate of progress.

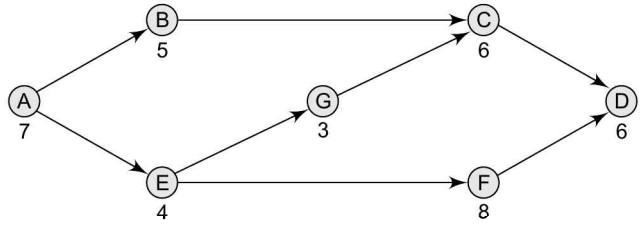
Review Questions

1. Explain the basic steps in the control process.
2. What are the two main types of control? How is each type used? Which is more important and why?
3. What are the essentials of effective control systems? Which essentials do you think are most important?
4. What is meant by budgeting? How are budgets drawn, approved and revised? What are the functional and dysfunctional aspects of budgets?

https://rbigradeb.com/

5. "Budget making is primarily a planning process whereas its administration is a part of controlling." Elaborate.
6. What are non-budgetary control techniques? Describe any two of them.
7. What is ratio analysis? Describe some important ratios used by organisations for the purpose of control. How far is ROI a measure of organisational efficiency?
8. Explain the purposes for which break-even analysis is used.
9. How are PERT and CPM networks developed? What is critical path? How is it determined?
10. "Just as planning, controlling should also be a dominantly forward-looking function." To what extent is it possible?
11. Write short notes on:
    (a) Need for control
    (b) Problems in the control process
    (c) Responsibility Accounting
    (d) Human Resources Accounting
    (e) Special Reports.
12. Indicate whether the following statements are TRUE (T) or FALSE (F):
    (a) Future-oriented and past-oriented controls are alternatives to each other.
    (b) The budget which gives the summary of all functional budgets is called Master Budget.
    (c) Full expansion of the term PERT is Performance Evaluation and Research Technique.
    (d) Full expansion of the term CPM is Control Procedure Method.
    (e) Critical Path in a CPM diagram is always the shortest path in terms of time the entire project will take.

    [(a) F, (b) T, (c) F, (d) F, (e) F]
13. Here is a CPM network with activity time in weeks:



    (a) Determine the critical path.
    (b) How many weeks will the project take to complete?
    (c) Suppose F could be shortened by two weeks and B by one week. How could this effect the completion date?

    [(a) Critical path is A-E-G-C-D, (b) 26 weeks, (c) No difference in completion date.]
14. The sales manager of a soap company complained, "I cannot draw up a sales budget until I know how much the products will cost us so I can estimate price and sales volume." The production manager asked, "How can I draw up production budget and give the sales manager the data he wants until he gives me an idea of what sales volume to plan for?"

    How would you resolve this apparent stalemate in the preparation of departmental budgets?

https://rbigradeb.com/

Projects

1. Talk to individuals that you know from some local organisations (companies, schools, government agencies, etc.) about their organisation's control system. What factors do they attribute to either the success or failure of their organisation's control process?
2. "Even the most detailed and automatic closed-loop systems are open in the ultimate sense." Do you agree? Give reasons for your answers.

Case — Ensuring Effective Control System

Parmeshwari Prasad, superintendent of the Green Roadways Company is in charge of the operation and maintenance of all company buses. The company has over 50 buses which operate on 8 long-distance routes in the country. Because of recent complaints, Prasad is concerned about controlling the quality of service provided to bus travellers. Schedules, setting of fares, and replacement of equipment are outside Prasad's jurisdiction; instead his attention focuses on bus drivers, garage crews, and the few people working at the main terminal. Assume Prasad has asked you for recommendations for a control system.

Discussion Questions

1. What "control points" do you suggest be used?
2. How should actual performance be measured at these points?

https://rbigradeb.com/

CHAPTER

19 ORGANISATIONAL CHANGE

Learning Objectives

This chapter will enable the reader to:

- **Define** change
- **Describe** the need for planned change
- **Discuss** the management of change under the following heads:
  - Type and dimension of response to change
  - Process of change
  - Introduction of change
  - Monitoring progress and making change permanent
- **Relate** the recent planned changes in the corporate sector in India, which include focus on core competencies, outsourcing and supply chain management in the task dimension; electronic commerce, technological upgradation and total quality management in the technical dimension; delayering and mergers in the structure dimension; and learning organisations, building OCTAPACE values and organisation development (OD) in the people's dimension

https://rbigradeb.com/

All human systems change but much less often as compared to a business organisation. The change in a business organisation is either a *piecemeal change,* to deal with routine problems as they arise (e.g., a change in office layout) or a *planned change,* to deal not only with present problems but with anticipated problems not yet clearly observable. The first type of change is mostly reactive. It is simpler, less expensive and requires minimal planning. The second type of change is proactive. It involves a greater commitment of time and resources, requires elaborate planning and is crucial for effectiveness. It is this change which this chapter deals with.

NEED FOR PLANNED CHANGE

The need for bringing about a planned change, arises due to several changes taking place in the *external* and *internal* environments of an organisation. Among the important changes which have taken place in the external environment of every organisation in recent years are, globalisation, liberalisation, technological changes and market changes. Changes in the internal environment of an organisation generally occur due to its growth from one stage to another. The following is a brief description of these two categories of changes.

External Environment

Globalisation is surely one of the most powerful and pervasive influences on all business organisations. It has replaced separate national economies by a single integrated global economy which has resulted not only in increasing the participation of developing countries in global trade but also in organising production along international lines. Today's transnational organisations may conduct research in one country, manufacture components in another, assemble them in the third, sell the products in the fourth and deposit their surplus funds in the fifth. Some prime causes of globalisation are as follows:

1. *Mobility* (key business ingredients such as capital, labour and ideas are increasingly becoming mobile)
2. *Simultaneity* (goods and services becoming increasingly available in many places at the same time);
3. *Bypass* (easier and cheaper international transport and communication, reduction in barriers to international trade, privatisation of government monopolies—all of which have increased alternatives): and
4. *Pluralism* (centres being decentralised throughout the world).

Liberalisation around the world is forcing several countries to liberalise their economies through deregulation of industries and tariff reductions. They are thus exposing their business organisations to increased local and global competition.

Technological changes, which refer to changes in tools, equipment and knowledge, continue to challenge all organisational strategies by their extra ordinary fast pace. Research has shown that the average life cycle for new products has declined over time. Thirty years ago the life cycle of a car model was around 4 to 10 years. Now, this is around 24 months. These changes are making the existing management practices, nature of work force or its culture obsolete for the new situation.

Market changes such as

- increase in market size and emergence of global markets,

https://rbigradeb.com/

- entry of new players,
- greater competition for larger market share and price, quality and service wars,
- proliferation of products
- change in customer relationships and
- change in demographics and consumer preferences are forcing several organisations to redefine their marketing strategies.

Internal Environment

According to Quinn and Cameron[1], who have identified *four phases* of an organisation's growth, every organisation, in the first phase of its growth (called the entrepreneurial phase), which is marked by *innovation and creativity*, needs flexibility to be able to effectively deal with its external environment. In the next phase (called the collectivity phase), which is marked by cooperation among different departments of the organisation, cohesion and good morale of its people become important needs. Then comes the formalisation phase, which is marked by efficiency in production and the stability of rules and procedures. In this phase, good communication becomes an important need. Last comes the growth and development phase, which is marked by stocktaking and readjustment to changed conditions. In this phase rational goal-selling becomes very important.

Larry E. Greiner[2] has identified *five stages* in the growth of an organisation, each of which begins with a prolonged period of peaceful growth (shown by a straight line in Fig. 19.1) and ends with some crisis necessitating change (shown by zig-zag line) for the growth to continue in the next stage.

Phase I—Creativity

As illustrated in Fig. 19.1 the first stage of organisational growth is called "creativity". In this stage the emphasis is on creating both a product and a market. The organisation has only few employees. Communication among them is frequent and informal. The salaries of the employees are modest and they are motivated by promises of ownership benefits. But as the organisation grows and the number of its employees increases, the informal communication system and the promises of ownership benefits do not work. It is at this point that the change in leadership is needed. *There is now need for a strong leader* who can pull the organisation together. Greiner calls it the "crisis of leadership".

Phase II—Direction

With the change in leadership, the next evolutionary period of growth by direction begins. The new leader in this phase follows directive techniques to harness his employees' energies into growth. He introduces a functional organisation structure, makes jobs more specialised, formalises communication and adopts incentives and work standards. These directive techniques eventually become inappropriate for controlling a larger, more diverse and complex organisation. Lower level managers, finding themselves restricted in their functioning, resent centralized hierarchy. *There is, therefore, need for greater delegation.* Greiner calls it the "crisis of autonomy".

[1]*Organisational Life Cycles and the Criterion of Effectiveness* in Stephen P. Robbin's *Organisation Theory—Structure and Design of Organisations*, Prentice-Hall Inc. Englewood Cliffs, N.J., 1983.

[2]Larry E. Greiner, "*Evolution and Revolution as Organisations Grow*". *Harvard Business Review*, July–Aug. 1972.

https://rbigradeb.com/

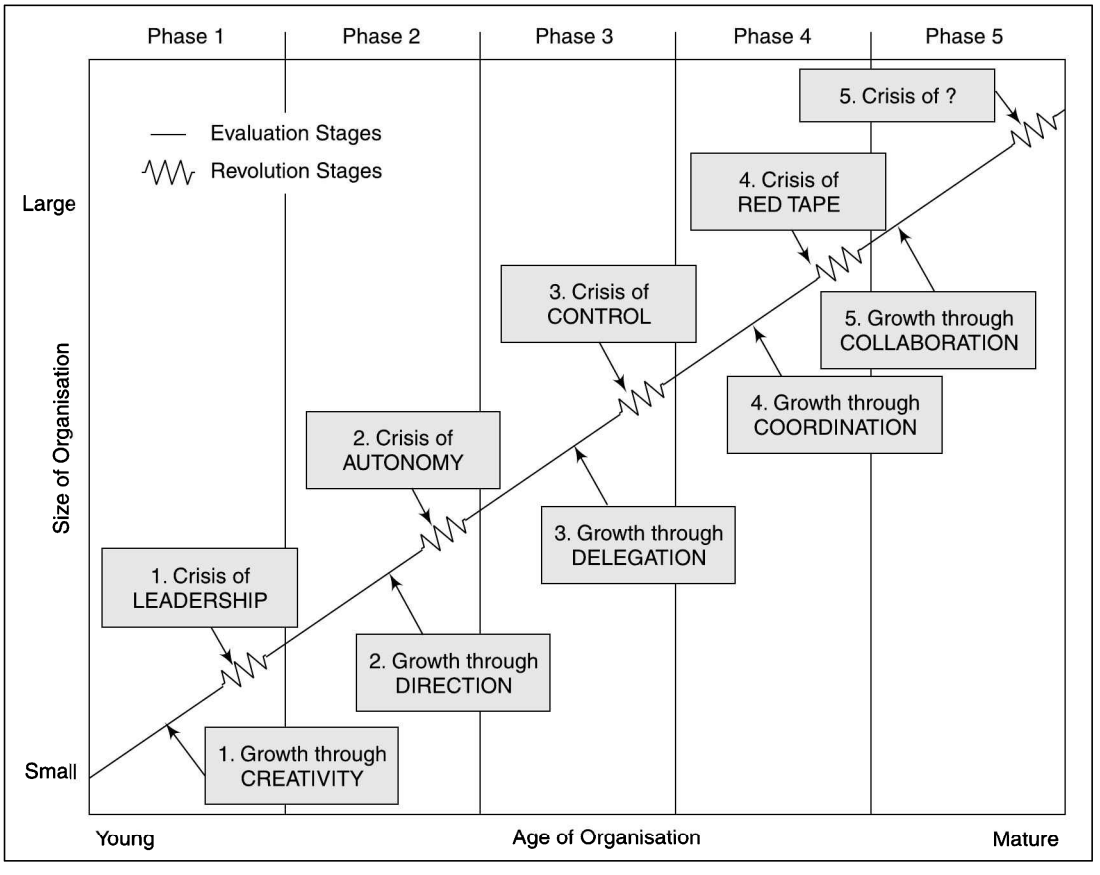


Fig. 19.1 The five phases of growth

Phase III—Delegation

With greater delegation, the next evolutionary period of growth begins. The organisation structure becomes decentralised. There is management by exception. But eventually, top executives start feeling that decentralisation is breeding parochial attitudes. *There is, therefore, need for better coordination.* Greiner calls it the "crisis of control".

Phase IV—Coordination

With better and more sophisticated techniques of coordination, the next evolutionary period of growth begins. This works well for sometime and then creates another crisis—"Crisis of red tape". The whole system becomes highly bureaucratised. Staff-line conflicts become acute. *There is now need for greater collaboration and team work* which can be achieved by changing to a matrix type structure.

https://rbigradeb.com/

Phase V—Collaboration

With the change over to the matrix type of structure, the next evolutionary period of growth begins. During this period, economic rewards are geared to team performance. Self-discipline takes the place of a formal control system.

MANAGING ORGANISATIONAL CHANGE

The following are the four important components of management of organisational change:

(i) Type and dimension of organisational change
(ii) Process of change
(iii) Introduction of change
(iv) Monitoring progress and making change permanent

Type and Dimension of Organisational Change

The responses made by a manager to cope with the environmental changes may be of two types: strategic and process. *Strategic responses* comprise all those organisational changes which result from strategy development and implementation. These are generally driven by external environmental forces, are broad in scope, and are needed to remain or become competitive. Mergers and acquisitions, diversification, technological upgradation etc. are examples of this type of response. In contrast, *process responses* comprise all those organisational changes which result from operational assessment activities. These are generally internally driven and tend to be narrow in scope—often confined to a particular unit, division or function of the organisation. Information technology, research and development, quality and marketing changes are some examples of this type of change.

At operational level, all strategic responses can be directed towards any one or more of the four interacting dimensions which together constitute the multidimensional system called "organisation". These are task, structure, technology and people.

Task change aims at changing the product or service portfolio/domain of the organisation in the following four ways:

1. By merging with a firm in unrelated business
2. By diversifying into additional businesses
3. By divesting (selling) or outsourcing a segment of the organisation to another party
4. By expanding the existing domain via collaborations, alliances and joint ventures

Structural change aims at modifying the structure by:

1. making the organisation more centralised or decentralised,
2. broadening or narrowing spans of control,
3. reallocating authority,
4. adopting a new structure (e.g. matrix) and,
5. making changes in the plans, policies, methods and rules of the organisation.

The above changes result in reconstituting the role demands and expectations of all employees, thereby bringing about a change in man-man relationships.

https://rbigradeb.com/

Technological Change aims at improving the efficiency of machines and workers by changing man-job, job-job and man-man relationships. Man-job relationships are changed in two ways:

1. By improving the current technology, which makes jobs easier and faster,
2. By improving the worker's efficiency through time and motion, and methods studies

Job-job relationships are changed by affecting better coordination among jobs through flow-process analysis, better plant lay-out and so on. Man-man relationships are changed by transferring the worker to a new group of co-workers or supervisors.

People or Behavioural Change attempts to change man himself by training and developing him. A man can be changed at three levels: knowledge, behaviour and attitude. Change in knowledge is the quickest and easiest to make. Change in behaviour is difficult. Change in attitude is most difficult. A manager's knowledge about the merits of participative decision-making may be changed quite easily by exposing him to a book or lecture. He may also be made to change his behaviour through a directive of the top head of the organisation. But it is very difficult to change his attitude towards participative decision-making, which may be the result of several influences on him of his early authoritarian upbringing.

The Domino effect When planning changes in any one dimension, it should not be forgotten that it will touch off a sequence of related and supporting changes. This is known as the "domino effect". Thus, on planning a structural change, say creating a matrix organisation, several other changes may become necessary such as participation, empowerment and training of workers. The structure will be lifeless without these associated changes in the behavioural dimension.

Process of Change

Before introducing change response it is important to know about the *process of change.* Kurt Lewin has identified three stages in this process. These are *unfreezing, changing* and *refreezing.* The aim of unfreezing is to motivate and make the individual or group ready to change. It is a "thawing out" process where the forces acting on an individual are so rearranged that he sees the need for rejecting old behavioural patterns and adopting new ones. In brief unfreezing is the breaking down of the moorings, customs, and traditions of an individual—the old ways of doing things—so that he is ready to accept new alternatives. The manager can use a group to make the individual realise the need for change. Read Exhibit 19.1.

Once the individual has discovered the anomaly between his existing behaviour pattern and the new pattern, he enters into the metamorphosis stage. He is now ready to be provided with new patterns of behaviour. The process is most likely to occur by one of the two mechanisms: identification and internalisation. *Identification* occurs when one or more models are provided in the environment from whom an individual can learn new behaviour patterns by identifying with them and trying to become like them. *Internalisation* occurs when an individual is placed in a situation where new behaviours are demanded of him, if he is to operate successfully in that situation.

Refreezing is the permanent rooting of the newly acquired behaviour into the individual's personality, so that it does not get extinguished over time. If the new behaviour has been internalised while being learned this has automatically facilitated refreezing because it has been fitted naturally into the individual's personality. If it has been learned through identification, it will persist only so long as the target's relationship with the original influence model persists. This highlights how important it is for an individual undergoing a change to be in an environment which is continually reinforcing the desired change. The effect of many a training programme has been short-lived when the person returns to an environment that does not reinforce the new pattern or even worse, is hostile toward it.

https://rbigradeb.com/

EXHIBIT 19.1

HOW A BANK MANAGER USED A GROUP AS A MEDIUM OF CHANGE

Sylvia and her sister Celia were both tellers in a bank branch and they had gotten into the habit of reporting late for work—well after 8:30 A.M. when the branch used to officially open. The manager, Otis F., had spoken to them about it repeatedly, but with little effect. Finally he decided to use group pressure to overcome their tardiness.

When the branch opened at 8.30 A.M, there was usually a rush of customers waiting to get cash for the day. Many of them would be waiting outside for the bank to open.

Otis saw, of course, that with the two windows of the sisters closed, the queues were longer at the other windows, and so the other tellers had a lot more work. He also saw that he could use these conditions to bring social pressure to bear.

One morning when the sisters were late as usual, and the queues at the other tellers' windows were exceptionally long, Otis walked along behind the counter. He stepped alongside each teller, in turn, and made comments like: "Too bad the sisters are not here again. Your line would be a lot shorter if Sylvia and Celia were here! How much extra work do you suppose you have because those two girls are always late?"

The tellers, as a group, needed little more than this to find their own common cause against their absent colleagues. When the girls finally did show up, the other tellers made them understand, in no uncertain terms, that they were being unfair to their co-workers, and that such conduct was condemned. At lunch time, the two sisters were left severely alone. Of course, *they keenly felt the social pressure*. Needing and wanting to be accepted by and to be friends with their fellow workers, they did what was necessary.

What we are concerned about in refreezing is that the new behaviour does not get extinguished over time. To ensure that this does not happen, all trappings that remind the individual of the previous culture should be completely removed and reinforcement (rewards and incentives) must be scheduled in an effective way. There seem to be two main reinforcement schedules—continuous and intermittent. *Continuous reinforcement* means that the individual being changed is rewarded *every time* he engages in the desired new pattern. With *intermittent reinforcement*, on the other hand, not every desired response is reinforced. With continuous reinforcement the individual learns the new behaviour quickly, but if his environment changes to one of non-reinforcement, extinction (elimination of the behaviour) can be expected to take place relatively soon. With intermittent reinforcement, extinction is much slower because the individual has been conditioned to go for periods of time without any reinforcement. Thus for fast learning, a continuous reinforcement schedule should be used. But once the individual has learned the new pattern, a switch to intermittent reinforcement should ensure a long lasting change.

Resistance to Change Out of the 3 stages of the process of change, the unfreezing stage is perhaps the most difficult because it is in this stage that a manager has to face maximum resistance from his employees. The reasons for this resistance are as follows:

1. Employees resist changes which are against their habits, experiences, perceptions, customs, beliefs and values. Thus a machinist accustomed to wear clothes of his choice, may resist the requirement to wear a standard uniform.

   An employee may resist change which he perceives as a breach of psychological contract. Just as in most work situations, there is a legal contract between the organisation and the individual, which defines various terms of employment, so is there an implied, usually unstated *psychological*

https://rbigradeb.com/

contract between the individual and the organisation. Under this contract, *the individual expects the organisation to satisfy his certain needs and in return, he will expend some of his energies and talents*. Similarly, the organisation expects the individual to give a certain level of performance and behaviour, for which it will compensate him in a certain way. *A contract which is not perceived identically by both parties becomes the source of trouble, conflict or litigation.*

2. Employees resist changes which they think will alter their established human relationships in the organisation. This is the social aspect of a change. It is now well established on the basis of experience and research that people show greater resistance to change in the social aspect than to change in the technical aspect. This is due to the following two reasons:
   (a) Benefits of change in the social aspect of a job cannot be so convincingly measured and demonstrated as benefits of change in its technical aspect.
   (b) People's attachment to the social aspects of a job is generally based on emotions, which they cannot easily overcome but their attachment to the technical aspect of a job is always based on some purpose. Hence people easily give up an inferior technology in the face of superior technology which claims to serve their purpose better.

   We give below two examples of introducing change without taking into account its social aspects:
   (i) In the fifties, when Catico Mills installed automatic looms with the manifest objective of raising production, the new technology created stress and strain in the system because workers who now worked alone on automatic looms had lost the security and protection which they experienced earlier when they worked in small groups.
   (ii) The management of a bank in a principal town of a small island sought to improve customer service by introducing a "drive-in-window" system which would allow customers to drive their cars to the bank and transact without getting out of their cars. Customers did not make use of this facility. The reason was that the bank had become the social center of the community and going to the bank had become a mark of status and a major social event. Hence customers wanted to be seen by others at the bank, which was not possible if one remained within the car.
3. Employees also resist technological change because they fear its following repercussions:
   (a) It may destroy the public image of their job.
   (b) It may lower the ranking of their job vis-a-vis other jobs.
   (c) It may render their existing skills obsolete and may make retraining necessary.
   (d) It may increase discipline in the workplace. e.g., it may require set times for attending to operations and a set pace of work.
   (e) It may impose higher performance standards on them.
   (f) It may throw them out of employment or reduce their promotion prospects.

Overcoming Resistance Hammer and Stanton[3] have enumerated the following principles for overcoming resistance to change:

- Resistance is natural and inevitable: *expect it.*
- Resistance does not always show its face: *find it.*
- Resistance has many motivations: *understand it.*
- Deal with people's concerns rather than their arguments: *confront it.*
- There is no one way to deal with resistance: *manage it.*

[3]Hammer, M. and S.A. Stanton, *The Re-engineering Revolution: A Handbook*. Harper Business, NY, 1995.

https://rbigradeb.com/

According to the above authors, the techniques to be used in addressing resistance are: incentives, information, intervention, indoctrination and involvement.

Incentives may be both positive and negative. Positive incentives such as recognition, guarantee of job retention, etc. may be offered to those who support the change. Negative incentives in the form of firing or transferring may be offered to those who resist change.

Information is concerned with keeping people informed of the changes the organisation intends to introduce. Sharing of information dispels doubts and misconceptions, and enables them to have a clear idea about the shape of things to come.

Intervention takes the form of face-to-face talk with those who feel uncomfortable with change. It should always focus on their hearts as much or more than their minds. They need counselling with empathy, patience and persistence. They also need assurance of a supportive atmosphere which may include giving them time to adjust, extra training in new skills, and so on.

Indoctrination attempts to convince people about the inevitability of change. The employees should realise that the change is being introduced not by choice, but by the lack of it. It is the only way for organisation to grow and survive.

Involvement relates to the participation of people in the change process. This gives them the opportunity, as insiders, to know what change is all about. Change is threatening when done to us, but exciting when done by us. Thus, few resisters may be even co-opted in designing or implementing change.

Introduction of Change

Broadly speaking, there are two methods of introducing a planned change: directive method and participative method. In directive method, the employer unilaterally decrees that certain changes will take place. In participative method, the employer lets his employees come up with the proposed changes. In between these two methods there can be several other variations allowing employees different degrees of latitude, both in problem identification, as well as in problem solving.

Early Studies on Participation Several empirical studies show that significant changes in human behaviour can be brought about rapidly only if the persons who are the targets of change participate in deciding what the change shall be and how it shall be introduced. In the absence of participation, "not invented here" syndrome works and people resist change. Of the earliest studies in this area, two need special mention. These are:

1. Kurt Lewin's study (1947) and
2. Coch and French's study (1947).

Both these studies have shown that changes in attitude and behaviour can more effectively be brought about through participation rather than by lecture or individual instructions.

Kurt Lewin and his associates conducted several studies to see the effect of participation on *change in food habits*. These studies lasted for a period of four years. In the first study, two groups of housewives were taken. One group of housewives was given an attractive and interesting *lecture* on the vitamin and mineral value of three meats—beef hearts, sweet breads and kidneys. With the help of charts, explanations were given, health and economic aspects were emphasised and mimeographed recipes were provided. The other group was induced to *participate* in a discussion programme on change. A follow-up study showed that only 3% of the women who had gone through the lecture method served one of the three meats to their families, whereas of those that went through group discussion, 32% served one meat or the other to their families.

https://rbigradeb.com/

In subsequent years, similar results were reported in a variety of other field settings. One such replication of the earlier experiments was conducted among 29 supervisors of 395 workers in a large manufacturing plant. These supervisors had developed the bias of overrating workers in the higher job grades and underrating those in the lower job grades. It was desired that they should give up this bias. For this purpose, they were randomly divided into 3 groups, one of which was a control group and the other two were the experimental groups for experimenting with the discussion and lecture methods. Each experimental group was exposed to a 90-minute session. It was found that there was an *appreciable decline* in the bias of members of the discussion group and there was *no decline* in the bias of members of the lecture group.[4]

Coch and French's study[5] was centred around women tailors working in Harwood company, producing pyjamas. The factory had changed the jobs of its employees. This had resulted in reduced production and increased turnover. The researchers set one control group and three experimental groups with varying amounts of participation. In the first group, the workers were simply told about the change in a meeting. In the second group, a few of its representatives were elected to help the management introduce the change and in the third group, all its members were made to discuss with the management the current production methods and how they might be improved. It was found that in group I, resistance developed almost immediately and there were 17% quits in the first 40 days. There was an increase in grievances and a drop in productivity. On the other hand, in groups II and III, there were no quits in the first 40 days. The results in group III were best of all. There were no signs of resistance in this group and its productivity increased by about 15 per cent of the original (pre-job transfer) standard.

One important limitation of these studies, however, is that they do not provide us with a clear understuding of the particular activities which produce these results. Edith B. Bennett's study[6] has shown that out of the 4 major activities which contribute to these results (viz., participating in group discussion, reaching a decision point, indicating public commitment to act and achieving a perception of group consensus regarding intention to act), group discussion and public commitment are inessential. The combination of the other two activities viz., bringing the individual to a decision point and achieving a perception of high group agreement is alone capable of generating these results because *the individual decision then becomes a group norm and determines the performance of all its members*.

Choice between Directive and Participative Methods It is useful to remember the following points while making a choice between directive and participative methods:

1. ***Employees' maturity level.*** Directive method is more appropriate when the employees are immature or when they are not willing to accept the change unless forced to do so or when the situation is chaotic. The participative method is more appropriate when the employees are quite mature, achievement-motivated and willing to accept the change.

2. ***Position power of the change agent.*** The directive method is more appropriate when the agent of change enjoys sufficient position power, e.g., he has significant control over reward and punishments. But if he enjoys only reference or expert power, participative method would be more appropriate.

3. ***Communication pattern in the organisation.*** Directive method is more appropriate if the organisation's communication pattern is of the star-type, which favours the change-agent as a leader over his

[4]Jacob Levine & John Butler: Lecture vs Group Decision in Changing Behaviour, in Cartwright & Zander (Eds) *Group Dynamics,* pp. 280–86.

[5]Lester Coch & John R.P. French Jr. "Overcoming Resistance to Change", *Human Relations,* 1 No.4 (1948), 512–32.

[6]Edith B. Bennett: Discussion, Decision, Commitment and Consensus in Group Decision, *Human Relations* (Vol. VIII No. 3, 1955).

https://rbigradeb.com/

subordinates. But if the pattern is of the circle type, the change-agent will face some difficulty if he attempts to introduce change in a directive manner.

4. ***Balance of forces***. Devised by Kurt Lewin, the **Force Field Analysis** is a helpful tool to compare the number and strength of forces which are working for and against the proposed change. Kurt Lewin names these forces as the driving forces and the restraining forces, respectively. The directive method can be successful only when the driving forces far outweigh the restraining forces. In the opposite situation, when the restraining forces are stronger than the driving forces, introduction of change by directive method will give a further fillip to the restraining forces and is, therefore, not advisable. The participative method is successful, both when the forces welcoming the change are stronger and when they are weaker than the forces opposing the change.

5. ***Consequences***. Directive method introduces the change in behaviour immediately but it creates resentment and hostility. The change introduced by this method is very often short-lived. It lasts only as long as the maintenance efforts continue or the driving forces outweigh the restraining forces. As soon as the maintenance efforts cease or the driving forces reduce, back sliding takes place because people in the organisation have not participated enough to internalise the change. It may be noted that this is the typical experience of all managements by drives e.g., cost-reduction drive, safety drive, etc. By participative method, the change in behaviour is introduced slowly (via change in attitudes) but it develops involvement and commitment. The change is permanent and lasting. It does not need any efforts to maintain itself. Some researches carried out by the Ahmedabad Textile Industry Research Association (ATIRA) however show that participation does not always produce permanent changes and that after the withdrawal of the researcher or after a lapse of time, people slip back to the old pattern.

Introduction of change in phases The change should not be introduced all at one time. It should be introduced in phases. Phasing may be either *temporal* (in terms of time) or *spatial* (in terms of various parts of the organisation). Temporal phasing involves preparation of a plan in which some element of the change is introduced earlier and some others are introduced later. For example, under an improved appraisal system, performance appraisal is implemented first and potential appraisal system is implemented later. Spatial phasing involves implementation of the change in that part of the organisation first which has maximum acceptability. If there are linkages between parts the change then gradually spreads to other parts. This gives the management an opportunity to correct unforeseen problems before the programme is fully operative.

Monitoring Progress and Making Change Permanent

Planned change often follows a path similar to the learning curve. Generally, it has a slow start but as it gathers momentum, it progresses rapidly. After a time, a plateau is reached and there is no progress. However, progress can be restarted if problems of the phase are correctly diagnosed and proper actions are taken. Hence, the need to create a feedback system to periodically monitor the progress of change.

The change must be evaluated in the light of the purpose for which it has been conceived. For example, if to have fluid internal structure is the purpose, evaluation must be done in terms of increase in the organisation's ability to both proact and react with flexibility to changing environmental demands.

As the change starts giving signs of payoff it should be institutionalised, that is, made a permanent part of the organisation.

https://rbigradeb.com/

REQUISITES FOR SUCCESSFUL PLANNED CHANGE

1. Severe pressure on top management to introduce change.
2. Objective appraisal of the organisation and determination of the dimension of change by an outside expert.
3. Employee participation in all phases viz., fact finding, diagnosing and searching solution.
4. Force Field Analysis
5. Anticipation of the Domino Effect
6. Communication plan for educating employees and mitigating their fear.
7. Gradual introduction of change beginning from those points in the organisation where some stress or strain exists.
8. Feedback mechanism for monitoring the progress and take corrective action.
9. Legitimisation of change when it starts giving signs of payoff.
10. Top management support.

RECENT PLANNED CHANGES IN THE CORPORATE SECTOR IN INDIA

Task Dimension

Focus on Core Competencies This change involves three things:

- Locating and defining organisation's unique skills and competencies which are its exclusive preserve and cannot be easily imitated by competitors;
- Giving up businesses which have no linkage to the core skill; and
- Reorganising the retained business into shape.

Thackray[7] records how in America, Ford sold a sheep farm that grew wool for car seat covers, General Motors sold their paint manufacturing capability, newspaper magnets divested forests and paper mills, and tyre manufacturers sold rubber plantations, because these were not their core competencies. A large number of Indian organisations have also come to realise that they should not keep their fingers in too many pies. Notable among these organisations are the Videocon Group, Thapars, Whirlpool India Ltd., Mafatlals, Hindustan Lever Ltd. and Larsen & Toubro.

Some important *advantages* of this change have been:

- Increase in expenditure on research and development of core products;
- Increase in productivity;
- Quality upgradation; and
- Increase in market value of shares.

Outsourcing Outsourcing has been variously defined as:

"Reliance on external resources for manufacturing components and other value-adding activities."
"Another firm's employees carrying out tasks previously performed by one's own employees".
"Turning over to a supplier those activities, outside the organisation's chosen core competencies."
"Buy rather than make strategy, or vertical disintegration."

[7]Thackray, J. "America's Vertical Cutback", *Management Today*, June, 1986.

https://rbigradeb.com/

Pressure, to reduce costs and increase productivity, has forced many western manufacturers to look for destinations with large pools of cheap and skilled labour, to perform some of their non-core *business processes* such as billing, payroll and claims processing etc. This is called business process outsourcing (BPO). Some firms outsource entire blocks of back-office operations such as inventory management and Web infrastructure, while others outsource front-office operations such as call centers and customer support. In recent years, outsourcing of physical distribution, i.e., the process of delivering the product to the marketing channels and consumers has become the in thing. Several companies in India such as Godrej, Modi Olivetti and Hewlett-Packard have outsourced marketing logistics and marketing channel services and have gone in for tie-ups with air transport companies. This change has enabled organisations:

- To focus on core activities;
- To save on operational and capital costs;
- To gain access to the supplier's more advanced technology and market network;
- To simplify their structure, make it flatter and more agile;
- To undermine the power of trade unions;
- To take advantage of time-zone differences, through efficient deployment of second and third shifts.

Important demerits of this change are as under:

- The outsourcer loses his internal competence to perform the outsourced activity, as and when it becomes necessary in future.
- There is need to manage the new relationships with the outsourcee.
- There is need to maintain higher levels of information security.
- It is never easy to decide:
  - — *What* businesses should be outsourced;
  - — *When,* that is, in which order should they be outsourced;
  - — *Where,* that is, whether they should be outsourced to a close or remote location; and
  - — *How,* that is, whether they should be outsourced through a captive unit, or a vendor, or any other business structure.
- There is need to monitor the situation constantly because what is a core activity today may become a non-core activity after some time. As an example, Coca Cola, which decided to stay out of the bottling business in the early 1900s, reversed itself in the 1980s when bottling became a key competitive element in the industry.

Supply Chain Management The old way of delivering a product was to develop relatively inaccurate projections of demand, then manufacture that product and fill up warehouses with the finished goods. This led to either overstocking or understocking. In the former situation, the company was faced with a huge amount of capital getting locked into stocks. In the latter case, it meant loss of business. Many industries have now replaced this old technique with a new technique which is known as Supply Chain Management, under which they effectively collaborate with suppliers and customers for managing the flow of goods, services and information along a supply chain. The supply chain is made up of all the activities that are required to deliver the product to the customer—from designing products to receiving orders, procuring materials, marketing, manufacturing, logistics, customer service, receiving payment, and so on.

https://rbigradeb.com/

Efficient and effective SCM assists an organisation in getting the right goods and services to the place needed, at the right time, in proper quantity and at acceptable cost. For optimal performance and improved competitiveness, this process requires constant feedback from, and coordination with, every link in the supply chain.

Technology and Process Dimension

Modernisation of Operations Technology Much of the recent growth in the quality of the end-product has come from the modernisation of operations technology which can be either hardware or software.

Hardware technology aims at automating the process by using computer-controlled devices. Indian steel, engineering and textile industries have upgraded their processes in casting, welding and spinning respectively.

Software technology aims at improving the product by making changes in its design and in the analysis and planning of manufacturing activities. Many air-conditioner manufacturing companies in India have upgraded their products by adding several new features such as electronic thermostat, programmable timer and sleep mode and automatic adjustment.

We must, however, remember that technological upgradation generally results in significant disruptions, at least in the short run, in the form of plant-wide reorganisation, retraining and so on. There is also the risk of obsolescence.

Electronic Commerce (EC) Electronic Commerce is defined as the use of computer applications for communicating over Internet, to complete both business-to-business (B2B) and business-to-customer (B2C) transactions. It is estimated that about 40 per cent of all US business is through B2B electronic commerce.

One important reason for today's rapid expansion of EC is the low price of Internet use. As increasing numbers of computers are being installed on the Internet, the cost to support ever-expanding websites is going down. According to one estimate, the marginal cost to a bank, of a transaction over the Internet, is a mere cent compared with 27 cents by a cash machine, 52 cents by telephone and $1.14 by a bank teller.[8]

The use of private Nets (called Intranets) is also becoming very popular nowadays. This technological change has allowed organisations to:

- Cordon off their intranets from the public Internet through software programmes known as "firewalls".
- Go "paperless" and thus cut costs.
- Provide employees access to all the information and knowledge about the organisation. Employees can even submit anonymous critiques of their superiors.
- Improve customer service.

MSTC Ltd., the only public sector enterprise in the country doing business in scrap, transacts Rs 800 crore worth of scrap material, through e-commerce annually.

Total Quality Management (TQM) The concept of quality is very wide in its scope. For some people quality is *fitness for intended use*, for some it is *goodness of a product* and for some others it is based on *value*, that is, the relationship of usefulness or satisfaction to price. Since quality as viewed from

[8]The New Economy: Untangling E-conomics", *The Economist*, September 23, 2000, p.11.

https://rbigradeb.com/

different perspectives can only be achieved if the entire organisation is oriented toward it, the term "total quality management" has emerged. It is based on the following fundamental principles.

1. **Focus on customers' and stakeholders' requirements** Successful TQM companies fully understand all product and service attributes that contribute to customer satisfaction and loyalty. They continually innovate and study customer perceptions to ensure that even their exciter needs are being met.

2. **Participation** TQM involves full use of the knowledge and creativity of the entire workforce as against the traditional view that it should leave its brains at the doors. Use of self-managed team that combines empowerment and team work is a powerful method of employee involvement.

3. **Cross-functional teams** Traditionally organisations are integrated vertically by linking various levels of management in a hierarchical fashion. However, work gets done horizontally or cross-functionally. A cross-functional process perspective *links together* different functional activities, increases one's understanding of the entire system and permits the blending of an organisation's core competencies. Cross-functional teams provide this perspective.

4. **Continuous improvement** This may take any one of the following forms:

- Enhancement in value to the customer through new and improved products and services
- Reduction in errors, defects, waste etc
- Increase in productivity
- Increase in responsiveness in resolving customer complaints

Thus, response time, quality and productivity objectives are considered *together* in TQM. Kaizen and quality circles are used for this purpose.

Kaizen is a workers group which constantly looks out for the three biggest enemies of quality production, viz., *Muri, Mura* and *Muda*. *Muri* means pushing a person or equipment beyond natural limits. Overburdening people results in quality and safety problems. Overburdening equipment causes breakdown and defects. *Mura* means inconsistency or fluctuation of any nature. It can be fluctuation in work content, time, type, production volume, quality, behaviour or discipline. *Muda* means waste which needs to be eliminated. Waste can occur in seven different ways, viz., waiting, motion, transportation, rejects, processing, inventory and overproduction. On locating any of these enemies, Kaizen group immediately calls a meeting of its members, discusses the problem and finds a solution. Finally, an action plan for implementation is drawn up. This collective approach to quality produces excellent results and enhances team spirit.

Quality circle is also a small group of five to ten workers who volunteer to meet regularly to solve problems affecting their work, e.g., how to improve quality, reduce production costs, raise productivity, improve safety, and so on. Typically, the group itself identifies a problem (not individual grievances), analyses it, develops solution and presents the same to management. Management has the right to accept or reject the suggestion. The quality circle usually meets during company time once a week. The circle is given recognition for those of its suggestions which have been successfully implemented.

Among notable companies which have followed a comprehensive and integrated approach to improving quality, mention may be made of L&T, Crompton Greaves, Kirloskar Electric Co., Ranbaxy, Modi Xerox, Eicher Motors and Sundaram Clayton.

Structure Dimension

Delayering Howsoever successfully the several tiers of hierarchy of a tall classical organisation might have worked in the past, in a stable, predictable environment, they are nowadays seen as a handicap,

https://rbigradeb.com/

obstructing work and driving out innovation and entrepreneurship. Under their oppressive burden, it is said that the people doing the work enjoy no real power, and the people with the power do little real work.

With a view to provide greater speed and empowerment, and speed in decision-making, many companies in the USA have successfully delayered their organisations. General Motors has dismantled 9 layers, and has brought them down to 4. Ford has reduced them from 12 to 7. Reliance Industies in India has reduced its levels from 10 to 3, and Mahindra and Mahindra from 13 to 6. Several companies in the public sector, such as SAIL, HPCL, IPCL etc., have also delayered their structures by merging various salary grades.

Alliances The desire to consolidate into bigger entities is becoming wide-spread nowadays. Various types of alliances into vogue include mergers, joint ventures, buy-outs, collaborations and subsidiaries. Several banks in India from across regions (north-south, east-west), are wanting to merge, in a bid to create a larger market for themselves. The recent merger of the Rajasthan Bank with the ICICI Bank is an example.

Behaviour Dimension

Learning Organisations They are described in Chapter 12. Increasing number of enterprises in India are now working to develop these organisations, to develop creativity among personnel.

Building New Organisational Culture with OCTAPACE Values This is described in Chapter 21.

Organisation Development We have seen above that the changes brought about in the organisation, both by the directive and participative methods do not last long. The reason is that the employees who have received training in the new ways of doing things and in new habits and behaviour, find the organisation's culture unsupporting. They find that their superiors and subordinates oppose them in their new ways. This dampens their enthusiasm and they soon recede back to their pre-training habits, behaviours and values. This has made people realise in recent years the importance of altering the culture of the organisation *as a whole* through an organisation development programme.

Bennis[9] defines organisation development as a "complex educational strategy intended to change the beliefs, attitudes, values and structure of organisations, so that they can better adapt to new technologies, markets and challenges ... " According to French and Bell[10], OD is a long-range effort to increase an organisation's problem-solving and renewal capabilities through an improvement of its culture with the assistance of an outside expert in behavioural sciences, called a change agent.

A typical OD programme has the following objectives:

1. To increase the level of interpersonal trust among employees.
2. To increase openness of communications.
3. To increase employees' level of satisfaction and commitment.
4. To increase cooperation and collaboration among employees.
5. To confront problems instead of sweeping them under the rug.
6. To effectively manage conflict.
7. To improve the organisation's problem-solving and self-renewal capabilities.

[9]Warren Bennis: *Organisation Development: Its Nature, Origin and Prospects,* Reading, Mass. Addison-Wesley, 1969.
[10]French and Bell, *Organisation Development* (Prentice-Hall, N.D. 1979).

https://rbigradeb.com/

Abraham Maslow, who was fond of coining new and unpronounceable words, calls organisations with the above characteristics *"Eupsychian"* organisations.

The following are the steps in implementing an OD programme:

- *First of all*, the change agent needs to know what the present organisational climate is like.
- *Next*, it is necessary for him to review the position where the organisation wants to go. He needs to understand the nature of the corporate mission.
- *In the final step*, he must decide upon the optimum techniques to be used called 'interventions' for bringing about the desired change.

It is important to remember that every organisation being a social system is both dynamic and complex. So, there is no one best way to bring about a change. Different techniques will work at different times. What suits one organisation may not suit another. It is essential, therefore, that the strategy for change should be tailor-made to suit the diagnosis and other realities of the situation.

OD is very much similar to action research. This facilitates putting into effect the techniques decided upon.

All OD techniques (called interventions) make use of the evergrowing knowledge in the field of behavioural sciences. One can classify these techniques into three broad groups viz.,

1. Techniques for changing and developing individual behaviour.
2. Techniques for changing and developing group behaviour.
3. Techniques for changing organisational structure and control systems.

One can find a detailed description of all important OD techniques in the book by French and Bell.[11]

OD programmes have been successfully implemented in a number of companies in India. Some notable examples are Kamani Enterprise, Tata Iron & Steel Co. Ltd., Hindustan Machine Tools Ltd., Hindustan Aeronautics Ltd., State Bank of India, Bokaro Steel and Orient Paper Mills.

SUMMARY

- Change is needed in order to cope with the problems of growth. Task, structure, technology and people are the four dimensions in which change is generally introduced.
- The process of change consists of 3 stages, viz., unfreezing, changing and refreezing.

  Resistance to change generally develops when attempts for unfreezing are being made.
- Broadly speaking, there are two methods of introducing a planned change: directive method and participative method. Before making a choice between the two the managers or the change agent must consider employees' maturity level, one's own position power, communication pattern in the organisation, balance of forces and consequences.
- The management of change must provide for the following: dimension of change, domino effect, method, top support, introduction in phases, education of employees, feedback and institutionalisation of change.

[11]Ibid.

https://rbigradeb.com/

- In recent years the Indian corporate sector has witnessed a number of planned changes such as core competency, outsourcing, electronic commerce, supply chain management, delayering, alliances, learning organisations, installation of OCTAPACE culture and organisation development (OD).
- Instead of introducing piecemeal changes some organisations believe in improving their culture through long-range OD techniques called interventions. Outside experts called "change agents" are usually employed for this purpose.

KEY TERMS

Planned Change A change which mainly deals with anticipated problems not yet clearly observeable.

Domino Effect When a change switches off a sequence of related and supporting changes, the effect thus produced is known as the "Domino Effect".

Internalisation This means stabilisation of change so that it becomes a natural part of individual's work style lest he may slip back to the old style.

Refreezing This is the permanent rooting of the newly acquired behaviour into the individual's personality which may result from internalisation or identification.

Force Field Analysis Devised by Kurt Lewin, this analysis involves a comparison of the number and strength of forces which are working for the change with those which are working against it.

Outsourcing It is the permanent contracting of an organisation's activities that were previously performed in-house to focus on the core competencies of the firm, lower overhead costs, increase organisational flexibility and access other's expertise.

Review Questions

1. "Stability is as important as change for organisation". Discuss.
2. "Change is absolutely necessary; all resistance to change is bad". Do you agree? Give your reasons.
3. Discuss the various ways of managing organisational change.
4. "Organisational change does not necessarily lead to organisational development". Comment.
5. Do you think that people in organisations are inherently resistant to change? To what extent are managers responsible for employee-resistance to change?
6. What is the role of the top management in bringing about organisational change?
7. Describe the major approaches to organisational change. How can you minimise resistance to change?
8. Briefly describe the Harwood experiment in relation to the introduction of change. What were the conclusions of these experiments?
9. Fill in the blank:
   (a) Grainer has identified _____ stages in the growth of an organisation.
   (b) The four dimensions in which change can be introduced are task, structure, technology and _____.
   (c) A man can be changed at three levels: _____, behaviour and attitude.

https://rbigradeb.com/

(d) According to _____ there are three stages in the change process.
(e) _____ is a helpful tool to compare the number and strength of forces which are working for and against the proposed change.
(f) Organisation Development improves the _____ of the organisation as a whole.
(g) When the introduction of change in any one dimension touches off a sequence of changes in other dimensions, it is known as the _____.

[(a) Five, (b) People, (c) Knowledge, (d) Kurt Lewin, (e) Force Field Analysis, (f) Culture (g) Domino Effect.]

10. XYZ University proposes to introduce the following changes:
    (a) A change from the annual system to the semester system.
    (b) A requirement that all examinations, term papers and assignments be done on computer.
    (c) A requirement that all students live on campus.
    (d) A requirement that all students have reading, writing, and speaking fluency in at least three languages, one of which to be a foreign language.
        1. Which individuals and groups must be involved in the change process?
        2. How should change be introduced and resistance to change dealt with?
        3. Should the services of a change agent be used?
11. Write short notes on:
    (a) Outsourcing
    (b) Total quality management
    (c) Supply chain management

Projects

1. The purpose of this exercise is to understand that in any programme, to introduce organisational change there are two opposing forces: those resisting change and those supporting change. It is, therefore, necessary to devise such strategies which weaken the former forces and strengthen the latter. The following steps are involved in this exercise:
    (i) The teacher distributes among all students the following three forms in the order in which they are mentioned allowing 15 minutes for each form to be filled up.

(a) Force Field Analysis Form 1
(Problem Specification)

(i) Think about your organisation and list 3 or 4 problems on which you would like to work for solution.

_____
_____
_____
_____

(ii) Out of the problems listed above, select one which you consider to be the most important.

_____

(iii) Indicate the direction of change or improvement you desire.
(iv) List all factors relevant to the problem.

https://rbigradeb.com/

(b) Force Field Analysis Form 2 (a)
(Problem Analysis and Action Steps)

List all driving forces (i.e., the forces that push toward improvement) and restraining forces (i.e., the forces that resist improvement) that come to your mind without being critical. These may include personality factors, physical resources, feelings, social pressures, nature of job, job conditions, interpersonal relations etc. Both types of forces should be listed separately.

(c) Force Field Analysis Form 2(b)
(Problem Analysis and Action Steps)

1. Classify all restraining forces under the following three heads:
   (a) Restraining forces over which you can exercise *major* control
   (b) Restraining forces over which you can exercise *some* control
   (c) Restraining forces over which you *can not exercise any control*
2. List the driving forces that can be added or further strengthened.
3. Describe your action strategy in relation to:
   (a) Controlling or lessening the strength of restraining forces
   (b) The kind of support you would need and from whom.
   (c) Your plan to get that support
4. In the same manner describe your action plan for strengthening/adding to your driving forces.
5. Indicate your time schedule.
6. Describe all that you expect to happen at the end of this period.
7. Indicate how would you evaluate the effectiveness of your programme of change.

(ii) After the above activity is over, the teacher asks the students to form smaller groups of 3 to 4 persons and share their experience. This may require about 30 minutes.
(iii) In the end, the teacher asks each student to briefly narrate his individual experience before the entire class.

2. For a specific organisation with which you are familiar, illustrate how the impetus for change can come from the following sources:
   (a) External environment
   (b) Internal subsystems
      (i) Goals and values
      (ii) Technical
      (iii) Structural
      (iv) Psychological
      (v) Managerial

Case — Effecting Organisational Change

It was with great enthusiasm that BEML made its move to employ an American consulting agency to stem the deterioration in quality and productivity of its employees and bring about change and organisation development. The consulting organisation was to stay in house for a period of

https://rbigradeb.com/

two years during which time it was to study the organisation and come up with ways to bring about change in the organisation for the better.

During the first six months the agency received good response from the employees and management in terms of information and suggestions. These were assimilated and after interaction with the management, the consulting agency developed various methods to bring about change and organisation development. However, things began to go wrong when the agency made attempts to implement its programmes and methods such as target setting, quality improvement measures, scheduling, etc. These measures had the hype of American technology and work methods with 100 per cent accountability. Non-compliance and non-performance had negative impact on the employees' records.

Soon this manifested itself in the form of negative response and reaction contrary to the original enthusiasm and participation. The high point was the union raising objections to many of the measures initiated and suggested by the consulting firm. The end result was that the consulting firm had to be withdrawn.

Discussion Questions

1. Do you think the choice of consultant was wrong? Give reasons for your answer.
2. How would you have gone about to bring change at BEML?
3. Could you have avoided the problems faced by BEML? If yes, how?

https://rbigradeb.com/

CHAPTER

20

Management of Organisational Conflict and Power Politics

Learning Objectives

This chapter will enable the reader to:

- **Describe** the meaning, levels and stages of organisational conflict
- **Explain** the causes and consequences of inter-group conflict
- **Analyse** the prevention and management of conflict
- **Define** organisational politics
- **Identify** the cause of organisational politics
- **Relate** the forms of organisational politics and the types of tactics
- **Describe** the management of organisational politics

https://rbigradeb.com/

Reward systems of most organisations encourage employees to compete with each other. Competition may be either *open* or *closed*. In open competition (also called win-win or positive competition), the size of the organisational cake, of which the rival parties are seeking their share, is infinite, so that if one party gets more than the other, it is not at the other's expense. For example, when promotions in an organisation are available to all who meet a certain standard, the competition is of the open type. On the other hand, in closed competition (win-lose competition), the size of the cake is supposed to be fixed, so that, if one gets more than the other, it is always at the other's expense.

Organisational conflict is a situation of closed or win-lose competition, in which parties try to keep each other from attaining their goals.

LEVELS OF ORGANISATIONAL CONFLICT

There are mainly *three* levels of organisational conflict. It may exist:

- between individuals, or
- between individuals and groups, or
- between groups in the same organisation.

It is the last level with which we are mostly concerned in this chapter.

STAGES OF CONFLICT

According to Pondy[1], every inter-group conflict passes through five stages, as shown in Fig. 20.1.

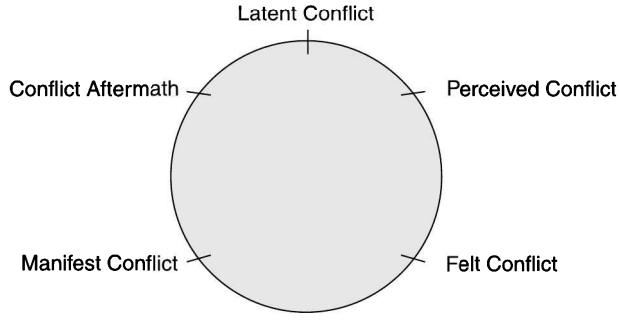


Fig. 20.1 Five stages of conflict

1. **Latent Conflict** This is the first stage in which only potential opposition exists between the parties. This means that all causes of conflict are lying hidden. Parties are not yet aware of them.

2. **Perceived Conflict** In this stage, parties become aware of the causes of conflict, and they begin perceiving the conflict.

3. **Felt Conflict** In this stage, parties become emotionally involved in the conflict, and start feeling the conflict.

[1]L.R. Pondy, "Organisational Conflict: Concepts and Models", *Administrative Science Quarterly*, Sept. 1967, Vol. 121, No.2, pp. 296–320.

https://rbigradeb.com/

4. **Manifest Conflict** In this stage, parties begin to give surface manifestation or expression to their hostile behaviour. Some expressions of hostile behaviour are:

- Lack of coordination.
- Decreased interaction.
- Breakdown in work flow.
- Concealment and distortion of information.
- Rigidity and formality in decision procedure.
- Appeals to superiors for decisions.
- Low trust, suspicion and hostility.
- Intentional ignoring, neglect or criticism of each other.

5. **Conflict Aftermath** Conflicts are not discrete situations, with a clear beginning and end. Every conflict episode leaves a result that affects the course of succeeding episodes. If the conflict is genuinely resolved to the satisfaction of all parties, the basis for a more cooperative relationship may be laid. But, if the conflict is merely suppressed, the latent conditions of conflict may be aggravated, and may explode in a more serious form, until they are rectified, or until the relationship dissolves.

CAUSES OF INTER-GROUP CONFLICT

Too often, organisations treat the symptom (as shown in stage 4 above) and leave the underlying cause untouched. The strategy for resolving conflict must be related to the cause, not the symptom. We give below some important causes of inter-group conflict.

1. **Unequal or one-sided Dependence** When any one group of an organisation (say staff) finds itself more duty-bound to understand the problems of the other group (say line), and to get along with it, conflict arises due to unequal or one-sided dependence.

2. **Status Incongruities** When a group finds that the actions of the other group are not in accordance with its self-perceived status, conflict develops. William Whyte[2], in his research of 8 big restaurants of Chicago, found that the cooks who perceived themselves higher in status than the waiters and waitresses resented receiving face-to-face orders from them.

3. **Incompatible Performance Criteria and Rewards** In organisations which emphasise the performance of individual groups rather than their combined performance, conflict develops between groups which have mutually incompatible performance criteria: One can easily see that the sales department's performance criterion of "increase in sales" and the production department's performance criterion of "reduction in costs" cannot be simultaneously fulfilled by the two departments without difficulty. It is difficult for the sales department to increase sales without diversifying production and increasing costs. Similarly, it is difficult for the production department to reduce costs without reducing diversification and sales. This incompatibility of performance criteria creates conflict between the two departments.

4. **Difficulty in Apportioning Credit or Blame** Difficulty in apportioning credit or blame between two groups increases the likelihood of conflict between them. Dalton[3] attributes part of the staff-line conflict to the fact that it is very often difficult to assess the contribution which each of them makes to the overall development of the organisation.

[2]William Foote Whyte, *Human Relations in the Restaurant Industry,* N.Y: McGraw-Hill, 1948.
[3]M. Dalton, *Men Who Manage,* N.Y.: Wiley, 1959.

https://rbigradeb.com/

5. **Dependence on Common Resources** Inter-group conflict develops when the two groups fight to get a larger share of some common resource, such as, physical space, equipment, manpower, operating funds, capital funds, centralised services (e.g., typing and drafting).

6. **Informational and Perceptual Differences** Conflict between groups also arises when their knowledge about facts is different, or they have different perceptions and interpretations.

7. **Differences in Personal Background** It has been found that the conflict between the young and the old managers in many organisations is due to the differences in their age, knowledge and experience. A young manager with better knowledge and education, impatiently craves for greater autonomy and independence, and focuses more on the present than the future. But he is frowned upon by the old manager who is very rich in experience, and who has acquired his present authority and autonomy only after a very long period. Personality differences also account for many vertical conflicts between superiors and subordinates.

8. **Differences in Task, Time and Interpersonal Orientations** Inter-group conflict also develops when groups differ in their task, time and inter-personal orientations. People in the production department of an organisation have rigid task responsibilities, plan their daily production schedule and relate to each other in a highly formal climate. But conditions are different for people in the research department. They have no rigid task responsibilities, nor are they required to plan their production daily. They also enjoy informal work climate. These differences create conflict between these two departments.

CONSEQUENCES OF INTER-GROUP CONFLICT

(a) **Within Each Group**
   1. Each group sinks many of its internal differences and becomes more closely knit, to present a "solid front".
   2. Group climate changes from informal and playful to formal and task-oriented.
   3. Leadership pattern changes from democratic to autocratic, to deal with the external threat.

(b) **Between the Groups**
   1. Each group becomes more hostile towards the other group. Its perception about the other group becomes distorted.
   2. Each group decreases its interaction and communication with the other group.
   3. Each group tries to bias the superior's decision in its own favour, by controlling, concealing or distorting information under its control. Likert has given examples of some sales people who, when engaged in "win-lose" competition concealed information, which they thought was strategic for achieving the sales target, such as information about better methods of sales, new markets, new sales strategies, etc. from the other group.

PREVENTION OF INTER-GROUP CONFLICT

Organisational arrangements, usually designed to prevent inter-group conflicts, are as under:

(a) *Advance planning and programming of work schedules* or making separate budget allocations of interdependent units. This is called *depersonalisation of their interface.* Thus, rather than leaving the frequency of maintenance to the discretion of the maintenance crew, a system may be put in place that requires machines to be serviced at regular intervals.

https://rbigradeb.com/

(b) *Introducing buffers such as inventories or contingency funds.* Inventories reduce the pressure on various production units in an assembly line or process operation, to act in perfect accord. Each unit's production can first go into an inventory rather than directly to the next unit/process thereby absorbing any fluctuation in the output of prior units.
(c) *Reducing pressure for consensus of joint decision-making.*
(d) *Reducing goal differentiation* by providing for joint pay-offs or incentives, proper selection and training, and creating *superordinate* goals.
(e) *Making roles and job-descriptions more clear.*

MANAGEMENT OF CONFLICT

Management of conflict means trying to find ways to balance conflict and cooperation. There are three views about the management of conflicts in organisations. According to the first view, called the *traditional view,* all conflicts are dysfunctional and should, therefore, be avoided by the manager. This, however, is not correct. The manager who uses this approach always runs the risk of reducing the creativity of his organisation. Someone has said that "when everyone in the organisation thinks alike no one is thinking very much." In an atmosphere where differences are avoided, not only do new ideas appear less frequently but old ideas are likely to go unexamined and untested. There is the genuine danger of the organisation slipping unknowingly into a rut of complacency. According to the second view, called the *behavioural view,* all conflicts are not dysfunctional. Some may be even functional and should, therefore, be accepted by the manager. A conflict is functional if it:

- improves the quality of decisions by acting as an antidote to 'group thinking',
- stimulates creativity and innovation by challenging the *status quo,*
- encourages interest and curiosity among group members,
- provides the medium to air problems and release tension,
- fosters an environment of self-evaluation and change.

According to the third view, called the *interactionist view,* a manager should not merely accept functional conflict, but must manage to maintain it at an optimal level, i.e., a level at which there is optimum organisational performance. As shown in Fig. 20.2 both very low and very high levels of conflict hinder organisational performance. The performance is maximum at point B which can be called the optimal level of conflict. To achieve this a manager must both stimulate conflict when it is very low and reduce it when it is very high. The following table summarises an organisation's internal characteristics associated with the three types of situations shown in the figure.

Situation	*Level of conflict*	*Type of conflict*	*Organisation's internal characteristics*
A	Low or none	Dysfunctional	■ Apathetic, ■ Stagnant, ■ Non-responsive to change, ■ Lack of new ideas, ■ Low performance.
B	Optimal	Functional	■ Better motivated staff. No dissipation of staff energy ■ Team-work and innovation

(Continued)

https://rbigradeb.com/

Situation	Level of Conflict	Type of conflict	Organisation's internal characteristics
			■ Positive image ■ Better personal development of individuals ■ High performance
C	High	Dysfunctional	■ Staff energies are directed to emotions rather than work ■ Negative image of the organisation or staff ■ No team work and cooperation ■ No personal development of individuals ■ Low performance

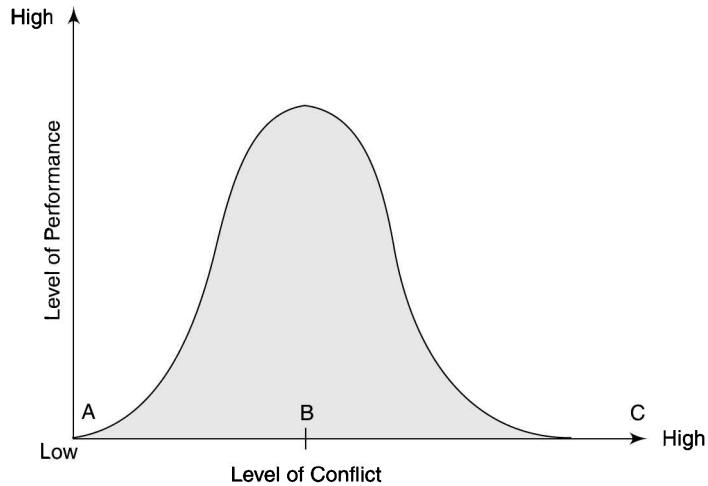


Fig. 20.2 Conflict and organisational performance

Methods for Managing Conflict

There can be three forms of conflict management:

1. Stimulating conflict in units or organisations where it is too low;
2. Reducing conflict where it is too high; and
3. Resolving conflict.

Conflict Stimulation Methods According to Robbins[4] although there are no definite hints in this respect, still the following conditions point out towards the existence of a very low level of conflict in the organisation:

1. Boss is surrounded by yesmen.
2. Subordinates are afraid to admit ignorance to their boss.

[4]Robbins, Stephan, P. "Conflict Management" and "Conflict Resolution" are not synonymous terms. *California Management Review,* 1978, 21 (2), pp.67–75.

https://rbigradeb.com/

3. Over-concern for compromise results in ignoring values, long-term objectives, or company welfare.
4. Managers value the impression of peace and cooperation regardless of the price.
5. There is an excessive concern in decision makers for not hurting the feelings of others.
6. Managers value popularity more (for obtaining rewards) than competence and high performance.
7. Managers are unduly enamoured with obtaining a consensus for their decisions.
8. Employees show high resistance to change.
9. There is a lack of new ideas.
10. There is an unusually low level of employee turnover.

Robbins suggests the following three categories of techniques for stimulating functional conflicts.

1. ***Manipulate communication channel:***
   (a) Exclude individuals from traditional communication channels, or add new individuals to the communication network.
   (b) Suppress information.
   (c) Transmit too much information.
   (d) Transmit ambiguous or threatening information.
2. ***Alter the organisation's structure:***
   (a) Increase a unit's size.
   (b) Redefine jobs, alter tasks, increase specialisation and standardisation.
   (c) Add, delete or transfer organisational members.
   (d) Increase interdependence between units.
3. ***Alter personal behaviour factors:***
   (a) Change personality characteristics of the leader, e.g., placing in high positions individuals who encourage people to air their views.
   (b) Create role conflict.
   (c) Develop role incongruence.
   (d) Create competition among subunits. (Franklin Roosevelt, it is said, relished competition of ideas and chose his advisers accordingly. They included arch conservatives as well as radical reformers.)

Conflict Reduction Methods Since most organisations show levels of conflict considerably above the optimum, usually managers are more concerned with reducing rather than stimulating conflict. The existence of the following conditions may suggest that the prevailing level of conflict is very high which needs to be reduced:

1. There is diversion of energy from the real task.
2. There is polarisation of individuals and groups.
3. People always display irresponsible behaviour.
4. There is climate of suspicion and distrust.
5. There is widespread decline in morale and productivity and increase in manpower turnover.
6. Interpersonal and interdepartmental differences are obstructing cooperative action.

Reduction methods manage the level of conflict by temporarily cooling things down. They do not permanently eliminate the causes of conflict. Hence there is always the risk that the conflict may surface at inopportune moments to create problems for the manager.

https://rbigradeb.com/

Following are the principal modes of conflict reduction which are available to a manager:

1. *He can fix a superordinate goal.* These are goals which can be achieved only when people collaborate with each other. Such goals, however, are difficult to devise.
2. *He can ask groups to unite to meet a common 'enemy' or 'threat'.* This may have the desired effect, though only temporarily till the threat is over.
3. *He can impose a solution* when quick action is necessary but this does not necessarily bring agreement.
4. *He can smooth over (playdown) differences,* emphasise common interest and appeal to the good sense of the parties.
5. *He can pretend unawareness* and avoid taking a position thus buying time for the emotions to cool down. This may prove effective when the issues are trivial.
6. *He may create a temporary buffer* between the two groups to absorb the emotional tones. The classic example of this technique was described by Whyte in his study of eight restaurants of Chicago cited earlier. In order to break up the face-to-face relationship between cooks and waitresses a spindle *(i.e.,* a wheel on a shaft) was put up on the order counter and waitresses simply put their orders on the wheel rather than calling out orders to the cooks.

The last three modes (4, 5 and 6) are also called *defusion techniques.*

Conflict Resolution Methods It is better to resolve conflicts than to reduce them. The fatalistic approach of some managers in which they resign themselves to fate in the hope that the conflict will be automatically resolved in due course is wrong. Differences do not ordinarily disappear by resigning to fate.

A manager has the maximum chance of succeeding in resolving a conflict if he enters the picture at the very first stage when there is merely potential opposition between the parties. His chance of success becomes less if he enters at the last stage when the conflict has become manifest.

The two conflict resolution methods most frequently used are (a) compromise and (b) integration or negotiation.

(a) *Compromise.* It is a process of settling the conflict by reaching a compromise either by understanding each other's point of view in confrontation or inter-group meetings which are held for this purpose or by appointing an arbitrator. In the first case parties own the solution but in the second case solution is imposed on them by the arbitrator.

(b) *Integration or Negotiation.* This is a dialectical process. It avoids polar opposite mentalities. Both parties speak out their needs, desires and visions. As clarity emerges around the issues, creative inventiveness is used first in seeking as many alternative solutions as possible and then in arriving at an original, high-order synthesis. Important *steps* involved in this method are:

(i) First, do not come to the negotiating table with pre-conceived ideas of what you want.
(ii) Next, bring all differences in the open.
(iii) Next, develop a common understanding of important issues—a common vision for viewing together and comparing all differences.
(iv) Next, break up all demands into their constituent parts.
(v) Last, integrate the constituent parts with a lot of 'what, if we do this' approach.

A manager's choice of an appropriate mode of conflict resolution (compromise or integration) should largely depend upon two factors *viz.,* integration of his group and the criticality of the issue. Integration

https://rbigradeb.com/

mode is considered appropriate only when his ingroup is highly integrated and the issue is highly critical so as to justify the enormous expenditure of time and effort involved in this mode.

Prerequisites for Successful Integration/Negotiation

In a study of 167 high-technology companies by Gupta, Raj, and Wilemon[5] they have found that the following are the prerequisites for the success of integration/negotiation.

1. *Relationship of trust.* Trust should be built between the departments from an early stage by exposing them to each other's functioning through informal interaction seminars, workshops, educational programmes and rotation of job assignments. Each party should believe that the other party will not use its power in a malevolent way.

2. *Early attempt to resolve differences.* Both parties should try to resolve their differences as they arise at lower organisational levels.

3. *Clarity of roles.* The responsibilities of the parties should be clearly articulated *via* clear policies and procedures.

4. *Physical proximity.* The two parties/departments should be physically located close to each other to facilitate communication, and build trust and understanding.

5. *Decentralised decision-making and openness.* Negotiations flourish best where the parties enjoy freedom to take mutual decisions without waiting for the approval from their bosses, where there is tolerance for failure and promotion of joint rewards.

6. *Objectivity.* It is, in fact not unusual for a party to react to differences more from the basis of its personal needs and feelings than from the basis of some rational approach to the problem at hand. Negotiations succeed only when there is complete objectivity on both the sides. This means that both the sides should rise above emotions and should depersonalise the conflict. Facts alone should be made the targets of attack, and not the individuals. People should look at facts coldly, and at each other warmly. Some writers suggest the use of third party intervention to depersonalise conflict. They argue that the presence of a third party, who is seen as neutral by both the groups, can prevent them from lapsing into emotional outbursts.

7. *Support from management.* Senior management should value and support cooperation.

8. *Joint reward system.* There should be a system of joint reward and punishment.

Management of conflicts by negotiation is not a one-shot affair. It may achieve the solution but should be regarded as beginning of a new intergroup relationship. Efforts should, therefore, continue to strengthen the relationship further.

ORGANISATIONAL POLITICS

Power and politics are very closely related concepts. In Chapter 8 we have defined "power" as the ability or the available potential of an individual to influence or to cause another individual to perform an act. The organisation or its members may use this potential legitimately or illegitimately (as trickery, manipulation or self-serving intrigue). We may call the latter "politics", to distinguish it from the socially acceptable legitimate use of power called "authority".

[5]Gupta, Ashok K., S.P. Raj and David Wilemon, "*Managing the R&D—Marketing Interface*", Research Management.

https://rbigradeb.com/

In early days of abundant resources, definite goals, simple technology and stable environment, business organisations used to be highly rational structures in which authority meticulously followed the chain of command and managers with legitimate power took rational decisions to further organisational goals. But now under conditions of increasingly scarce resources, complex technology, indefinite goals and turbulent environment, organisations have become fundamentally political entities consisting of individuals and groups who make illegitimate use of their power to enhance or protect their self-interest in different spheres, whether they be goal-setting, distribution of resources or introduction of change. Their decisions are highly political, characterised by push and pull and based on bargaining.

Cause of Organisational Politics

The cause of politics is conflicts of interest among individuals, groups or organisations. So long as resources are scarce in relation to human aspirations and so long as there are conflicting claims on these limited resources, the criteria that govern economic decisions will not be purely rational in an economic sense. They will be subjected at least partly to political considerations. Thus, some form of inter-dependence is a necessary condition for political behaviour.[6]

Forms of Political Tactics

Research on organisational politics has identified various forms of political tactics some of which are given below:

- Controlling access to information and person
- Stimulating competition among ambitious subordinates to strengthen one's own position
- Forming a winning coalition
- Using research data to support one's own point of view
- Controlling resources, other persons or departments need
- Waiting for the crisis to push a change. Things must get worse before they get better.
- Creating obligations ("I did you a favour, so you owe me a favour.")
- Making a counter-suggestion as solution to some problem. In a company having difficulty making its shipments promptly and correctly, the manufacturing department suggested to the management that the shipping department be transferred to it from the sales department for better coordination. The sales department countered by requesting that warehousing be transferred to it from manufacturing for the same reason!

The following are few more forms of political tactics and the fascinating names given to them by Newman and Sumer[7].

(a) Throwing a red herring across the trail By this tactic, a deliberate attempt is made to divert attention. In one instance, a salesman, when questioned about his expense account, started talking about the danger of competitors stealing a large account. In another instance, whenever the manager in the branch office of a manufacturer had a messy situation to clean up, he would meet his colleagues in the head office bubbling with enthusiasm about some new proposition with great possibilities. Once

[6]Pradip N. Khandwalla, *The Design of Organisations*, Harcourt Brace Jovanovich Inc. N.Y.: Chicago, San Francisco, Atlanta, 1977.

[7]*The Process of Managemnt*, 1965 Prentice Hall of India, New Delhi.

https://rbigradeb.com/

the head office executives became intrigued with the new proposal, they had difficulty finding time to examine the trouble spots thoroughly. The resulting delay gave the manager more time to work out his difficulties.

(b) Camel's head in the tent By this tactic, the employee makes a deliberate attempt to make his non-permissible demand permissible by dividing it into several parts. A manufacturing branch of a shoe company in which all purchasing was centralised at the headquarters first requested the headquarters to make some local purchase. The request was granted. A little later, repair parts of the machine were requested to be bought locally; and this too was allowed. In the following year, the manager successfully requested that the branch purchase even machinery locally, since engineers at his plant knew best what was wanted and how to get it and anyway he had a full-fledged purchasing department going. By these tactics, the branch ultimately was able to do most of its purchasing locally.

(c) Letting someone else pull your chestnuts out of the fire People may at first oppose a change. But gradually more and more of them can see its benefits. Still most of them may be happy to let a particular individual carry the brunt of the bitter fight in favour of the change. While secretly hoping the individual would win, they maintain a neutral position in the organisation.

(d) Striking when the iron is hot Here, the executive waits for a propitious situation to push through modifications that would be resisted if initiated as separate conspicuous moves.

Dysfunctional Consequences

Organisational politics has several dysfunctional consequences such as the following:

- It weakens employees' morale.
- it creates victims and victors.
- It leads to several unethical activities such as favouritism in selections, receipt of commission from vendors in making purchases and so on.
- It fritters away time and energy in planning attacks and counter-attacks.

Management of Organisational Politics

It is a hard fact that like informal organisation, organisational politics also cannot be completely abolished. The manager can only keep it within reasonable limits by taking the following measures:

1. Reducing system uncertainty
   - Make clear what are the bases and processes for performance evaluation.
   - Differentiate rewards among high and low performers.
   - Make sure that the rewards are as immediately and directly related to performance as possible.
   - Clarify organisational goals and need for change vis-à-vis environment.
2. Reducing competition
   - Try to minimise competition and encourage collaboration among departments for resources.
   - Build team and group rewards.
3. Watching game players
   - Break existing political fiefdoms.
   - Watch and warn members indulging in unethical political behaviour.

https://rbigradeb.com/

4. Creating open channels of communication
   - Follow open-door policy.
   - Communicate effectively in all directions.
5. Acting as a role model
   - Always use the value judgement: "Is this fair?"

POLITICS IN INTERNATIONAL BUSINESS

Although being politically astute is a key skill for the managers in international business firms yet it is the home government which uses various political means to secure unfair business advantages for these firms. The following are some examples of these political means:

- Diplomatic pressure
- Commercial pressure/dumping/pricing
- Financial pressure: tariffs, custom barriers, subsidies
- Absence of laws/regulations
- Tied scholarships/educational or healthcare programmes

SUMMARY

- This chapter examines two most important dynamics of management—conflict and power politics.
- Organisational conflict is a state of win-lose competition in which parties try to keep each other from attaining its goals. It is ubiquitous in organisations both at the individual and group levels. It develops in five distinct stages.
- Among its important causes are: asymmetrical dependence, status incongruities, incompatible performance criteria, difficulty in apportioning credit or blame, dependence on common resources and differences in personal background, information and orientation.
- It is important for a manager to manage conflict i.e., maintain it at an optimal level. This involves not only reducing and resolving conflict, but also stimulating it when necessary. Negotiation is supposed to be the best method for conflict resolution.
- Organisational politics is illegitimate use of power. There are a number of political tactics which people employ for gaining power in organisations.
- In international business, it is the home government which plays an important role in facilitating the MNE's political objectives.

KEY TERMS

Functional Conflict A conflict which furthers organisational goals and improves its performance is called functional conflict. It is the impact which the conflict has on the organisation, not the individual or a group, that defines functionality.

Optimum Level of Conflict This is that level of conflict at which organisational performance is at a maximum. When the level of conflict is too low, organisational performance may stagnate. Similarly, when the level of conflict is too high, organisation's survival may be endangered.

https://rbigradeb.com/

Review Questions

1. Describe the various stages of organisational conflict.
2. How should inter-group conflict be managed?
3. What are the causes and consequences of inter-group conflict?
4. Describe briefly the traditional, behavioural and the interactionist views of conflict.
5. How can conflict be stimulated?
6. What are the prerequisites of successful negotiation?
7. Fill in the blanks:
   (a) Conflict is a situation of _____ competition.
   (b) According to Pondy, every conflict passes through _____ stages.
   (c) According to behavioural view, all conflicts are not _____.
   (d) Settlement of conflict by mutual bargaining is called _____.
   (e) Goals.which can be achieved only when parties cooperate are called _____ goals.
   [(a) Closed, (b) Five, (c) Dysfunctional, (d) Compromise, (e) Superordinate.]
8. Define organisational politics. What can be its various forms? How can it be managed?

Projects

1. "Human beings desire both power and money. Therefore, all political decisions in organisations have an economic basis, and all economic decisions have a political basis."
   Hold a discussion on the above subject and take a position either in favour of or against the subject.
2. Suppose your boss suggests that your contribution to the department would be stronger if you could draw on a more versatile portfolio of political behaviour. Playing the role of the head of a specific department, identify your political tactics you would feel comfortable using and describe situations in which you might use each.

Case — Managerial Conflict

The president of Simplex Mills sat at his desk in the hushed atmosphere, so typical of business offices, after the close of working hours. He was thinking about Rehman, the manager in-charge of purchasing, and his ability to work with George, the production manager, and Vipulabh, the marketing and sales manager in the firm.

When the purchasing department was established two years ago, both George and Vipulabh agreed with the need to centralise this function and place a specialist in charge. George was of the view that this would free his supervisors from detailed ordering activities. Vipulabh opined that the flow of materials into the firm was important enough to warrant a specialised management assignment. Yet since the purchasing department began operating it has been precisely these two managers who have had a number of confrontations with the new purchase manager, and occasionally with one another, in regard to the way the purchasing function is being carried out.

https://rbigradeb.com/

From George's point of view, instead of simplifying his job as production manager by taking care of purchasing for him, the purchasing department has developed a formal set of procedures that has resulted in as much time commitment on his part as he had previously spent in placing his orders directly with vendors. Further, he is specially irritated by the fact that his need for particular items or particular specifications is constantly being questioned by the purchasing department. When the department was established, George assumed that the purchasing manager was there to fill his needs, not to question them.

As Vipulabh sees it, the purchasing function is an integral part of the marketing function, and the two, therefore, need to be jointly managed as a unified process. Purchasing function cannot be separated from a firm's overall marketing strategy. However, Rehman has attempted to carry out the purchasing function without regard for this obvious relationship between his responsibilities and those of Vipulabh, thus making a unified marketing strategy impossible.

In his previous position, Rehman had worked in the purchasing department of a firm considerably larger than Simplex. Before being hired, he was interviewed by all the top managers, including George and Vipulabh, but it was the president himself who negotiated the details of the job offer. As Rehman sees it, he was hired as a professional to do a professional job. Both George and Vipulabh have been distracting him from this goal by presuming that he is somehow subordinate to them, which he believes is not the case. The people in the production department, who use the purchasing function most, have complained about the detail that he requires on their requisitions. But he has documented proof that materials are now being purchased much more economically than they were under the former decentralised system. He finds Vipulabh's interests more difficult to understand, since he sees no particular relationship between his responsibilities for efficient and effective procurement, and Vipulabh's responsibilities to market the firm's products.

The president has been aware of the continuing conflict among the three managers for some time, but on the theory that a little rivalry is healthy and stimulating, he has felt that it was nothing to be unduly concerned about. But now that so much of his time is being taken up by much of what he considers to be petty bickering, the time has come to take some positive action.

Discussion Questions

1. Is George's view of the situation realistic?
2. How do you evaluate Vipulabh's position?
3. How might this conflict be associated with factors in the formal organisation?
4. What should the president of Simplex Mills do now?

https://rbigradeb.com/

CHAPTER

21 ORGANISATIONAL CLIMATE OR CULTURE (OC)

Learning Objectives

This chapter will enable the reader to:

- **Define** organisational culture (OC)
- **Determine** the components or dimensions of OC
- **Describe** the determinants of OC
- **Identify** the types of OC
- **Relate** how OC is created and maintained
- **Analyse** the emergence of the concept of Quality of Worklife and the Human Resource Development culture
- **Describe** national culture and its characteristics
- **Present** the role of national culture in international business

https://rbigradeb.com/

Management can be viewed in one of three ways, depending on the intensity of commitment to the activity.

1. **Function**: A task or a group of tasks to be performed that contribute to the mission or purpose of an organisation
2. **Process**: A set of steps, procedures or policies that define how a function is to be performed and what results are expected.
3. **Ideology**: A set of values or beliefs that guide an organisation in the establishment of its mission, processes and functions.

Many people view management as a set of tasks to be performed by individuals in their particular jobs. Others have a broader perspective and see management as a process in which many people at the operating level from a number of functional areas of the organisation are involved in cross-functional activities. Still others take the broadest viewpoint in which management is an ideology or philosophy that pervades and defines the culture of the entire organisation.

According to the third viewpoint about management, the climate or culture[1] of an organisation may be defined as the *common perception* of its employees about various aspects of management of *internal working environment.* The crucial element here is the "common perception" of individuals. This means that although individuals, depending upon their personal characteristics such as values, needs, attitudes, experience etc. may differ in their perceptions but there is always a widely-held and a relatively stable view about the organisation's internal working environment "*the feeling of a pervasive way of life*" which should be termed as organisational climate. Thus, every organisation has its own unique climate or culture. Not only this, even different departments of the same organisation may have different climates or cultures depending upon the perceptions of members about the management of these departments.

COMPONENTS OR DIMENSIONS OF OC

On which aspects of an organisation's internal working environment should employees' perceptions be studied to know its climate? It is difficult to give a concrete answer. Different writers propose different dimensions. A critical review of the literature on organisational climate, however, shows that the following twelve aspects should be used in studying organisational climate:

1. *Supervision,* i.e., the extent to which supervisors maintain good relations with their subordinates, offer them socio-emotional support and help in improving their skills and chances of advancement.
2. *Management of Reward,* i.e., the extent to which rewards are related to performance and the required system of behaviour in the organisation.
3. *Communication,* i.e., the extent of flow of information in different directions and its mode (formal or informal).
4. *Trust,* i.e., who is trusted by management and to what extent? What is the extent of inter-personal trust?

[1]There is no difference between the terms "Organisational Culture" and "Organisational Climate". Both the terms denote the same perceived aspects of an organisation's internal working environment. However, in most of the studies which have been done to measure an organisation's culture, the term which has been *operationalised* is "climate".

https://rbigradeb.com/

5. *Decision-making,* i.e., who makes decisions: whether people high in the hierarchy or those involved in the matter?
6. *Problem Management,* i.e., how are problems viewed—as irritants or as challenges. how are they handled?
7. *Control,* i.e., the extent to which people are formally controlled. Whether the organisation is rule-oriented or its orientation is to excel?
8. *Risk-taking,* i.e., how people respond to risks? Whose help is sought in situations involving risks?
9. *Innovation and Change,* i.e., who initiates change? How are change and innovation perceived? How is change implemented?
10. *Conflict,* i.e., the extent of differences present between individuals and departments and the way they are resolved.
11. *Management of Mistakes,* i.e., can honest mistakes be committed without fear of punishment?
12. *Informal groups,* i.e., how are they formed and for what purpose?

DETERMINANTS OF OC

Factors which influence the above dimensions of OC are as under:

1. *Economic condition.* An organisation's economic condition influences its climate in several ways. The more prosperous an organisation is, the more it can afford to spend on research and innovation and the more it can afford to take risk and be adventurous.
2. *Leadership style.* An organisation's leadership style plays a profound role in determining several aspects of its culture. Thus, an authoritarian style may make the organisation's culture characterised by high position structure, low individual autonomy, low reward orientation, low warmth and support and so on. Opposite may be the culture characteristics of an organisation with democratic leadership style.
3. *Organisational policies.* OC is also influenced by organisational policies. A policy to resort to layoff only as a last remedy during business downturn will foster a cordial and supportive climate. Similarly, a policy to reward employees for increase in profits will make culture more reward-oriented.
4. *Managerial assumptions about human nature.* Douglas McGregor in his book: *'The Human Side of Enterprise',* points out that virtually every act on the part of management that involves human beings is predicated upon assumptions, generalisations and hypotheses relating to human nature and human behaviour—in other words, on some theory of behaviour. This, in turn, affects OC. McGregor has postulated two distinct postures about managing which he refers to as Theory X and Theory Y. (Read Chapter 17 for details.)
5. *Managerial norms and values about what is good management and what is poor management practice.* This point tells us about the management's high or low orientation in eight important dimensions as specified in Table 21.1.
6. *Employees' characteristics.* An organisation with educated, ambitious and young employees is likely to have a different type of OC than what may be expected of an organisation whose employees have opposite characteristics. The former set of characteristics may foster a competitive, risktaking and open climate in the organisation.

https://rbigradeb.com/

Table 21.1 Managerial Norms and Values in Eight Dimensions

Dimension	*High*	*Low*
1. Authoritarianism	■ Emphasis on orders, threats and punishment.	■ Emphasis on autonomy and persuasion.
2. Focus	■ Internally focussed (Emphasis on rules and procedures)	■ Externally focussed (Emphasis on results and market trends)
3. Participation	■ Emphasis on group decision	■ Emphasis on individual decision
4. Technology	■ Reliance on sophisticated planning techniques	■ Reliance on experience, rules of thumb and intuition
5. Risk-taking	■ Preference for innovation and growth ■ Proactive	■ Preference for *status quo* and stability ■ Reactive
6. Self-awareness	■ Open to feedback ■ Continuous effort for self-improvement	■ Closed to feedback ■ Deadwood
7. Employee's security and growth	■ Treating people as an important resource	■ Practising hire and fire policy
8. Equity	■ Justice in rewarding performance	■ Indiscriminate distribution of rewards

7. *Organisational size.* Large organisations are more formalised. They tend to develop specialised groups which need systematic coordination. They are seen by their employees as more efficient, offering more potential and being more friendly places. Small organisations with few levels of management are generally more amenable to democratic and participative functioning than big organisations though they have only few roads to the top. Hence these organisations foster a different type of climate than what one comes across in big organisations.
8. *History and ownership.* Old family firms or founder-dominated organisations generally have power culture. New organisations generally replace power by efficiency.

TYPES OF OC

Over the years, a number of authors have used organisational cultures for classifying organisations into categories. The more interesting of these are briefly described below:

1. **Mechanistic Organisational Culture** The mechanistic organisational culture exhibits the values of bureaucracy and feudalism. Organisational work is conceived as a system of narrow specialisation, as among craft guilds. People think of their careers principally within these specialisations. Authority is thought of as flowing down from the top, and information and instructions follow formally prescribed channels. There is a great deal of departmental loyalty and inter-departmental animosity, a strong 'we' versus 'they' perception. This sort of culture resists changes and innovations, and tends to be found in organisations operating in relatively stabilised conditions.

2. **Organic Organisational Culture** The organic organisational culture is a contrast to mechanistic culture. Formal hierarchy of authority, departmental boundaries, rules and regulations and so forth are frowned upon. There is a great deal of emphasis on teamwork. Free flow of information, ease of communication, both formal and informal, across departments and specialisations, and up and down the hierarchy, are strongly emphasised. In given problem situations, the person with expertise may wield

https://rbigradeb.com/

far more influence than the formal boss, so that even juniors, if they have greater expertise, can prevail over their seniors. There is a widespread understanding within the staff of the kinds of problems, threats, opportunities, etc. the organisation is facing and organisational members spontaneously, on their own, take appropriate roles required in the situation, rather like the fielders in a cricket match. The culture stresses flexibility, consultation, changes and innovation. This sort of culture tends to arise where a good deal of the work of the organisation is of a developmental nature (as on project sites and in R&D labs.), or involves producing goods or services to the specification of individual customers.

3. **Authoritarian Organisational Culture** In the authoritarian culture, power is concentrated in the boss and obedience to orders and discipline are stressed. Any disobedience is punished severely to set an example to others. The basic assumption is that, as in the army during wartime, unquestioning obedience to orders is necessary if the organisation is to survive. There is also the assumption that persons issuing orders know what is best for the organisation and always act in these best interests.

4. **Participative Organisational Culture** The participative culture rests on the notion that people are more committed to decisions that are participatively made than to decisions that are imposed upon them. Also, group problem-solving leads to better decisions because so many new points of view and so much information are shared during discussions. Another basic belief is that collaboration is better than conflict, and if there is conflict, bringing it out into the open during discussion can lead to better decisions. Participative cultures tend to emerge where most organisational members are professionals or otherwise see themselves as equals (as in cooperative societies).

5. **Management Systems Culture** The management systems culture believes in an engineering approach to management. Every operation is carefully analysed to see how it could be done most efficiently, and in doing this, heavy use is made of textbook tools of management such as sophisticated planning, budgetary control and information systems, sophisticated techniques of market research, activity scheduling, network analysis, investment analysis, professional selection and training of personnel, etc. This sort of an organisation is rife with 'systems', that is, carefully laid down procedures that are guaranteed to lead to 'optimal' results. The systems culture frowns upon adhoc decisions, lack of procedural clarity, intuitive decision making, and so forth, and extols the use of science in management. Technocrats rule the roost. This sort of culture is frequently found in highly professionally managed corporations or technology intensive organisations.

6. **Entrepreneurial Organisational Culture** The entrepreneurial culture is one which favours growth, big deals and empire building, big vision, boldness in decision-making and going in where angels fear to tread. This sort of culture is frequently found in a new industry or in an old industry in which a new technology or product has come on the scene, making current technologies or product obsolete.

7. **Paternalistic or Familial Organisational Culture** A culture that is very common in societies undergoing a transition from traditionalism to modernity is the paternalistic or familial organisational culture. In this culture, the head of the organisation/department is looked upon as a father figure, strict but benevolent, and subordinates consider themselves members of the organisational or departmental family. Just as in a family, the employees are expected to identify themselves totally with the organisation and in return the organisation meets the personal as well as social needs of the employees. Employment is typically lifetime and there is often a sort of monarchy at the top, with the eldest son typically succeeding the retiring or dying head of the organisation. Not only are employees looked after, their children are also accommodated in the organisation. This sort of culture is commonly found in family controlled enterprises and institutions.

https://rbigradeb.com/

8. **Altruistic Organisational Culture** This culture is commonly found in organisations that have dedicated themselves to doing social good.

HOW IS OC CREATED AND MAINTAINED?

Organisational culture is usually the result of actions taken by the founders. Later on, as others join them a common history begins to be built.

A degree of cultural uniformity enables organisations to work better. They, therefore, typically carry out several steps to maintain their prevailing culture, such as the following:

1. Avoiding bringing in dissonant attitudes in the first place.
2. Socialising members by:
   - making them aware of the organisation's most important values;
   - prohibiting certain forms of speech and acts, called "taboos", e.g., calling superiors by their first name, coming to the work place in drunken state, criticising the company in public, driving Honda if working for Ford, and so on;
   - making participation compulsory in certain ceremonies called "rituals";
   - using a special language, which only the members of the fraternity understand, called "jargon";
   - narrating stories and folklore that help keep alive and reinforce certain cultural values. For example, at Hewlett-Packard, the story is often told of Bill Hewlett who, in order to reinforce the value of trust, removed the lock on the supply room. Similarly, at Telco's (now Tata Motors) truck assembly plant in Kuala Lumpur, the story is told of a service manager who set an example in customer service by driving several miles in the night, to the company's warehouse, to get a shaft for a customer, for his truck stranded on the highway;
   - encouraging them to follow certain individuals as role models.
3. Placing newcomers on jobs which teach them the importance of humility. For example, many organisations give newcomers more work than they can handle, or jobs which are below their abilities.
4. Putting newcomers through a long training programme, so that they master their jobs, before they expect promotion. The objective here is to wean them away from using political power or short cuts, in order to get ahead at a faster pace.
5. Transferring employees who violate the cultural norm of team performance to less desirous locations.

It should be remembered that the above steps do not always result in everyone in an organisation, adopting the organisation's culture, to the same degree. There is a set of core values which are shared by the majority. This is called organisation's *dominant culture.* A set of values shared by only a small percentage of the organisation's members is called the organisation's *sub-culture.* Those members who find cultural values unbearable, leave the organisation, because fighting against them is not easy. Predictable obstacles include entrenched skills, relationships, roles, and structures, that collectively work to reinforce the prevailing culture. In addition, powerful stakeholders, such as unions, management, or even customers, may support the existing culture.

https://rbigradeb.com/

QUALITY OF WORK LIFE (QWL) AND HUMAN RESOURCE DEVELOPMENT (HRD) CULTURE/CLIMATE

As workers are becoming more and more educated, skilled, affluent and unionised, it is becoming increasingly difficult to design jobs solely according to the needs of technology completely overlooking the needs of workers. There is now all-round demand for developing more humanised jobs which can satisfy workers' higher needs, employ their higher skills and make them better citizens, spouses and parents. The jobs need to be excellent both from the point of view of technology and human needs. The traditional job design needs to be replaced by Hackman's "job characteristics design". This demand for redesigning of jobs showing concern about the impact of work on workers and organisational effectiveness has come to be known as Quality of Work Life (QWL).

The overriding purpose of a QWL programme is to change and improve the work climate or culture so that the interface of people, technology and the organisation makes for a more favourable work experience. Autonomous work teams, suggestion schemes, empowerment, and flexitime are some examples of such programmes.

HRD culture, which is defined as the employees' common perception about the developmental environment of their organisation, is a *prerequisite* for the success of any QWL programme. It includes a number of characteristics such as the importance given to the development of learning culture, openners of communication, development of team spirit, development of new competencies and so on.

HRD culture rests on eight cultural values, together called OCTAPACE values, which form an integral part of the organisational culture. The following is a brief description of these values and their indicators in an organisation.

OCTAPACE Values and their Indicators

1. *Openness* means the extent of willingness to share and receive information, ideas and suggestions with the employees. Existence of effective two-way communication system, house-organ, suggestion scheme, etc. are its indicators.
2. *Confrontation* means the willingness to face and solve problems, rather than to avoid them till they grow into a collective grievance. Willingness of executives to solve problems at the shop floor level, and to encourage workers to form quality circles and problem-solving groups, are indicators of the value.
3. *Trust* means the extent of faith which people have for one another. Loose or no supervision and organisation's trust in employees' words of self-certification indicate the presence of this value.
4. *Autonomy* means the degree of freedom enjoyed by the workers. Existence of self-managed teams, quality circles, flexible working time, etc. are indicators of this value.
5. *Proactivity* means the tendency to think ahead of the problem. An organisation's plans and policies give an indication of this characteristic.
6. *Authenticity* means that people say what they mean and mean what they say. If-the management preaches cost reduction and economy to its workers, but practices extravagance or preaches importance of quality, but forces workers to meet quantity targets of sub-standard output, its preaching will have no effect because they lack authenticity.
7. *Collaboration* means people's tendency to live and work together as cohesive groups. Existence of project organisation, team-building, common facilities like canteens and parking grounds, common uniforms for officers and workers, etc., are indicators of this value.
8. *Experimentation* means the existence of supporting environment to take risks and innovate.

https://rbigradeb.com/

NATIONAL CULTURE

Like organisations, nations too have commonly experienced stable cultural characteristics. These characteristics make each nation unique, and differentiate it from others. It is important for managers to understand these characteristics and be sensitive to them, in order to be successful in the global economy.

There are two important studies of cultural characteristics of nations which are used for cross-cultural analysis. These are briefly described as under:

Hofstede's Study[2] This study identifies four major cultural characteristics which account for differences in organisational behaviour across cultures. These are described below:

(i) ***Individualism/collectivism*** Individualism refers to a sense of personal focus, autonomy and compensation. Collectivism describes a group focus, self-subjugation, obligation and sharing of rewards. Collectivism is the preference for a tightly-knit social group in which people distinguish between their own group and other groups. In general, Hofstede found that wealthy countries (e.g., United States) have higher individualism and poorer countries have higher collectivism.

(ii) ***Power distance*** This is the extent to which members of an organisation show tolerance of hierarchical differences. Cultures of some countries with low tolerance (such as USA), are compatible with newly emerging networked, flat structures, and empowerment dimensions of today's organisations. Big power distance as found in India, encourages large pay and respect for senior echelons.

(iii) ***Uncertainty avoidance*** This refers to the extent to which people feel threatened by ambiguous situations, and the degree to which they try to avoid these situations by doing such things as:

- providing greater career stability,
- establishing more formal and rigid roles,
- rejecting deviant ideas and behaviour,
- keeping away from risk.

In India, there is high uncertainty avoidance. In the United States and Great Britain, by contrast, there is low uncertainty avoidance.

(iv) ***Masculinity/femininity*** Masculinity is the extent to which the values of a society emphasise assertiveness, competitiveness and dominance. Femininity refers to the extent to which the values in a society emphasise relationships among people, concern for others, and interest in quality of work life. Japan, where managers tend to be very assertive and materialistic, is a masculine society, whereas Scandinavian countries like Norway, where the workforce in factories is concerned with quality of work life, is a feminine society.

Trompenaars's Study[3] Similar to Hofstede, Trompenaars has identified five cultural dimensions, as described below:

(i) ***Universalism versus particularism*** Universalism is the belief that ideas and practices can be applied everywhere without modification. At the other end of the continuum is particularism, which is the belief that circumstances dictate how ideas and practices should be applied. The study found that

[2]Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values,* Sage, Beverly Hills, Calif., 1980.

[3]Fons Trompenaars, *Riding the Waves of Culture,* Irwin, N.Y., 1994.

https://rbigradeb.com/

the United States and European countries are highly universalist, and Republics of the former Soviet Union and the Asian countries of Indonesia and China are highly particularist. A recent study[4] has shown that countries with high particularism (such as former Soviet Union countries) fit well with the effective use of high performance work practices, such as 360-degree feedback, pay for performance, self-managed work team, employee participation and empowerment.

(ii) ***Individualism versus collectivism*** These terms have the same basic meaning as given above. Researches have shown that in collectivistic-oriented cultures, managers attribute greater personal responsibility for group failure, members find bureaucratic structures less stressful and there is greater commitment to organisational goals.

(iii) ***Neutral versus emotional*** In a neutral culture, interactions are impersonal and objective. Emotions are held in check, and not outwardly expressed. In an emotional culture, however, the opposite is true; emotions are openly and naturally expressed. Japanese and British try not to outwardly show their feelings. On the contrary, the Mexicans, the Dutch and the Swiss smile a great deal, talk loudly when they are excited, and greet each other enthusiastically. But this should not lead an outsider to assume that Japanese or British are in any way uninterested or unmotivated, and the Mexicans, the Dutch and the Swiss are more interested and motivated in communications and other interpersonal interactions.

(iv) ***Specific versus diffuse*** In specific culture (such as in the UK and the USA), there is strong separation of work and private life. Hence, individuals in this culture readily let others enter and share their public space but not their private space which they share only with close friends and relatives. In diffuse culture (such as in Spain and China), work and private life are often closely linked. Hence, individuals here, guard their public space carefully, lest outsiders gain entry into private space as well.

(v) ***Achievement versus ascription*** In achievement culture (such as in the USA), status is accorded to a person on the basis of his superior performance. In ascription culture (such as in India), status is accorded on the basis of who or what he is, whom does he know and what is his age or seniority rather than what are his achievements (performance).

CULTURE AND INTERNATIONAL BUSINESS

When executives move to new societal culture, they go through distinct phases before they decide on adopting it or giving it up. The first phase is *euphoria,* when everything is different and beautiful. It is followed by a *cultural shock* when everything has to be learned from scratch and the expatriate executive feels distressed because of his predisposition to think that his home conditions are best. This predisposition is known as *self-reference criterion* or *ethnocentrism.* Though this way of perceiving conditions is very human, it thwarts understanding. What is needed is cultural empathy for local culture. There is need to upgrade expatriate executive's knowledge of native needs, ways of thinking and cultural idiosyncracies such as corporate gifts should always be presented in pairs with two hands in China, substantial gifts should not be given in private in Germany and so on. He also needs to be trained to be low in ethnocentrism and to play integrative role as executive in the new culture. He should be aware of many international norms and etiquettes of conducting business in a foreign country. In the absence of such training at making an executive *transcultural* (i.e., one who can operate

[4]Fred Luthans et. al. 'Can High Performance Work Practices Help in the Soviet Union? A Cross-Cuftural Fit Analysis', *Business Horizons,* September–October 2000.

https://rbigradeb.com/

effectively in several cultures) he is likely to commit various sorts of errors ranging from the comical to the more serious in the host society which in turn may result in trauma, loss of business and failure at the negotiating table.

When Ohio-based tire manufacturer Goodyear acquired a majority stake and took control of the tire operations of Japanese manufacturer Sumitomo, it took pains to portray the transaction as a global alliance of equals rather than as a takeover by the U.S. firm.

By doing so Goodyear enabled its Japanese partner to "save face". If Goodyear were to appear as the controlling partner in the alliance, it would imply an acknowledgement of failure on Sumitomo's part. Further, letting the U.S. firm appear to be in charge of running the operations would position the Japanese firm as the junior partner in the venture, *something embarrassing in a national culture that puts great emphasis on hierarchy*.

National culture also plays a role in *shaping employee attitudes toward customers and interpersonal contact*. Norms for customer service differ across countries and locations. For example, if the organisational culture is hierarchical, then customer service representatives may be less empowered to take the initiative to solve customer problems. If customers expect employees to "go the extra mile" to serve them, then they may be dissatisfied with service representatives who strictly "go by the book".

Asian Paints, with its presence in over 20 countries, is actively grooming its Indian managers for global assignments. Bharat Forge, Sriram Pistons and Rings Ltd., Bajaj International, Infosys and many others have launched training programmes for their senior managers to facilitate their global mobility. Many BPO companies are training their workers to understand foreign sarcasm, the kind of terminology foreigners use in sports and politics, their accent and so on to help converse better.

SUMMARY

- The climate or culture of an organisation is defined as the common perception of its employees about a number of aspects of its internal working environment, such as supervision, communication, decision-making, control, etc. These aspects (also called "dimensions of OC") are determined by a number of factors, such as leadership style, managerial assumptions, organisational policies, etc.
- There are 8 main types of OC. Every organisation maintains its type by selecting only right type of people, socialising them, and by putting them through training programmes.
- Culture which is specifically perceived as conducive to the development of human resource is known as HRD culture. Eight cultural values which promote this culture are known by the acronym OCTA-PACE.
- Like organisations, nations too have commonly experienced stable cultural characteristics, collectively called "national culture". From the point of view of organisational behaviour, there are two important cross-cultural studies viz., Hofstede's study and Trompenaars's study.
- When executives move to a new national culture they go through euphoria in the beginning. This is soon followed by cultural shock when they find that there are a lot of differences in the two cultures. Their predisposition to think that their home culture is the best is called ethnocentrism. They therefore, need to be trained to be low in ethnocentrism, and to develop empathy for the local culture.

https://rbigradeb.com/

KEY TERMS

Organisational Climate It is the common perception of employees about the *internal working environment* of their organisation.

HRD Climate It is the common perception of employees about the *developmental environment* of their organisation.

OCTAPACE Values These are eight cultural values which constitute HRD climate.

Ethnocentrism It is the sense of superiority that members of a particular culture have.

Review Questions

1. What is organisational climate? What are its components? Describe the factors which determine organisational climate.
2. What is national culture? How does it affect organisational behaviour?
3. Write notes on:
   (a) OCTAPACE culture
   (b) Maintenance of culture
4. Describe the various types of organisational culture.
5. Fill in the blanks:
   (a) The extent to which members of an organisation show tolerance for unequal distribution of power is a cultural characteristic called _____.
   (b) The belief that ideas and practices can be applied everywhere without modification is a cultural characteristic called _____.
   (c) In _____ culture, status is accorded to a person on the basis of his superior performance.
   (d) In _____ culture, there is strong separation of work and private life.
   (e) In _____ culture, emotions are held in check and not outwardly expressed.
   [(a) Power distance, (b) Universalism, (c) Achievement, (d) Specific, (e) Neutral.]

Project

Write a two-page summary of the type of organisational culture you would prefer to work in. In your answer, describe how you anticipate locating such an organisation with the type of preferred culture you anticipated.

https://rbigradeb.com/

Cases Fitting into Organisational Culture, On Being an Expatriate and Out with the Old, in with the New

1. Fitting into Organisational Culture

Aravali Hospital was built two years ago, and currently has a workforce of 215 people. The hospital is small, but because it is new, it is extremely efficient. The board has voted to increase its capacity from 60 to 180 beds. By this time next year, the hospital will be over three times as large as it is now, in terms of both beds and personnel.

The administrator, Maya Joshi, feels that the major problem with this proposed increase is that the hospital will lose its efficiency. "I want to hire people who are just like our current team of personnel—hardworking, dedicated, talented, and able to interact well with patients. If we triple the number of employees, I do not see how it will be possible to maintain our quality of patient care. We are going to lose our family atmosphere. We will be inundated with mediocrity, and we will end up being like every other institution in the local area—large and uncaring."

The chairman of the board is also concerned about the effect of hiring such a large number of employees. However, he believes that Joshi is overreacting. "It cannot be that hard to find people who are like our current staff. There must be a lot of people out there who are just as good. What you need to do is develop a plan of action that will allow you to carefully screen those who will fit into your current organisational culture, and those who will not. It is not going to be as difficult as you believe. Trust me. Everything will work out just fine".

As a result of the chairman's comments, Joshi has decided that the most effective way of dealing with the situation is to develop a plan of action. She intends to meet with her administrative group and determine the best way of screening incoming candidates, and then helping those who are hired to become socialised in terms of the hospital's culture. Joshi has called a meeting for day after tomorrow. At that time, she intends to discuss her ideas, get suggestions from her people, and then formulate a plan of action.

Discussion Questions

1. What can Joshi and her staff do to select the type of entry-level candidates they want?
2. How can Joshi ensure that those who are hired come to accept the core cultural values of the hospital? What steps would you recommend?

2. On Being An Expatriate

Akhil Mehta was ushered into the president's office. Three months ago, he was appointed manager of an Indian software major, operating in China. He appeared to be the ideal man for this appointment. He was forty-three years old, and was a proven division manager of many talents. He was an innovator, and was very much interested in foreign appointment. Now, he was calling on his superior, just before catching the plane for Shanghai.

"I wanted to talk to you," the president began, "about some issues you will be facing when you reach China. I guess, you might call what I want to say, a matter of my search for a business philosophy. We have not experienced here the new issues that you will face, and we simply do

https://rbigradeb.com/

not have a set of policies and procedures to cover such matters. Perhaps, from your experience, we can move in that direction, in case we later establish our operations in other countries."

"I am not concerned about your encountering new principles of management. They are universal. You have developed great skill in applying them to domestic operations, and I have no doubt about your skill in applying them in a foreign environment. You will soon discover, however, that managing is different abroad, precisely because it is the cultural environment that is so different."

"I think our best position is to realise that we are going into China as a guest. We each need the other at this time, but there may come a time when their political force will require us to give up ownership control of our operations. It is up to you to develop the rapport with all interested parties, who will most benefit our long-run interests."

"Since all of your employees will be Chinese, it is vital to learn, as quickly as possible, something about their culture. Perhaps, your best move is to perfect your skill in the use of their language, and really learn to think and act as a Chinese. For some time in the beginning, a Chinese confidante may be appointed to tackle the language issue. Another roadblock is the law. Chinese law is not well-defined, and is often subject to multiple interpretations. A contract only seals the deal, it does not prevent disputes. Some people say that one has to see the law as the Chinese see it. While both India and China have ancient cultures and very old trade links, 30 years of communist rule has cleaved some deep-rooted differences. Chinese have blind faith in their government, and their lack of initiative is very frustrating. Thus, you will have to encounter very different institutions and behaviour patterns. For instance, does one adhere to the ethical principles of the Chinese, or to our own? Will they always react as we here do? Is social responsibility thought of, in the same terms? What actions and intentions on your part will be well received by your suppliers, customers, competitors, and public figures?"

"You know, I suppose what really is on my mind is that we do not really know at what point there may be a conflict in our two cultures, and when that is discovered, what choice you will make."

Discussion Question

Discuss the above case in the light of various ideas expressed by the president.

3. Out with the Old, In with the New

The Anderson Corporation was started in 1962 as a small consumer products company. During the first 20 years, the company's R&D staff developed a series of new products that proved to be very popular in the marketplace. Things went so well that the company had to add a second production shift just to keep up with the demand. During this time, the firm expanded its plant on three separate occasions. During an interview with a national magazine, the firm's founder, Paul Anderson, said, "We don't sell our products. We allocate them." This comment was in reference to the fact that the firm had only 24 salespeople and was able to garner annual revenues in excess of $62 million.

Three years ago, the company suffered its first financial setback. It had a net operating loss of $1.2 million. Two years ago, the loss was $2.8 million, and last year it was $4.7 million. The accountant estimates that this year the firm will lose approximately $10 million.

https://rbigradeb.com/

Alarmed by this information, Citizen's Bank, the company's largest creditor, insisted that the firm make some changes and start turning things around. In response to this request, Paul Anderson agreed to step aside. The board of directors replaced him with Mary Hartmann, head of the marketing division of one of the country's largest consumer products firms.

After making an analysis of the situation, Mary has come to the conclusion that there are a number of changes that must be made if the firm is to be turned around. The three most important changes that need to be brought about are as follows:

1. More attention must be given to the marketing side of the business. The most vital factor for success in the sale of the consumer goods produced by Anderson is an effective sales force.
2. There must be an improvement in product quality. Currently, 2 percent of Anderson's output is defective, as against 0.5 percent for the average firm in the industry. In the past, the demand for the company's output was so great that quality control was not an important factor. Now it is proving to be a costly area.
3. There must be a reduction in the number of people in the operation. Anderson can get by with two-thirds of its current production personnel and only half of its administrative staff.

Mary has not shared these ideas with the board of directors, but she intends to do so. For the moment she is considering the steps that will have to be taken in making these changes and the effect that all of this might have on the employees and the overall operation.

Discussion Questions

1. What is wrong with the old organisational culture? What needs to be done to change it?
2. Why might it be difficult for Mary to change the existing culture?
3. What specific steps does Mary need to take in changing the culture? Identify and describe at least two.

https://rbigradeb.com/

INDEX

Adam's equity theory 304
Administrative man model 92
Administrative management 23
Alderfer's ERG theory 299
Alliances 415
Application blank 210
Appraisal of management 256
Appraisal of organisational performance 266
Assessment centres 266
Audit (internal, external) 343
Authority 153, 154
  decentralisation of 164
  delegation of 161
  difference between power and 156
  line, staff and functional 159
  source of formal 154
  use of 154
Autocratic leadership 349
Autonomous work teams 147

Balanced score card 266
Bench marking 396
Benefits 284
Break even analysis 386
Budgets 70
  advantages of 383
  limitations of 383
  types of 381
Bureaucracy 27
Business ethics 49
Business forecasting 105
  classification of 105
  difference between planning and 106
  meaning and use of 105
  methods and techniques of 106

Case study 229
Charismatic leader 361
Checking references 211
Choice of leadership style 356
Choosing the expatriate training method 237
Classification of compensation 273
Collateral organisation 139
Committees 142
  advantages of 143
  suggestions for making effective 144
  weaknesses of 143
Communication 325
  audit of 338
  barriers to 332
  checks on in-plant 337
  downward 328
  external 329
  formal 328
  forms of 329
  horizontal 329

https://rbigradeb.com/

importance of 326
informal 330
nonverbal 330
oral 329
principles of effective 333
process of 331
purposes of 326
upward 328
written 330
Communication networks 335
Compensation plans 271–287
Competency pay 278
Conflict reduction methods 427
Conflict resolution methods 428
Contingency approach 39
Control process 372
Controlling 5
Coordinating global operations 184
Coordination 175–185
difficulties of 183
distinction between control and 177
distinction between cooperation and 177
meaning of 176
need for 177
reducing need for 182
requisites for excellent 179
systems approach and 183
techniques of 181
types of 180
Core competency 412
Corporate governance 51
Cost accounting 383
Creativity and innovation 5, 88, 402
Critical incident method 252
Culture and international business 443

Dampened pendulum 354
Decentralisation of authority 164
advantages of 166
distinction between delegation and 165
how much 167
meaning of 164
trade-off of centralisation and 165
Decisions 82–86
individual and group 84
meaning of 82
programmed and non-programmed 82
routine and strategic 83
simple and complex 85
types of 82
Decision-making 81–98
common difficulties in 97
environment of 93
rationality in 91
steps in rational 86
Decision tree 95
Delayering 414
Delegation 161
advantages of effective 162
barriers to effective 163
decentralisation vs. 164
guidelines for effective 164
meaning of 161
Delphi technique 85
Democratic/participative leadership 350
Departmentalisation 126
choice of a suitable base of 133
process 126
purpose 128
Design and development of training programme 226
Difference between a leader and a manager 343
Difference between training, education and development 223
Direction and supervision 292
requirements of effective 292
Displacement of goals 29
Domino effect 405

Economic man model 91
Electronic commerce 413
Emotional intelligence 226, 347
Employee referrals 215
Employee relationship index 394
Employment tests 210–211
Empowerment 168
demerits of 169
merits of 168
requisites for the success of 169
Environment engineering 319
Ethics and corruption in international business 50
Executive compensation 276
Expatriate performance appraisal 261
Expectancy theory of motivation 302
External alignment 274

Factors affecting wages 275

https://rbigradeb.com/

Fiedler's model 354
Final interview 211
Financial statements and ratio analysis 385
First level supervision 317–319
Force field analysis 410
Forms of political tactics 430
Free rein leadership 350

Gang plank 24
Gantt chart 389
Giving orders 293
Grapevine 195, 331
Group behaviour 196
Group cohesiveness 197
Group development 190
Group dynamics 196
Group incentive plans 279
Group think philosophy 195
Group structure 197
Guidelines for effective policy making 67
Guidelines for making frontline supervision effective 318

Hawthorne experiments 30
Hersey and Blanchard model 355
Herzberg's two-factor theory 299
Human relations movement 30
Human resource accounting 394

Impoverished management 353
Individual incentive plans 218
Induction 212
Influence 157
Informal groups 189
  stages of development of 190
  types of 190
Informal organisation 189
  benefits of 193
  distinction between formal and 192
  dysfunctional consequences of 195
  how to minimize dysfunctional effects of 195
Ingroup language 333
Initial interview 210
Internal alignment 273
Inter-group conflict 423
  causes of 423
  consequences of 424
  prevention of 424

International compensation 286
International organisation structures 148

Japanese model of motivation 310
Job analysis 204
Job description 204
Job engineering 22
Job evaluation 273
Job satisfaction 312
  correlates of 313
Job specification 205
Johari window 281

Kaizen 414
Knowledge management 241

Laboratory training 230
Leader 343–346
  difference between a manager and a 343
  functions of 344
  qualities of 346
Leader behaviour description questionnaire 365
Leadership 342
  assessment of 361
  autocratic 349
  behavioural approach to 349
  characteristics of 343
  condition for the success of 352
  contingency approach to 354
  factors determining choice of 356
  new approaches to 360
  traditional approach to 346
  traits approach to 346
  transformational approach to 361
Leadership style in Indian organisations 362
Learning organisation 240
Line and staff conflict 161
Link pin 142

Management
  country club 353
  culture bound 12
  definition of 3
  importance of 2
  levels of 6
  professional and family 13
  scientific 20
  systems of 351

https://rbigradeb.com/

Management a profession 13
Management—a science or an art 11
Management and administration 10
Management by objectives 257
Management of international business 14
Management thought 20
  behavioural approach to 33
  classical approach to 20
  contingency approach to 30
  quantitative approach to 34
  systems approach to 35
Manager 2–16
  appraisal of 256–259
  roles of 7
Managerial control 371–399
  benefits of 374
  essentials of 375
  need for 373
  problems of 377
  process of 372
  techniques of 379
Managerial effectiveness 9
Managerial grid 353
Managerial skills 8
Manpower planning 203
  long term 205
  short term 205
Manpower planning in India 213
Maslow's need hierarchy theory 297
Matrix organisation 131
Maximin 96
McClelland's need for hierarchy theory 302
Mentoring 238
Merit pay 278
Merit vs. Seniority 264
Methods 69
Mission 90
Modernisation of operation techniques 413
Monetary incentive compensation 276
  advantages of 277
  disadvantages of 277
  kinds of 277
  requisites for the success of 280
Morale 315
  building company 316
Morale studies 317, 338
Motivation 294–312
  nature of 295
  systems perspective of 306
  theories of 296
Motivation of managers 308

National culture 442
Nominal group technique 85
Non-monetary incentives 282

Objectives 60
  advantages of 63
  characteristics of 61
  requirements of 62
Octapace values 441
Ohio State University model of leadership 352
Operational plans 65
Organisation chart 134
Organisation development 415
Organisation manuals 135
Organisation structure 133
  best type of 137
  emerging 140
  international 148
  mechanistic and organic 135
Organisations 117–149
  characteristics of 118
  collateral 139
  combined base 130
  flat 137
  meaning of network 140
  tall 136
  virtual 141
Organisational change 400–416
  introduction of 408
  meaning of 404
  need for 401
  process of 405
  resistance to 406–407
Organisational climate 435–444
  components of 436
  determinants of 437
  types of 438
Organisational commitment 315
Organisational conflict 421–432
  levels of 422
  management of 425, 426
  stages of 422
Organisational functions 7
Organisational politics 429

https://rbigradeb.com/

causes of 430
dysfunctional consequences of 431
management of 431
Organising 4
principles of 121
process of 119
Orientation 212
Outsourcing 411

Pay for performance 278
Performance evaluation and review technique 390
Performance management 245–267
essentials of a good 259
frequency of 248
limitations of 254
methods of 249
purposes of 246
team-oriented 260
360-degree 248
Performance management in Indian industries 259
Physiological organisation theory 22
Placement 211
Planning 4, 56–78
effective 75
importance of 58
limitations of 74
nature of 57
steps in 70
strategic 73
tactical 73
Planning premises 71
Planning skills 76
Plantwide incentive plan 279
Poaching and head hunting 216
Policies 66
advantages of 66
types of 66
Political tactics 430
Politics in international business 432
Post-appraisal interview 254
Potential appraisal 265
Power 155
difference between authority and 156
group or department 157
rank and file 156
Pricing the job 274
Primary compensation 273
Procedures 68
advantages and limitations of 68
difference between policy and 68
Programmes 70
Projects 70
Promotion 262

Quantitative approach 34

Rating scale method 250
Recent planned changes in Indian corporate sector 411
Recognition 284
Recruitment 207
advantages and disadvantages 208–209
evaluation of alternative sources of 208
sources of 207, 214
Relationship between morale and productivity 316
Reports 387–389
Requisites for integration 429
Requisites for monetary incentive plan 280
Research on motivation in India 307
Responsibility 158
Responsibility accounting 384
Robert J. House's model of motivation 356
Roles of a manager 7
Rules 69
Rumour 331

Scalar chain 24
Schedule 70
Scientific management 20
Selection 209
expatriates' 218
importance of 209
steps in 210
Seniority system 264
Sensitivity training 230
Single-use plans 69
Skill pay 278
Skinner's behaviour modification theory 305
Social audit 48
Social man model 93
Social responsibilities of business 42–44
Span of management 122
Spectrum of leadership styles 350
Staffing 202
global perspective 217
importance and need for 203

https://rbigradeb.com/

Strategic planning 73, 76
Strategies 63–65
Supply chain management 412
Systems approach 35, 38

Task management 353
Team management 353
Teams 145, 146
Theory X and Y 357
Theory Z 310
Time as basis of pay 272
Trained incapacity 29
Training and development 222
  advantages of 224
  evaluation of 233
  methods of 227, 229
  on the job 227
  selection of 232
  steps in setting up 224
  types of groups for 226
Training in emotional intelligence 226
Training in global assignments 226
Training practices in India 236
Transactional analysis 231

Unity of command 24
Unity of direction 24
Use by Indian companies of psychological tests 216

Variable pay 278
Vestibule training 227
Victor Vroom's expectancy theory 302
Virtual organisations 141
Vision 60

Wage packet of Indian worker 284
Walk in interview 215
Who can be the appraiser 248
Why do informal groups form 189
Work patterns profile 366
Worker participation in management 363

Zero base budgeting 383