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Nature and Functions of Management

1

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*
- *Define international business and identify the skills required of an international manager*

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., people, 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 Drucker¹ rightly observes that without management, a country's resources of production remain resources and never become production.

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

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 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.

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).

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 others into six or seven. The terminology is also not always alike; different authors offering different names for the same functions of management. Newman and Summer⁵ recognise only four functions, namely, organising, planning, leading and controlling. Henri Fayol⁶ identifies five functions of management, viz., planning, organising, commanding, coordinating and controlling. Luther Gulick⁷ states seven such functions under the catch word "POSDCORB" which stands for planning, organising, staffing, directing, coordinating, reporting and budgeting.

Warren Haynes and Joseph Massie⁸ classify management functions into decision-making, organising, staffing, planning, controlling, communicating and directing. Koontz and O'Donnell⁹ divide these functions into planning, organising, staffing, directing and controlling.

⁴ George R. Terry, *Principles of Management*, (Homewood, Ill: 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).

⁸ Warren D. Koontz and Cyril J. O'Donnell, *Management: Analysis, Concepts, and Cases* prentice-Hall 1969.

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

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 later 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.

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", "direct-

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.

ing", "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. A frequent exhortation is "Innovate or Evaporate". 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.

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 manage-

ment as an operational process and its functions as sub-processes in a circular continuous movement (Fig. 1.1). It is important to remember that the order in which various functions are shown in this figure does not indicate the chronological order in which they are performed. It only indicates that all of them are more or less the part of a continuous 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, a manager does not say to himself that he is organising at one time, controlling at another, and directing at another. 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).

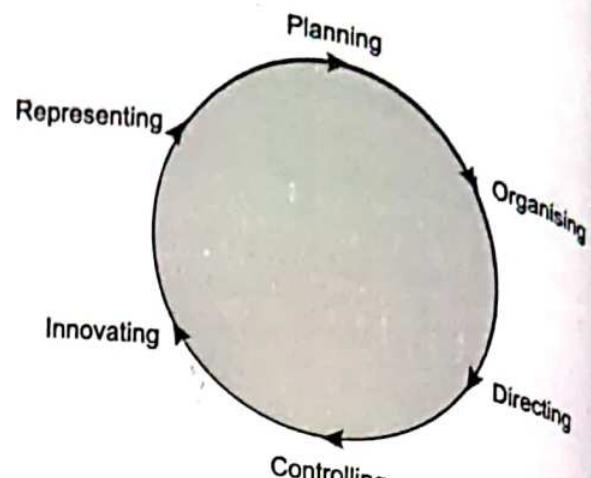


FIG. 1.1 Management process

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.

ORGANISATIONAL OR BUSINESS FUNCTIONS

The above management functions should not be confused with organisational functions. Thus, finance, production, sales and personnel are examples of organisational functions. A manager whose area of activity is restricted to one organisational function (e.g. marketing) is nevertheless concerned with all management functions. See Fig. 1.2. For example, he plans the market of his product or services, organises his department around markets, directs and controls the movement of goods and services through distributing channels, innovates new products or services (called need shaping marketing), and represents to develop new business and customers.

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

		Representative organisational or business functions			
Management functions		Production ↓	Marketing and Sales ↓	Finance ↓	Personnel ↓
Planning →					
Organising →					
Directing →					
Controlling →					
Innovating →					
Representing →					

FIG. 1.2 *The relationship between organisational functions and management functions*

ROLES OF A MANAGER

According to Henry Mintzberg¹³ the above managerial functions do not provide an adequate description of the management process. In other words, they fail to describe the reality of what managers do. He suggests that instead the manager should be regarded as playing the following ten different roles, played in no particular order.

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.

Liaison

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

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

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. Through non-work related talks, informal joking around, discussing rumours, hearsay, and the grapevine, politicking, attending external meetings, etc.

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.

We must, however, understand that 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 manager who occupies different positions in different situations plays different roles because people in each situation have different expectations of him concerning his functions. *Put another way, the output of the various roles performed by a manager may be the major organisational functions of planning, organising, and the rest.*

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.

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. There are three things a manager must know about technical skills. These are:

- (i) Which skills should be employed in his particular enterprise?
- (ii) What is the role of each skill employed?
- (iii) How are different skills interrelated?

The front-line supervisor, whether a foreman or a section chief, requires considerable technical skill in order to be able to:

- (a) evaluate the quality of work turned out,
- (b) teach new hands, and
- (c) direct all subordinates in the work group.

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.

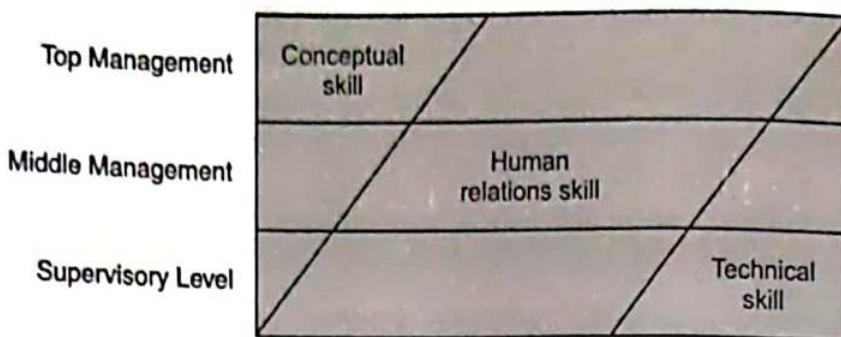


FIG. 1.3 Skill-mix at different management levels

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. If he can give the customer a better car at a lower price, the value goes way up.¹⁵

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,¹⁶ Spriegal,¹⁷ and Milward,¹⁸ 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.

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

¹⁵ According to Katz and Kahn, both "efficiency" and "effectiveness" maximise the organisational returns. Efficiency denotes this maximisation by economical and technical means. Effectiveness denotes this maximisation by non-economic or political means, without adding to efficiency. (*The Social Psychology of Organisations*, p. 17).

¹⁶ Oliver Sheldon, *Philosophy of Management* (London: Sir Isaac Pitman & Sons Ltd., 1923).

¹⁷ William R. Spriegal and Ernest C. Davies, *Principles of Business Organisation and Operation* (N.J.: Prentice-Hall, 1952).

¹⁸ G.E. Milward, *An Approach to Management* (N.Y.: John Wiley, 1960), p. 34.

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.

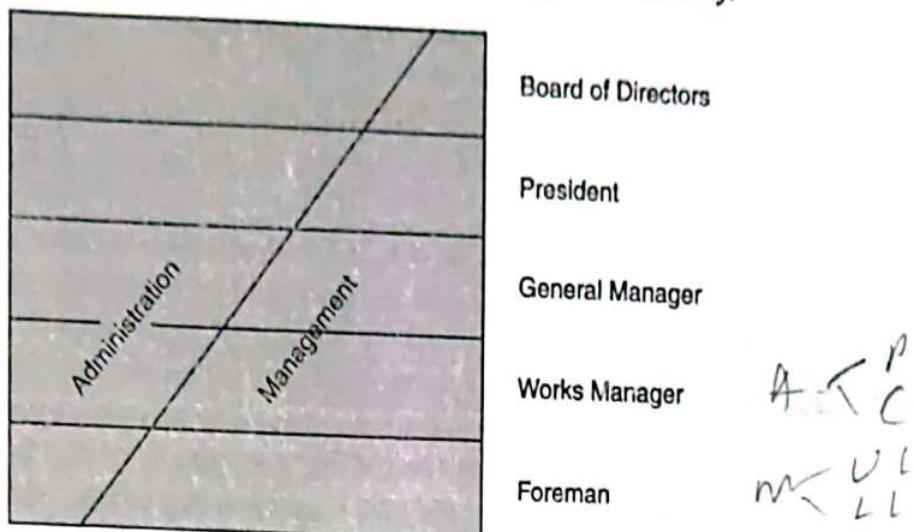


FIG. 1.4 Time spent in administrative and managerial functions at different levels

According to the second view (expressed by E.F.L. Brech¹⁹ 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: (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

¹⁹ E.F.L. Brech, *Principles and Practice of Management* (London: Pitman, 1972).

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 pre-judgement. 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 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.

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 is 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 comprising his vision, knowledge of craft, and successful communication. 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.

MANAGEMENT—A PROFESSION?

We have seen that management is partly an art and partly a science. Is it a profession? McFarland²⁰ 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 thirteen national institutes of management at Ahmedabad, Bengaluru, Kolkata, Lucknow, Indore, Shillong, Ranchi, Rohtak, Raipur, Kashipur, 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 Drucker²¹ 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,

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.

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 system-driven. A study ²²covering 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, Rockefeller, 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

A recent development in world business is emergence of the multinational or global company—a corporation which maintains world headquarters in one country but performs marketing, finance and personnel functions within many nations.

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*** ***Conceptual 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 nowhere more than in global human resource management. Kodak's skills in recruiting, evaluating, motivating and training its

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

²³ "Entrepreneurship and Professional Management", *Hindustan Times*, June 9, 1978.

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 timekeeper 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.

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.

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

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 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.

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?

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".

CASES

1. CASHLESS AFTERMATH: EFFECTIVENESS AND EFFICIENCY WORRIES

It appeared to be an unending wait for Indroneel, a caring Manager, as tourist guests in his Hotel Parkland, Bengaluru were hardly to be seen these days. The Government's demonetization announcement in November 2016 had left him worried about his business prospects. There was a time when he could hardly find rest in the post-Diwali season which was a peak time for his hotel business. Outstation guests would come to his hotel in search of a comfortable stay and a hospitable service. But now, all this was not to be seen. The scenario was altogether different; staff was groping with idleness and rooms were mostly lying vacant. The vendors to the hotel were also not getting much

business although they were often approaching for securing their usual payments. With each passing day Indroneel's worries were growing as the expenses of the hotel had to be met out anyhow even though the business was not running well. But he was more amazed because Arnab's Hotel Abhinandan, a nearby competitor, was not as badly hit due to demonetization; a hotel earlier seen waiting for guests had now been having a fairly good business. What was more surprising for Indroneel was that the guests were just leaving for Abhinandan after making enquiries at Parkland. On learning about the non-availability of cashless payment facility at Parkland, the guests would promptly check-in at Hotel Abhinandan. Although such helpless and constrained guests used to later regret their choice as it was no match to Hotel Parkland be it the fine catering, comfortable stay, hospitable staff, or affordable rates. However, it was usual for the Parkland guests, who were otherwise satisfied, to resent the time they were often supposed to wait for check-in, room service or making cash payments. A typical billing time at the reception desk there, so to say, would sometimes consume half-an-hour where it actually could have just been completed in about fifteen minutes. The service staff took their time caring more for their services than for their waiting guests. Here, Abhinandan outscored. Its brisk employees punctually rendered their services. A simple call of a guest would be attended within no time. But then sadly the services had to be repeated in many cases, just because of their incorrectness. For instance, Neha Mahajan, one of the guests at Abhinandan, later recounted about the wrong breakfast she was given thrice before being served the right one. Her colleague Sarika, also staying in the same hotel, was delivered an incorrect bill twice before it was rectified. At times, in their hurriedness, the Abhinandan employees would often make wrong entries in the reception records or would misplace the credit cards given to them for swiping. It was because of such issues that the guests felt that it would have been far better to persuade Indroneel to at least accept the cheques than to bear the unnecessary problems of faulty money transfers and many such more at Abhinandan.

Discussion Questions

1. What managerial problems do you feel were there at the two hotels?
2. Which of the two hotels is observed to be more effective? Give reasons.
3. Of the two hotels, which one you find out to be more efficient? Give reasons.
4. What initial managerial improvements need to be made by these hotels?

2. INDRADO LTD.: PLAYING MANAGERIAL ROLES WITH MANAGERIAL SKILLS

Indrado Ltd., Mumbai is a progressing organization that manufactures industrial radiators. These are meant to be supplied to big industrial firms that manufacture large engine sets. Ever since its establishment in 1983, Pawas, an electrical engineer, has been in charge of all the major activities of the organization. Initially, he alone was busy in procuring machines, raw material, workers and managers; complying with legal formalities and handling clients, besides host of other activities. But since 1990, he is being ably assisted by a core team comprising Sushant, the business development manager; Ritam, the production manager, Gaurav, the HR manager and Abhay, the supply chain manager.

Pawas is now-a-days usually very busy with his plans to further diversify the business of Indrado. At first, he plans to enter the new and exclusive field of radiators that are made on cuprobraze

technology. The radiators based on cuprobrazed technology are preferred by Railways worldwide due to their durability. The competing firms, in contrast, use the aluminum based inputs to manufacture radiators which are less costly but not durable. However, Pawas has to work hard with his team before he can finally get orders for cuprobrazed radiators.

One day sitting in his chamber Pawas was discussing the project with his team. "The idea is good but do we have the required machines? I doubt whether we can move ahead", said Ritam. "...Also we shall have to search and prepare new raw material suppliers. Wouldn't it be wise that we, at least, postpone it?" asked Abhay. "No, don't feel let down by petty problems. These are obvious. Let me tell you friends, success is earned by hard work... and remember we are no less... come on... we all can and will do it." said Pawas charging up his team. "Yes, I agree with you sir. We shall do it. It's a good opportunity for us to beat our competitors", Gaurav said excitedly. "O.K... if all agree then let us start to work on it" said Ritam, who now saw some hope. Without wasting any time, he went straight to his cabin and sat on to prepare the drawing for the new radiator. Two weeks passed away but still he could not give a final shape to his work. Then one afternoon, Pawas, silently displaying his engineering experience, joined him to explain exactly where he was stuck up. And that was the moment when the drawing for the radiator took a final shape. "Yes... yes sir, thanks a billionwe have done the first step.." exclaimed Ritam happily taking leave from Pawas to meet his deputy managers. Pawas stayed back thinking about many more difficult tasks that had to be completed by the month-end before the actual production could start. Among them, arranging finances and getting orders were the trickiest ones. For finances, he had things in mind to make up the resource scarcity. For instance, he would have to cut down some resource allocations to supply chain; regulate the business development activities still more , and the like. All this was needed to facilitate the production activity.

As regards orders, Pawas had expectations from Sushant, a marketing graduate. And this even turned true. Sushant, after a week-long business development tour, returned with his bag filled with orders from four Railways organizations. Pawas sat with him to understand the market scene. He was eager to know how the clients reacted towards his upcoming product; how competitors are preparing themselves to face the challenge from Indradao and the like. Next, he immediately called a meeting to share this information with his colleagues. This was important as his core team required to develop coordination to achieve the common goal in a given time frame. Moreover, Indradao's competitors also were not to be given much time to react.

Later that day, Pawas was satisfied to see Abhay, an expert in human resource management and industrial relations, busy discussing with Ritam about the training schedule for the workers. To Pawas, this appeared to be a stage when things seemed to move as per his plans. His entire team was functionally gearing up and aligning to meet the target.

Discussion Questions

1. Identify the type of roles Pawas is seen to play in his organization?
2. Describe the different skills displayed by Pawas.

Development of Management Thought

2

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

Management as a practice and as a field of thought and study has a long history. Its roots go back to several hundred years. Kautilya's highly innovative work *Arthashastra* written about 321 B.C. outlines almost everything that the state should do and describes how it should be managed for public good. Thus in these early times, management thought existed, but only in a somewhat nebulous and unsophisticated state. The real beginning was made much later in the nineteenth century when with the introduction of railroads and growth in the size of joint stock enterprises in America, new problems of delegation of authority, *exaction* of responsibility and control arose. *This ushered in the real beginning of the development of management thought.*

In later years, several studies of the structure, functioning and performance of organisations and the behaviour of groups and individuals within them were made by sociologists, physiologists and economists. Their findings mingled with the distilled practical experience of managers and further enriched the management thought.

During the last hundred and fifty 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 approach 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. They make it easy for us to decide what we must do to function most effectively as managers. Without them, all we had are intuitions, hunches and hope.

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.¹ 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 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.

¹ Taylor wrote two books *Shop Management* and *The Principles of Scientific Management*. Both appear in his Scientific Management (N.Y.: Harper & Bros. 1947).

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 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

Contributions

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.

Limitations

- (i) 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*"², which envisages men as adjuncts to machines.
- (ii) 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.
- (iii) If the term "scientific" refers to a particular method by which hypotheses are developed and then checked systematically against the facts, much of Taylor's work would fall short. For example, 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.
- (iv) Separation of planning and doing is like demanding that swallowing food and digesting it be carried on in separate bodies. To be understood the two processes have to be studied separately.... But to be nourished, the same body needs both, just as a job must contain planning as well as doing. Having a man take orders from 7 to 8 different bosses results in confusion, besides increasing the overhead cost.
- (v) 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.

² James G. March and Herbert A. Simon, *Organisations* (N.Y.: John Wiley & Sons, 1958), pp. 12-22.

- (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 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.³

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.

³ The original French title of the book is *General and Industrial Administration*. But in English translation the word "management" replaces the "administration".

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.

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.

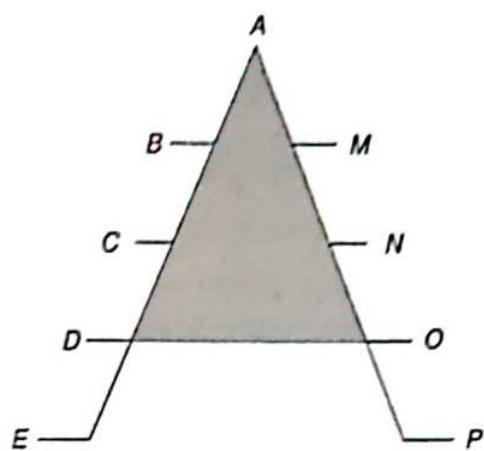


FIG. 2.1 Gang plank

Order

To put things in an order needs effort. Disorder does not need any effort. It evolves by itself. Management should obtain orderliness 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.

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, who best represents the organisational specialists, 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, *Outward 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*, 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.

Universalist Approach

Drawing inspiration from Fayol, a new school of thought known as the "Principles of Management" or 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*. In their classic study of management practices in 29 countries, Harbison and Myers⁴ have concluded that management theory, concepts and principles in different cultures remain the same although these may give rise to different management practices or techniques. Thus, the principle of control remains the same in all cultures though it may differ in its techniques—one culture may follow command, another may follow persuasion. The same is true in the field of natural sciences. Countries with different

⁴ F. Harbison and C.A. Myers, *Management in the Industrial World*, N.Y. McGraw-Hill, 1959.

geographical conditions may build different designs of automobiles but the physical science principles for all designs remain the same.

Ideas of Fayol and his followers (Management Process School) 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. Simon⁵ 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.
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, Dale⁶ 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,⁷ 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 Argyris⁸ contends that such structures inhibit the employees' self-actualisation and accentuate their dependence on superiors. They also develop

⁵ Herbert Simon, *Administrative Behaviour* (N.Y.: The Free Press, second ed.), p. 20.

⁶ Ernest Dale, *Planning and Developing the Company Organisation Structure* (N.Y.: American Management Association, 1952).

⁷ T. Burns and G.M. Stalker, *The Management of Innovation* (London: Tavistock, 1961).

⁸ Chris Argyris, *Integrating the Individual and the Organisation* (N.Y.: Wiley, 1964).

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 Weber⁹, 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*—which is different from its opprobrious meaning.

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 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 successive level in the hierarchy has authority not only over the echelon immediately below it, but also over all echelons below. This is called *transitivity* of authority.
- 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. Penalties are universal. They apply to everybody equally; no one is exempted and no one is shown special favour.

⁹ Max Weber, *The Theory of Social and Economic Organisation* (N.Y.: Oxford University Press Inc. 1947).

Contributions and Limitations of Bureaucracy

Contributions

1. Bureaucracy can be viewed as the *logical extension of management* when it becomes impossible for one person to fulfil all management functions. The concept has enabled most modern 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.
2. Bureaucracy, which comes from viewing it with a "*closed system strategy*", has been the preference of most managers who want to predict the future accurately.
3. Bureaucracy has provided to the worker a scapegoat, a place to lay the blame: the boss, the organisation, fellow workers, the rules. The employee can find fault with any of these and leave his job unburdened.

Limitations

During the past years, however, bureaucracy has come in for a lot of criticism. Researches by Merton,¹⁰ Selznick¹¹ and Gouldner¹² have revealed several "dysfunctional consequences" (a polite term for "harmful") of bureaucracy. Bennis and Thompson¹³ are among the severest critics of bureaucratic organisations. In fact, Weber himself in his own lifetime 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.

The following are important *dysfunctional consequences* of bureaucracy, which induce many people to say that it is not really a workable organisational form:

- 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.
- 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. The intensity of his training in one area means training in other areas is usually neglected. This limits his contribution to the organisation in several ways. He fails to trust common sense which goes beyond his field of specialisation and develops a marked aversion to new ideas.¹⁴

¹⁰ Merton, R.K. (1940), *Bureaucratic Structure and Personality*. Social Forces, No. 18.

¹¹ Selznick, P. (1949), *TVA and The Grass Roots*, Berkeley.

¹² Gouldner, A.W. (1954), *Patterns of Industrial Bureaucracy*, Free Press.

¹³ James D. Thompson. *Organisations in Action*, New York, McGraw-Hill Book Co. 1967.

¹⁴ Harold Laski, "The Limitations of the Expert", *Harper's Magazine*, Dec., 1930.

4. Displacement of goals Goal displacement takes place when an organisation substitutes for its legitimate goal some other goal whereby an instrumental value becomes a terminal value or the means become more important than the ends. The following are some examples:

- (a) Employees so intensively internalise the rules that the goals which these rules were originally framed to achieve are totally forgotten. 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.
- (b) 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) Secondary goals of an organisation so completely subordinate its primary goals, 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) Departmental interests develop: Managers begin minimising and controlling their own expenses which may result into losses to other departments in the system. This is called *sub optimization*. A plane belonging to a major American airline was grounded one afternoon for repairs at airport A, but the nearest mechanic qualified to perform the repairs worked at airport B. The management at airport B refused to send the mechanic to airport A that afternoon, because after completing the repairs the mechanic would have had to stay overnight at a hotel, and the hotel bill would come out of B's budget. So the mechanic was dispatched to airport A early the following morning, which enabled him to fix the plane and return home the same day. A multi-million dollar aircraft sat idle, and the airline lost hundreds of thousands of dollar in revenue, but manager B's budget was not his for a \$100 hotel bill. Manager B was neither foolish nor careless. He was doing exactly what he was supposed to be doing controlling and minimising his expenses.

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. Unresponsive to changes in the environment Precise description of roles and overconformity to rules make bureaucratic structures rigid. Such structures, though they work well in stable environments, do not cope well with today's 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.

3. Inability to satisfy the needs of mature individuals The maturity-immaturity theory, propounded by Chris Argyris,¹⁵ 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.

9. Not completely rational No bureaucratic organisation is so rationally organised and staffed and so completely in possession of the facts necessary to operate that it can function without feigning or imagining that which does not exist or is not true.

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 Approach

The human relations approach 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 approach, however, came from the Hawthorne experiments which were done by Prof. Elton Mayo¹⁶ 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

We will briefly examine these experiments and their results:

¹⁵ Chris Argyris, *Personality and Organisation* (N.Y.: Harper and Brothers, 1957).

¹⁶ Elton Mayo, *The Human Problems of an Industrial Civilisation* (N.Y.: Macmillan, 1933)

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 combination 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.

This is what scientists call *serendipity*—The wisdom to discover something good you are not looking for.

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 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 human relations approaches developed rapidly into a popular view of “how to deal with people”.

Contributions and Limitations of the Human Relations Approach

Contributions

It looks at man from the combined approach of many behavioural sciences (such as psychology and sociology) which represent body of knowledge pertaining to why and how people behave as they do. Among its important findings are the following:

- (i) 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.
- (ii) There is no correlation between improved working conditions and high production.
- (iii) 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.
- (iv) A worker does not work for money only. The assumption that a worker operates as a completely rational and soulless “economic man” is wrong. Mayo called this assumption as the “*rabble hypothesis*” and attacked it as false, inefficient and destructive.
- (v) Employee-centred, democratic and participative style of supervisory leadership is more effective than task-centred leadership.
- (vi) 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. This perhaps is like calling the study of the human body the field of cardiology, while the human body encompasses many other areas.
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 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 researchers¹⁷ 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. It is not manipulative in intent; getting others to do what you want by flattering them.
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

¹⁷ 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).

Homans, Rensis Likert, Chris Argyris, and Warren Bennis¹⁸ 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" rather than members of the "human relations" school. Some of these behavioural scientists leaned heavily on *optimal mobilisation of human resources* in organisations. They worked on the human need for self-actualisation as a seemingly inexhaustible 'mine' of motivated behaviour. Thus, Chris Argyris deplored the organisational properties of hierarchy, specialisation and control for leaving people passive and dependent and suggested participative management. Herzberg developed the two-factor theory of motivation and pointed out that only those factors that are *intrinsic to the job* (such as achievement, growth and recognition) work as motivators. Factors such as company policy, supervision, salary, etc., that are *extrinsic to the job* do not act as motivators. Douglas McGregor argued that a manager's assumption about human nature that the average worker has an inherent dislike of work and tries to avoid it and, therefore, needs a high authoritarian leadership is wrong. He called this "Theory X" and wanted it to be replaced by "Theory Y" which assumes that the average worker under rewarding conditions not only accepts but seeks responsibility and, therefore, needs no outside control to direct his behaviour towards organisational goals. As a result of these and many other researches this approach also came to be known as the *human resources approach*.

Contributions and Limitation of Behavioural Approach

Contributions

1. This approach has made human motivation an important strategic variable in the design of organisation, to meet this end. It prefers more flexible organisation structures and jobs built around the capabilities and aptitudes of average employees.
2. It attaches 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.
3. It underlines the desirability of humanising the administration of the control process and encouraging the process of self-direction and control instead of imposed control.
4. It has made extensive studies on leadership. Its view is that while, in general, the democratic-participative style is desirable, the autocratic, task-oriented style may also be appropriate in certain situations.
5. It believes that 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.
6. It approaches organisational conflict and change in a pragmatic way. It recognises that conflict is inevitable and sometimes is even desirable and should be faced with understanding and deter-

¹⁸ See Douglas McGregor, *The Human Side of Enterprise* (N.Y.: McGraw-Hill, 1960); Abraham Maslow, *Motivation and Personality* (N.Y.: Harper & Row, 1954); Chester Barnard, *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).

mination, that every organisational change involves technological and social aspects and that it is generally the social aspect of a change which people resist.

7. It has given rise to several programmes to optimally mobilise human resources collectively called organisation development (O.D.). See Chapter 19.

Limitations

Critiques of this approach ask the question whether this is management. Is the field of management coterminous with the field of behavioural sciences?

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) also called the management science was the only quantitative method of analysis. 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 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 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.¹⁹ 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.

¹⁹ Human Relations in the Restaurant Industry (N.Y.: McGraw-Hill Book Co., 1948).

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:

- 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.
- As a visual sorting device* The cook could see if there were several orders of the same type, which could be prepared together.
- 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.²⁰ They ignored the effect of the environment. But all the living systems, 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 modern 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

²⁰ We know that a closed system cannot be found in reality. But it is sometimes essential to analyse a system as if it were closed so as to examine the operations of the system as affected "only by the conditions previously established by the environment and not changing at the time of analysis, plus the relationships among the internal elements of the system". The analyst then opens the system to a new impact from the environment, again closes the system, and observes and thinks out what would happen. Thus, both open and closed systems are useful in diagnosis.

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*.

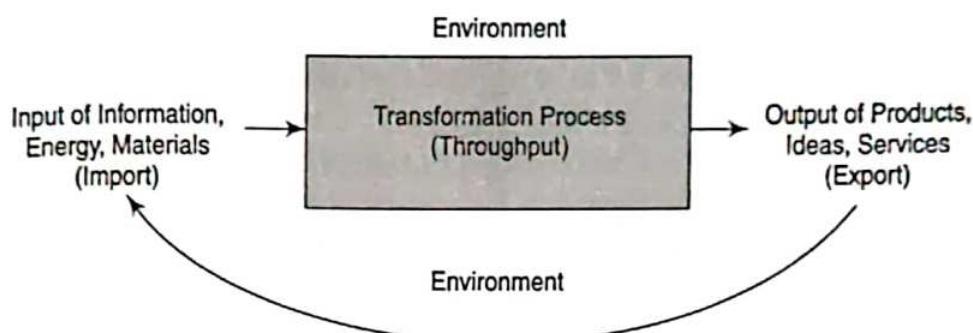


FIG. 2.2 Organisation as an open system

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 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 and Limitations of Systems Approach

Contributions

1. It provides a *new paradigm* for the study of all organisations. For example, it studies a problem both at the level of the sub-system (i.e. the micro-level) and the total system (i.e. the macro-level). This facilitates more effective diagnosis of complex situations.
2. It views an organisation as an *open system*. This leads one to the *concept of equifinality*, i.e. every organisation can accomplish its objectives with varying inputs and internal activities. An organisation is not restrained by the cause-and-effect relationship under the closed system concept.

Limitations

1. It requires executives to be generalists. They should have enough knowledge of other areas in addition to having skills in their own functional areas.
2. It requires too much time to trace through in detail all the multiple chains of causes infringing on an event.
3. It has *nothing new* because it has already been discussed by earlier writers. Thus, Barnard took a system's view in his definition of formal organisation. He defined a formal organisation as a *system* of consciously coordinated activities of two or more persons. The widespread use of the terms coordination, feedback, team work, hierarchy, departmentation, etc., by earlier writers imply a systems approach. The approach simply combines the views of the classicists and the neo-classicists which amounts to pouring old wine in new bottles.

Some of the principal advocates of this approach are Woodward, Burns and Stalker, Thompson and Lawrence and Lorsch.

Contingency Approach

According to this approach, there is no one best organisation structure or the way of doing things under all conditions. Structures 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. Accordingly, the contingency approach suggests that the task of managers is to try to identify which structure or 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.

Contributions and Limitations of Contingency Approach

Contributions

It is an 'action-oriented' or 'it depends' approach which holds that all management concepts have desirable and undesirable features and, therefore, a manager needs to direct his efforts toward identifying the properties of situations before he chooses a concept for *designing and managing specific organisations*.

It strongly emphasises pragmatism, i.e. using what works—neither wholesale condemnation nor deification of a concept.

Limitations

1. It requires greater understanding and sophistication on the part of managers. Like a golfer selecting the appropriate club given the particular lie on the course, it expects a manager not only to be aware of various management concepts and techniques but also to be aware of the dynamics and trade-offs, involved in the selection, and the context of the situation he is facing.
2. It ignores the possibility of more than one feasible response to the same task environmental stimulus. Can there not be alternative feasible organisational response to the same task environmental stimulus?

Modern Management Peter Drucker (1904–2005) is known as the Father of Modern Management. A large part of his book *Concept of the Corporation* deals with the theme that the corporation is a social institution and the workers should be treated as a resource rather than a cost.

» 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. Modern 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. It relates various differences in approaches to differences in the task environments of organisations.

» 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 stopwatch 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 suggests that beyond some point, further attention to specific segments is less useful for increasing overall understanding than is the study of their relationships. Management problems interlock and that action in any one area should be taken only after the impact of a particular solution on other areas is checked.

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.]

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.

CASES

1. 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?

2. MARY TOURS

V. Sunil's 'Incredible India' campaign launched in 2002 served as a big boost to the inbound traffic in the 'God's Own Country' Kerala. Tourists in the ensuing years started flowing in. Their usual arrival took place in the months from December to January to visit the beaches and backwaters at Kovalam, Alappuzha and Kollam; the lake water resorts at Ashtamudi Lake; the hill resorts at Munnar, Wayanad; the national parks at Periyar, Eravikulam, or the Guruvayur temple and many more.

Sensing an opportunity S. Padhmanabhan established his tour operations organization in 2005. His organization 'Mary Tours' opened its office in Kanjikuzhy at Kottayam, a peace-loving town of south-west Kerala. Padhmanabhan believed in serving his guests in the ways that would truly make their trip a memorable one. The tourists came in groups of 10 to 15 members and stayed for about

two to three weeks. He employed mini buses with bi-lingual tour guides to cater to heavy tourist inflow. As the room sizes were to be kept large, to accommodate the entire group, the requirement for number of double seated hotel rooms obviously was less. Such hotels were usually to be found in the hustle bustle of towns, which even the guests, did not mind. Rather, sometimes they preferred such accommodation as it gave them an opportunity to mix up with the ways of living of the town where they were camping. Usually ten to twelve batches of tourists could be expected in the peak season. The groups, which preferred going on long trips, often enjoyed having local meals away from the place where they stayed. So, Padhmanabhan had not to worry much about their meals. Travel time was never a concern for the groups who often were not much interested in doing shopping. The guests appreciated the fact that trips are designed so that the conventional destinations are visited first before any historic sites are touched upon. Gradually, his son Sreekumar, a graduate in tourism studies, took charge of the business.

Sreekumar has re-organized the structure of Mary Tours to create five units – accommodation, itinerary, customer desk, logistics and finance. Things seemed to run well. The accommodation and itinerary units are functioning as they used to as the staffs heading these units are the old ones. The accommodation order placement and tour designing was all patterned since 2005 and so these units had no difficulty in operating. The logistics rested upon their instructions which again were also of the same old order. The customer desk, which was not there earlier as a separate unit, is doing well. It is receiving enquiries from small families for shorter trips. The tourists are interested to stay in calm double-seated accommodations that are providing complimentary breakfast and one meal. At the last spot, the boarding arrangements preferably were to be made near the airport or railway stations. The customers, as is being seen, are not requiring a tour guide. They go well with a driver who is able to speak in English and Hindi, besides Malyalam. They like the idea of making available the tourist cars for visiting tourist destinations. The vehicles, as before, are supposed to be in good condition. Additionally, the tourists these days are in a lookout for some feedback mechanism, especially when services are not meeting their expectations. Now-a-days the guests are more inclined first to visit the historic sites rather than the conventional destinations. They prefer that tour operator does not spend time at spots like gardens and national parks, conventional sites, where the travelers are seen to get bored after some time. Proper time for shopping at appropriate sites was also expected besides a strictly followed time schedule for travel. Although the batches of guests have increased to about 16 or 17 but the revenue has not. Sreekumar is unable to make out the reason for this.

Discussion Questions

1. What could be the reasons for Sreekumar's worries?
2. To what extent Mary Tours is functioning like an organization made up of five units?

Social Responsibilities of Business

3

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

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 Berle¹ 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 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

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).

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. Levitt³ in a powerful attack on social responsibility of 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

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

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

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 (nori-possession) and sambhava (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.

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.

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

Towards Shareholders and Other Businesses

- Promoting good governance through internal accountability and transparency.
- 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

- Shunning active participation in and direct identification with any political party
- Observing all the laws of land which may have the following objectives:
 - To provide direction to the economic and business life of the community
 - To bring about harmony between the limited enterprise interest and the wider social interest of the country
 - To provide safeguard against errant business practices
 - To compel business to play fair to all participants in the economy—employees, shareholders, minority shareholders, etc.
 - To prevent oppression or exploitation of the weaker partners in business, such as employees, minority shareholders, etc.
 - To enforce maximum production according to the priority of sectors and production lines laid down by the government
 - To allocate limited resources according to social priorities and preferences
 - To enforce distributive justice, especially to weaker sections of the community
 - 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 stakeholder. 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 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. It is suggested that the government should actively encourage corporates to fund corporate social responsibility initiatives by giving liberal tax breaks. The rule that they must spend at least 2 per cent of their three years' average profits has been followed by only few companies.

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.

1. They are difficult to measure. If, for example, following a company's SC/ST 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*. It knows the difference between what you have a right to do and what is right to do. It, thus, extends beyond the question of legality and involves 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. In circumstances where rights and duties conflict, the rightness of an act be judged by its consequences, based on the famous utilitarian principle, 'the greatest good of the greatest number'.

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 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 that while the "*knowing*" component of their education builds, their knowledge base and the "*doing*" component equips them with the skill and competence that lie at the heart of their practice of management, it is the "*being*" component that forms the core of their values and the belief system and enables them to resolve ethical dilemmas. This component underlines 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 than 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 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:
 - 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 Ramaling 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 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.

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 up to 10 years under The Whistleblower Protection Act. Some banks in India, e.g., ICICI Bank has a policy that provides an opportunity for any employee to raise any issue concerning any break of law or any act resulting in financial or reputation loss through specified channels. The policy complies with the requirements of vigil mechanism as stipulated under section 177 of the Companies Act, 2013.

» 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 stakeholders.
- ☞ 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.

Glass Ceiling It is the invisible barrier that blocks women from ascending to upper levels of an organisation.

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 Company 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 Company 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 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.

CASES

1. CAMELLIA TEA CO.

On the south bank of the river Brahmaputra in Assam stands the lush green tea gardens of Camellia Tea Co. known for its black tea leaves that carry the sought after malty taste. Its nostalgic aroma and a unique flavour continues to rule the taste buds across different corners of the world. Not less than seventy per cent of the annual produce of the estate is exported to European and other nations. The company's business presently is worth over INR 300 crore. It has a sprawling estate in Assam that spreads over an area of 1600 acres. It owns three such lavish estates in Munnar, Darjeeling and Jorhat.

It was all due to the efforts of Seth Krishnachand Didwaniya, who established the company about 102 years ago. Today, the company is being run smartly by his grandson Samarth, a management graduate. One day, viewing the vast landscape of his estate from the office window, Samarth felt contented. He realized that he has been able to handle the affairs of his family business quite satisfactorily, be it modernization, expansion or profits. He is happy to have added new and costly machines like Vibro Fluid BedDrier, CTC-Rollers, Leaf Sifter and more, which very few other factories have. Recent acquisition of an estate at Munnar served as a booster to his fast expansionist drive. He now looks ahead to have more such acquisitions in the near future.

Today Samarth is in a hurry, getting ready to be felicitated at a function organized by the Tea Estates Association for the efforts he has put in progress of his tea factories. At this function, he has to chair the association as he has bagged the highest export orders in the country this year. Riding across zig-zag pathways of his tea gardens, where some 250 workers are plucking tea leaves, Samarth leaves in his car towards the felicitation venue.

These tea workers live in the narrow coolie lines situated in the vicinity of plantation area of the gardens. They seem to be happy and content as ever even if they do not have enough to make their two ends meet. Despite coolie line lying outside the Panchayati Raj system of governance, these workers are not unhappy about not being able to avail many of the government welfare schemes. The reason is simple. They hardly understand what welfare is. Like for Ronulu, a garden worker, the day starts with the Bagan time (the tea garden time) at around 8 am in the morning while she continues to work till 5pm in the evening. From today, she plans to work an extra time for ten days. As then, on wage register at least, she would be earning an overtime of 24 paise a day, which would help her family. She has asked her children Bhanu, 10-year-old and Suktı, 13-year-old to not to visit the garden for work today. They are to stay back to look after their ailing father Sama. Last evening Ronulu visited the local pharmacist to get medicines for Sama. The pharmacist, acting as a doctor of the area which had the nearest hospital 78 km away, is a generous person. He does not mind giving medicines to the plantation workers knowing well that these labourers would not be able to pay back soon. How can they? As they have not received their meagre daily wage of even ₹46 for the last nine months.

Its evening when Samarth is returning from the function thinking what more can he do for his business while the workers and their children, singing *Ekta kolir duiti paat*, are busy in plucking leaves.

Discussion Questions

1. What plans, do you think, could be there in Samarth's mind?
2. How has Samarth fared in his business responsibilities?

2. THE TOWN OF TOYS

Channapatna popularly referred to as gombegala ooru 'town of toys' is a place 57 km en route to Mysore from Begaluru. This small town of Karnataka is located in the district of Ramanagara, which is famous to have witnessed the shooting of the movie 'Sholay'. Channapatna would indeed be a traveller's sure attention. It still preserves the art of wooden toy and lacquerware making – an art form brought in by Tipu Sultan from Persia.

The shops in the town remain abuzz with customers huddling to purchase Abacus, Towers of Hanoi, Tic-tac-toe, jigsaw puzzles, building blocks, vintage cars, toy trains, mathematical puzzles and what not. The enticing appearances of the toys are just not a fascination for Kannadigas (Kannada-speaking people) but also the tourists from other parts of the country and, sometimes, from a few parts of the globe. The toy-making industry of the town presently is confined largely to

households employing almost an equal number of men and women. Children are preferably asked to first take up their education and then the craft.

But what appears to be a settled storyline today was not so in the past. Channapatna factories, few years back, witnessed a steep downfall due to market invasion by the Chinese toys. None would deny that the Chinese onslaught was truly a terrible killer. The local craftsmen could never imagine the throw away price at which the fancy Chinese toys were being made available. Made of cheap synthetic colours and wood, having a fashionable appearance, trendy look and sharp edges, these toys flooded the markets to dethrone Channapatna products for quite some time. For the local industries it was almost a death knell, as no way out appeared. The helpless craftsmen like Kartik, Manjunath, and many such others had even been thinking of using the synthetic dyes and cheap wood but alas were tied to their traditions. At times, many of them thought to switch to Bengaluru in search of some job. They could not think of any viable options to earn their living. It was N. Varadaraja Sivam who infused new hope among the local craftsmen to look up to.

'Thaatha', as N. Varadaraja Sivam is popularly called in the local dialect, is a name to reckon with in Channapatna. Aged almost 75 years, he prominently portrays the rich traditions of the handicraft industry, the craftsmen and their thoughts. He has been successfully running his factory for the past 40 years. Getting up early in the morning and after having his 'caha'(tea), Varadarajan leaves for a nearby plot of land, adjacent to the jungle, to water a huge number of plantations of ivory wood. The ivory wood is cut, seasoned and coloured to make the toys and so Thaatha considers it necessary that the trees need to be replanted to keep the local economy running. He next takes out time to prepare the natural dyes used for colouring the toys and collects the abrasive grass to be used for polishing.

But these Chinese toys even kept Thaatha in a fix. The younger generation of the day unsuccessfully persuaded him to go by the methods of the times to give a fight. All awaited his decision to quit or to continue in the business, yet he held firmly to his convictions and did not quit. It was Thaatha's firm belief that Chinese toys are not going to stay long just because of the compromises they have been making with their customers or the environment. He knew the sharp edges stand no match to the smooth finishes of his toys. The day is not far when families would uphold the vegetable-based dyes of the Channapatna toys that do not harm the children in any way. "I cannot compromise with the mother Earth, with Makkalu (children)..." said Thaatha calling upon the craftsmen to continue to adhere to what is moral and just. He understood that factory based production was needed to be expanded at Channapatna to reduce the cost. He, hence, approached the KHDC (Karnataka Handicraft Development Corporation) and the Artisan Training Institute and in return received a helping hand. These efforts gradually washed away the Chinese menace. Now the town's industry has regained its old stature and MNCs like Microsoft have turned out to be big clients for the local artisans. All said, a sense of pride is what gets seen today in the eyes of Channapatna craftsmen.

Discussion Questions:

1. What could be the reason behind Chenapatna craftsmen sharing the sense the pride today?
2. How do you evaluate Thaatha's business thinking?

Planning

4

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*

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 follows *systems approach* which results in an emphasis being given to three major sub-systems, viz. the environmental sub-system, the competitive sub-system and the internal sub-system. The *environmental sub-system* includes such factors as population changes, anticipated governmental actions and international developments. The *competitive sub-system* includes consideration of the past, present and anticipated actions of competitors and the *internal sub-system* includes particular unique features of the firm itself, e.g. its location, facilities, personnel, etc.

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'Donnell¹ 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.²

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.

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

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

² A rigid plan is also known as *Cook's-tour plan*. Cook's World Travel Service is one of the oldest and largest travel agencies. It was one of the originators of thoroughly planned travel tours with clearly prescribed itineraries.

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.

There are various levels of planning. *Strategic planning* is long-term planning, and it involves questions such as what business should the organisation be in a decade from now? What should the organisation look like in five years? *Tactical planning* is short-term planning, and the typical questions pursued are: What are our short-term financial and personnel needs? How should we adjust our marketing strategy? *Contingency planning* takes into account possible occurrences, it is planning for what to do if there is a recession or if there is a change in government policy.

Planning may be done by an army of experts using sophisticated techniques and simulation models; or it may be done in a seat-of-the-pants manner, by a number of executives sharing their judgements over a cup of coffee. Planning may be done from the top down, with the top executives deciding on targets that are then passed down; or it may be done from the bottom up, with the lowest sections formulating plans and targets and sending them up for evaluation and coordination. Planning may be done participatively, with a great many members of the organisation chipping in with their ideas and judgements, or it may be done in an elitist manner by a few executives or technocrats.

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 marketplace, 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.

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

8.0

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.

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.

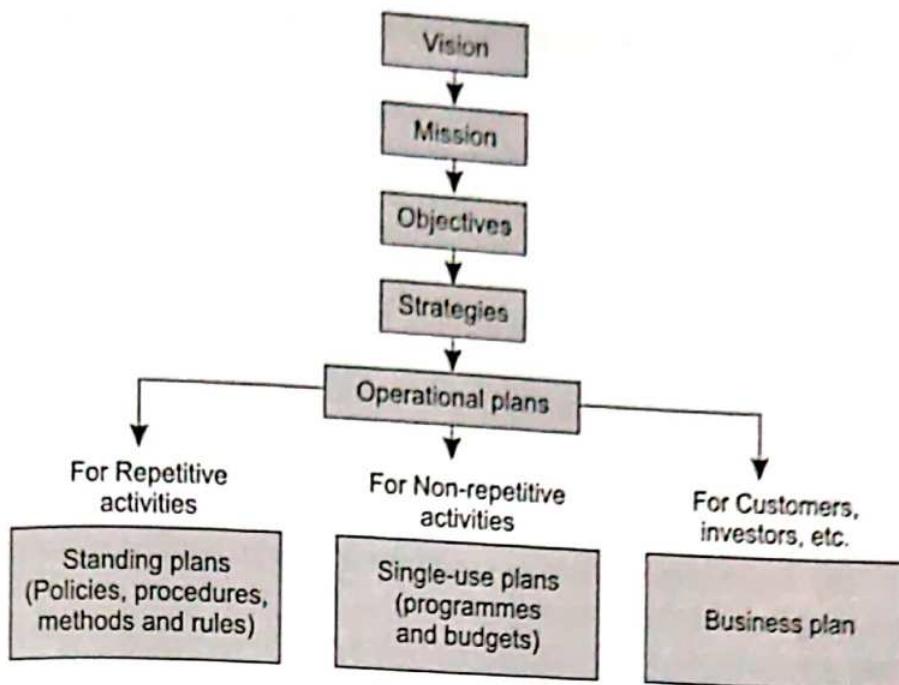


FIG. 4.1 Hierarchy of organisational plans

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 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. Often, objectives of a particular nature are given a special name. For instance, we may speak of sales quotas, expense ratios, budgets, absentee rates or market positions. The use of such descriptive terms does not remove them from the broad categories of objectives.

Whose objectives are organisational objectives? An answer to this question has been offered by Cyert and March.³ They regard organisations as coalitions of a large number of stake-holders such as powerful customers, suppliers, bankers, union leaders, etc., 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 corporate objectives set out in various key areas. As pointed out by Peter Drucker,⁴ 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 manufacturing and marketing company may have the following objectives:

- (a) Achievement of a specified market share for its products
- (b) Development of a new product or service
- (c) Identification of a parasitical overhead which only adds to costs
- (d) Provision for raw material and physical facilities
- (e) Reduction in cost
- (f) Direction of managers by objectives
- (g) Building of an Employee Relations Index based on turnover, absenteeism, safety, calls on the medical department, suggestion system participation, grievances etc.
- (h) Conducting the business so as not to undermine social beliefs and cohesion

Objectives change over time Although it is true that the successful manager tries to foresee all critical changes in the environment that will affect given objectives yet this may not be enough. There may be in addition short- and long-range economic, technical, social, political, and even ethical changes that affect what will or can be done in a near or far future. Thus, consumers' liking for a product may

³ 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.

⁴ Peter Drucker, *The Practice of Management* (New Delhi: Allied Publishers, 1970), p. 63.

change, employees may demand more pay or fringe benefits, new anti-pollution or taxation laws may come into force. These may make it essential for the enterprise to change its corporate objectives.

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 objective 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 objectives also says something about the relative importance of certain objectives regardless of time. For example, the survival of the organisation is a necessary condition for the realisation of all other objectives.

Keeping diverse objectives in balance at *all points in time* is no simple task. In business these results that show up directly in accounting reports often command priority, thus avoiding overtime expense may be preferred over maintaining quality. The manager of a non-business organisation, e.g. a university vice-chancellor may give more importance to teaching them to research and extension.

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. Next come objectives of each section and finally individual objectives. Each step of this ladder, whose highest rung is the corporate objective and whose lowest is the detailed job descriptions of operatives, serves both as a *means* for achieving a goal higher in the hierarchy and a *goal* of those immediately lower down in the hierarchy. Goal-means hierarchies not only simplify the roles that organisational members have to play; but also *limit their involvement with the organisation's major goals*.

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 Barnard⁵ 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. Therefore, a wise manager should be careful to distinguish between those objectives that are merely hopes and those that are real expectations.

Objectives must support one another Objectives could interlock or interfere with one another. For example, the objectives of the credit manager with his eye on keeping credit losses to a minimum may be operating at cross purposes with those of the salesmen to secure maximum sales. In view of this, there is need for coordination and balancing the objectives of all departments, otherwise they may pursue different paths making it difficult for the chief executive 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 objectives are part of the long-range objective.

An outstanding advantage of setting short-range objectives is that they provide benchmarks for measuring progress. When a person sees that he is making progress, he gets a sense of accomplishment even though the job is not yet finished.

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.
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 ₹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.

Verifiability being the key to useful objectives, 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. Sometimes it is said that qualitative objectives can be gauged by the standard of "how well" and quantitative objectives by "how much". This means that one can make

⁵ Chester I. Barnard, *The Functions of the Executive* (Cambridge, Mass.: Harvard University Press, 1938).

a qualitative objective highly verifiable by spelling out enough specific characteristics of the objective and a date of accomplishment. For example, if the objective is to make performance of recruitment more effective, this can be done by requiring

- various line departments to submit to the personnel department full details about unfilled positions by a certain date;
- the personnel department to fill up all vacancies by a certain date; and
- the personnel department to regularly follow up candidates recommended to line managers.

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 by pointing the way to desired performance.
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.

Environmental Appraisal

There are bewildering variety of ways of doing this appraisal which results in the identification of threats and opportunities. One popular way is to analyse the components and attributes of environment as under.

Components of external environment

1. *Political and legal components:*
 - (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 components:

- (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 components:

- (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 components:

- (a) Literacy levels of population
- (b) Religious and social characteristics
- (c) Extent and rate of urbanisation
- (d) Rate of social change

Attributes of External Environment

1. **Turbulence**, i.e. marked by unpredictable changes and contradictory, unreliable information. The opposite of a turbulent environment is a stable environment.
2. **Hostile**, i.e. marked by risk, stress and frustration, arbitrary and harsh laws, severe price competition, threats of nationalisation, etc. The opposite of a hostile environment is a benign environment.
3. **Diverse**, i.e. marked by a clientele with variegated needs. For example, the clientele of a departmental store has variegated needs but it is not so in the case of customers of car dealers.
4. **Restrictive**, i.e. marked by many legal, political, economic and cultural restraints.
5. **Technically complex**, i.e. marked by the requirement of a high order of technical expertise in management.

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, outstanding research, advertising, 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 KingTM which the company had lost to its major rival PepsicoTM. Coco-ColaTM 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.

Modes of Strategy Formulation Mintzberg⁶ 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 sales 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 softeners), selling is through super markets and promotion is through price reduction.

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. Thus, a manufacturer may decide to outperform competition singly or in combination by rigorous pursuit of cost reduction or by differentiating the product or service-creating something unique or by focusing on a particular buyer group.

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 difference between strategic planning and tactical planning ahead.

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.

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

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.

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. In companies having the "one-price" policy, discretion of subordinates is often obtained by maintaining a list price and then granting discounts to certain classes of customers.

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.

Disadvantages of Policies Policies with *broad areas of discretion and initiative* lead to inconsistent interpretations and make the very delegation of authority difficult which they are intended to implement.

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.

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

(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 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. An employee can sum up the practice by saying, "It has always been done that way here." Following are some examples of this policy:

- Repeated assignment of *office space* on the basis of seniority
- Determination of *shift preferences* on the basis of seniority
- *Never to fire* an employee who has been with the organisation over 20 years
- Giving customers *advance warning* of price increases
- *Assigning women* to certain assembly jobs

Implied policies work well under stable conditions. But their unstated subjective ratio makes change difficult when it is most needed. Codification reduces friction though it smacks off regimentation.

(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. Everyone 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.
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. Newman and Summer⁸ cite the example of an executive who used to have a large rubber stamp that read "And this time I mean it". When he wanted his orders followed precisely, he used the stamp on any documents involved. Variation in flexibility can however cause confusion.
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

⁸ Newmann and Summer, *The Process of Management*, Prantice-Hall of India Pvt. Ltd., New Delhi, 1965, p. 405.

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 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. Generally, different forms and records are called for, though they use the same subject matter. 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 by constructive auditing, i.e. the management reviews and appraises the procedures periodically with an intention to eliminate unnecessary steps and overlapping and simplifies work. Since procedures are plans, they must be designed to reflect and help accomplish company (not just departmental) objectives and policies. For example, a procedure to handle orders for spare parts or repair defective parts, should expedite a job so as to meet customer service standards without undue delay.

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 requiring, to buy from a certain company regardless of price or service, 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. In addition, they allow simple screening of violations and legitimize punishment when violated. But their literal interpretation may sometimes lead to ritualism centre officiousness.

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.

Programmes Programmes are precise plans which need to be made to discharge a non-routine and non-repetitive task. 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.

Business Plan

It is an important document prepared by an entrepreneur as a start-up strategy to prove to private investors, customers, suppliers and distributors that he is in a position to articulate and manage the diverse aspects of his business. A good business plan must have the following characteristics:

1. It must provide readers *full information on all topics* they may be interested in.
2. It must have an *objective tone* i.e., not written like a glowing advertising copy.
3. It must *not be overcritical* of past failures or mistakes, if any.
4. It should not be full of technical details; these may be put in the appendix.

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 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

Plans are made to operate in the future. Hence, 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.

It is not realistic to establish planning premises about every detail of the future environment of a plan. Therefore, they are usually limited to those which are critical or strategic to a plan, that is those which most influence its operation. These can be variously classified as under:

- Internal and external premises
- Tangible and intangible premises
- 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:

- General business and economic environment
- Technological changes
- Government policies and regulations
- Population growth
- Political stability
- Sociological factors
- 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 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.

Planning premises represent a clear recognition that managing is not a closed-system approach to enterprise operation.

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 ₹10 lakh and generates cash inflow of ₹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. Note that substantial costs are involved in keeping two alternatives open.

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 which are derived from the basic plan and not prepared independently. 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 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

Actions represent the “*lowest level of execution*”. 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.

DIFFERENCE BETWEEN STRATEGIC PLANNING AND TACTICAL PLANNING

Strategic planning 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.

Steps of Strategic Planning Process

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 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.

Organisations having people with great expertise and creativity may follow "umbrella strategy", where-in senior management sets out only broad guidelines and leaves the specifics to others lower down in the organisation.

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.
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.

Extent of Detail The detailed planning limits manager's satisfaction through self-expression and growth. Similarly, too broad planning does not give him sufficient guidance and fails to meet his need for security and dependence.

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. Lack of coordination encourages friction in work relationships.

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.⁹ 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.

Low cost planning should not be expensive, complex, quantitative or even very formal.

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., demerger of Sandoz India Ltd., from the old Sandoz and demerger of Aptech from Apple Industries Ltd.

⁹ See Chapter 13 for details.

→ 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; (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?
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.

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.

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?

Organisation

7

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

WHAT IS AN “ORGANISATION”?

There is no standard definition of the word “organisation”. Different writers have defined the word differently. According to Amitai Etzioni¹ an organisation is a social unit or human grouping *deliberately structured* for the purpose of attaining specific goals. Sehein² 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

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).

responsibility. Allen³ 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 Sherwood⁴, 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 Scott⁵ group organisations into four categories using the criterion of *cui bono*—who benefits:

1. Organisations which benefit their *owners*. All business and industrial organisations fall in this category. Achievement is their dominant motive.
2. Organisations which benefit their *members*. A wide class of unions, cooperatives and clubs come under this category. Affiliation is their dominant motive.
3. Organisations which benefit their *clients*. Examples are insurance companies, private schools, etc. Extension is their dominant motive.
4. Organisations which benefit the *whole society* (commonweal organisations) such as governmental departments, the armed services and the police. Control is their dominant motive. Different motives account for different types of organisational culture. Read Chapter 21.

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.

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. Thus, the organisation of an enterprise that intends to diversify its products or to expand into other regions of the country can never be the same as that of the enterprise that intends to confine its operations to a single territory or to manufacture a single product. Management writers, such as Alfred D. Chandler⁶ refer to this phenomenon as one in which "structure follows strategy".

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 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.

⁶ Alfred D. Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, Mass.: MIT Press, 1962), p. 14.

Analysing inter-department Relations and Deciding which Departments will be Key Departments

The next step is an analysis of the contributions which each department makes downward, upward and sideways to decide its relative status. It is necessary to know key departments, i.e., those which are rendering key 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 final result of this type of analysis should be a structure, which is balanced more in terms of the importance of activities than in the size of the payroll.

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. This will avoid the need for the decisions to go "Looking for a home".

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 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 comprising an organisation's formal structure. However, underlining the importance of the systems approach 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 19 respectively.

PRINCIPLES OF ORGANISING

In the words of E.F.L. Brech⁷, "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. Combinations of widely unrelated functions work satisfactorily only so long as a particular individual holds the post. Disruption occurs when he leaves and there is no other individual with identical abilities.

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 be 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. Thus, the president of a company may see to it that proper accounting procedures are adopted. Once they are installed, however, he should, not waste his time in ascertaining that the debits and credits are posted in the proper ledgers.

We should remember that there is an important difference between this principle and the programmed and non-programmed decisions described earlier. Whereas this principle *does not provide any simple rule for determining what should be reduced to a routine and delegated and what should not* programmed and non-programmed decisions show us the way how by having policies, procedures and rules decision taking can be reduced to routines. Therefore, if management by exception slips into being management by crisis it may become disastrous for the organisation.

⁷ E.F.L. Brech (Ed). *The Principles and Practice of Management*, (London: Longmans, Green & Co., 1959).

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. The principle simply states that an organisation is a hierarchy. The importance and usefulness of the principle is evident whenever the line is severed. The splintering of one organisation into two or more results from a permanent breach of this principle.

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.

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 must make possible the training and testing of tomorrow's top managers.

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.

Disobedience of the above principles may result in the formation of a *malorganisation* and may show itself in several ways such as growth in levels of management, overcentralisation, pressure for coordinators, incessant meetings, and so forth. Drucker calls them "frictional overheads".

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 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.

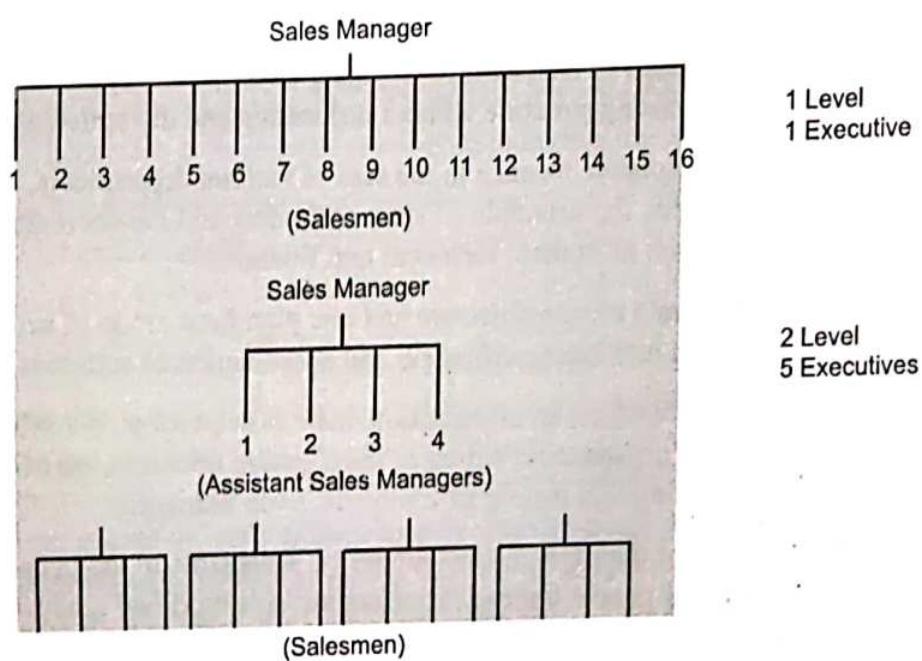


FIG. 7.1 Decreasing the span of management increases the number of levels

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 Urwick⁸ 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 Hamilton⁹, the ideal number of subordinates is 3 to 6. On the other hand, some experts (e.g., J.C. Worthy¹⁰) believe that a manager can effectively manage as many as 20 subordinates. Ernest Dale¹¹ in his study of 100 large companies has found that 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. Graicunas¹², 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.

⁸ Lyndall 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, Mimeo graphed).

¹¹ Ernest Dale, op. cit.

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.

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.

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. Woodward¹³ found

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.]

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. Similarly, if a company has been in business for many years, the problems which come up regularly have probably been encountered before, and the work of coordination is therefore less than if the problems were brand new.

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.

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. Fisch¹⁴ 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 mean 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 OR THE SUPERSTRUCTURE OF AN ORGANISATION

The horizontal differentiation of tasks or activities into discrete segments is called departmentalisation. As noted earlier, or the superstructure of an organisation 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 departmentalisation* and *purpose departmentalisation*. Following is a brief description of these bases.

¹⁴ Gerald G. Fisch, "Stretching the Span of Management", *Harvard Business Review*, Sept.-Oct. 1963, pp. 74-84.

PROCESS DEPARTMENTALISATION

There are two widely used and internally oriented arrangements for dividing work by process as described below:

Business or Organisational Functions

Departmentalisation is here done on the basis of a thorough and careful activities of function analysis. Each major activity or 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 or design department in a women's dress industry or forest management in paper manufacturing industry. 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 *fragments and obscures the process* and evokes conflicting interpretations of each department unless the start and finish of work of each department is clearly stated. Many times it is not easy to make a clear break between these works. For example, who is in charge of developing new products? Every one—R&D, marketing, finance, manufacturing, and so on, is involved but no one is incharge unless clearly stated.
2. It sometimes combines dissimilar jobs in single departments creating an under-organised enterprise with too many committees to make decisions.
3. It fosters sub-goal loyalties. 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.
4. 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.
5. 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.

6. In this form *customer needs* evoke *conflicting interpretations* from each departmental head like the story of twelve blind people and the elephant.
7. In this form *procedures are overly complicated*, wasteful and time-consuming—a weakness sometimes called “*organisational arthritis*”. The structure is rigid and resists adaptation.
8. 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 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 of people in their particular phase of business.
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. Scheduling the movement of work from department to department on each other becomes somewhat complex. Top management needs to devote extra attention to maintaining inter-departmental co-operation and coordination.

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.

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 is 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. Large dairy companies which require rapid movement of milk from the farm to the processing plants, to bottling plants and on to the customer provide yet other example of semi-autonomous geographical units to assure local coordination and control.

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.
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 (Free-form Organisation)

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* or *free-form organisations*. 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 only reduced to a more manageable size but they are not completely eliminated because individual divisions themselves have functional structures. Because a division can be dropped or added with little disruption to the rest of the organisation it is also called a free-form 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 equipment, 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

The different bases of departmentalisation we have discussed suggest possibilities for dealing with specific problems. Nevertheless, we have noted that each type has some advantages as well as some disadvantages and that no one type is applicable to all the activities of a business at each of several levels. Therefore, 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.

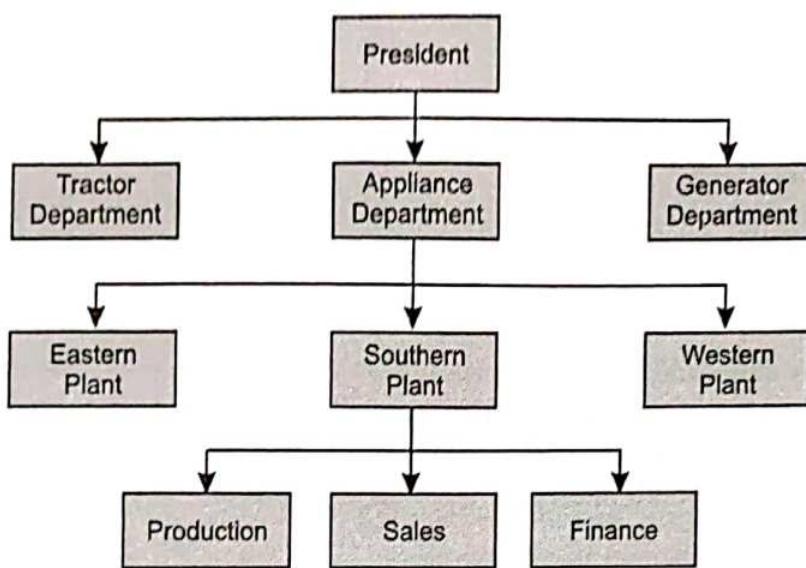


FIG. 7.2 A combined base organisation

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 departmentalisations.)

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 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.

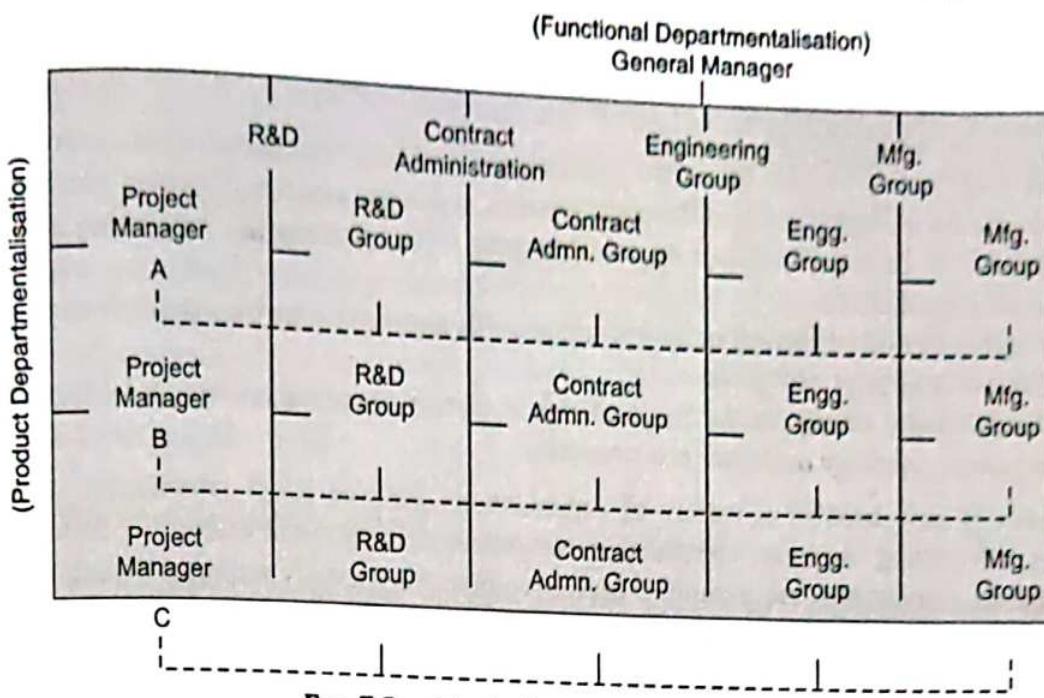


FIG. 7.3 A typical matrix organisation

3. Stress on optimisation of the total project eliminates chances of suboptimisation of goals. The success of a project is frequently measured by a company's ability to complete it on time and within budget.
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. At ABB, individual performance assessment is a function of the evaluation of both bosses and there must be joint agreement from both superiors before an individual can be promoted.
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. Given the great variety in the projects that a matrix organisation has to handle, an *organic management ideology and style* is a necessity.

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 orthopaedics) and laterally organised patient care teams. Universities have both functionally organised academic departments and specialised inter-disciplinary programmes (such as M.B.A.). Organisations that are flattening (e.g., through downsizing or rightsizing) depend on projects to get work done that was once handled by departments.

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. Sharp division between the activities performed by one department and those performed by another and rigid definitions of responsibility prevent adjustments to the many variations that invariably arise in any form of cooperative human activity. 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 Miller¹⁵, 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.

¹⁵ Eric J. Miller, "Technology, Territory and Time: The Internal Differentiation of Complex Production System", *Human Relations*, April, 1959.

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 Miller¹⁶ 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.

Parallel Departmentalisation

When the organisation of several retail outlets, branches and plants doing similar work as the parent company use the same departmental set-up as that of the parent company it is called parallel departmentalisation. Parallel departmentalisation makes transfer of personnel from one operating unit to another easier. It also becomes easier to compare the results of any one unit with those of all other units. The principal disadvantage of parallel departmentalisation is its lack of adjustment to local needs and operating conditions. Also under conditions of high degree of decentralisation the above benefits may become less significant.

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

- *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. Schein¹⁷ 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

¹⁶ Eric J. Miller, "Technology, Territory and Time: The Internal Differentiation of Complex Production System", *Human Relations*, April, 1959.

¹⁷ Edgar H. Schein, *Organisational Psychology*, Prentice-Hall of India, N.D., 1969.

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 (see 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.

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 among those who have not been included in the chart a competitive drive for being included.

Despite the above limitations, the formal organisation chart developed in the context of classical organisation theory, continues to be the principle method by which enterprises describe their organisation structure.

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 though of the same type may 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 Stalker¹⁸, 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.

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. There is, the assumption called 'Rabble Hypotheses' according to which employees can be made more creative by placing them in competition with one another for the positions of power that lie above them in the organisational ladder. The *demerits* of this structure are as under:

¹⁸ T. Burns and G.M. Stalker, *The Management of Innovation*, (London: Tavistock). 1961.

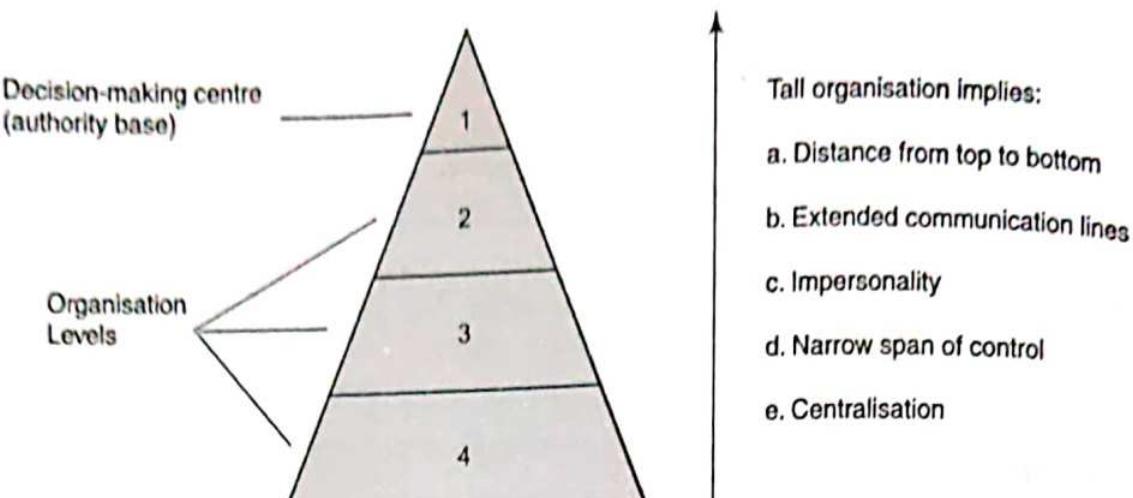


FIG. 7.4 Tall organisation

Tall organisation implies:

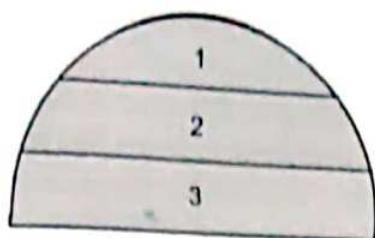
- Distance from top to bottom
- Extended communication lines
- Impersonality
- Narrow span of control
- Centralisation

- Each individual carries out his assigned part as something apart from the overall purpose of the organisation as a whole. He comes to mistake his own corner for the whole building. He does not care to know how his job fits into the entire picture.
- People at lower levels use very little skill and do not experience any sense of accomplishment.
- It is self-perpetuating because once the tasks of people at lower levels have been defined, it is difficult to change them.
- 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.
- 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.
- There is disproportionate bureaucratic proliferation at upper levels as the people at lower levels increase. The former work simply as the glue to hold together the people who do the real work. It is said that the latter who do the work enjoy no real power and the former with the power do little real work.
- It stifles innovation and creativity. One has to sell a new idea to the boss, who has to sell it to his boss, and so on up the corporate hierarchy. For an idea to win acceptance, every one along the way must say yes, but killing the idea requires only one "no".
- It makes the process of developing tomorrow's managers difficult by adding to the time it takes to come up from the bottom.

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:

- It is flexible, people's responsibilities and functions can be quickly changed to meet situational demands. Titles are deemphasised and attention is given to the role, knowledge and competence of individuals.



Flat organisation Implies:

- High levels of decentralisation.
- Extremely wide spans of control determined on the basis of each superior's interpersonal skills.
- Less extended communication lines.

FIG. 7.5 Flat organisation

- Communication takes place in all directions. Information is managed for empowering people to act and not for controlling their actions.
 - Decision-making is not centralised at the top. It is done by people at all levels. 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.
 - Careers are defined in terms of horizontal cross-functional moves and systems are developed which link promotions and rewards to multi-functional competencies.
- 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. Worthy¹⁹ 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 Lawler²⁰ 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 Stalker²¹ have found that in stable environments when people do fixed and specialised jobs and feel little need to change their skills, classical or mechanistic 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 open communication among members, behavioural or organic structures are appropriate. Another study

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).

made by Lawrence and Lorsch²² 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, or what is desirable and what is not. Standard practices that have developed over the organisation's history often dictate how a company organises and operates.²³ Jaques concluded from the long-term observational study of an English factory how the past behaviour of older members of management coloured their contemporary behaviour, especially where there were status distinctions honoured in the past that had to be defended against attack.

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 fulfilment 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 study²⁴ 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.

It should be remembered that in sizable complex organisations, one may come across their different parts utilizing different technologies and producing comparable structures.

Thompson's²⁵ study has shown that organisations using different kinds of technology employ *different devices to circumvent uncertainty*. Those employing mass production technology reduce their dependence on suppliers of raw materials through vertical integration; those employing a mediating technology—that is a technology that connects different users of the product or service—such as an employment agency or a telephone network diversify the market they serve so that they do not get too dependent on any one market and those employing an intensive technology—such as the intensive care unit of a hospital seek control over the object worked upon, whether it is a patient or a respirator.

²² R. Paul Lawrence and J.W. Lorsch, *Organisation and Environment* (Boston: Harvard Business School, 1967).

²³ Elliott Jaques, *The Changing Culture of a Factory*, N.Y. Drydox Press, 1952.

²⁴ Joan Woodward, *Industrial Organisation Theory and Practice* (London: Oxford University Press, 1965).

²⁵ James D. Thompson, *Organisations in Action* (Brunswick, NJ: Transaction Publishers, 1952).

5. Strategy Alfred Chandler's study²⁶ 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.

6. Size Pugh-Hickson's study²⁷ has found that as the number of employees working for the organisation in a single location 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. Chandler has suggested that as organisations increase in size, a point is reached at which they are forced to decentralise and to develop a greater variety of formal mechanisms to coordinate their activities.

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.

²⁶ Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, Mass.: MIT Press, 1962).

²⁷ 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.

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 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 Zand²⁸ 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 ad hoc 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.

²⁸ Dale Zand, "Collateral Organisation: A New Change Strategy", *Journal of Applied Behavioural Science*, 10, No. 1 (1974).

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.

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

The new term *virtual organisation* refers to an organisation that carries out its activities not in one central place, but rather in multiple locations by suppliers and partner firms as part of a strategic alliance or a larger "supply chain". Thus the role of manufacturing for an auto producer will shift from solely monitoring activities at one central plant to managing the integration of all steps in the process—no matter where physical production actually takes place.

Recent phenomenal growth in electronic communication has given rise to the above concept. The essential feature of this type of organisation is *coordination*, i.e. manufacturer's ability to network, large number of service-providers and contractors whom he outsources his burden of getting infrastructural support, retaining for himself 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 the capabilities of all the others, and is well aware of the fact that his fate is dependent on the difficult task of coordination.
5. **Excellence** Each partner contributes to the virtual organisation what he 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.
5. The biggest challenge is the creation of a company culture. How does one get the workers to identify strongly with the organisation?

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) through contractual arrangements with partners located throughout the world. Virtual organisations are not popular in India because of our slow internet speed.

Somewhat like virtual organisation, a new form of organisation called "*Relationship Enterprise*" is now coming into vogue. It consists of a global network of independent companies that act as a single company with a single mission. Thus, the airline companies of some countries may together form a new company and share their operations to provide the international traveller with efficient seamless service anywhere in the planet.

✓ 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 for group participation when we have:

- (i) a recurring problem which the same group of people should confer about at regular intervals; or
- (ii) a major problem that can be resolved only after a series of discussions with a group whose work is closely interrelated. For most other situations which may be essentially individual functions (such as the following) a committee is not warranted:
 - (a) To make a sharp, clear and prompt decision with unqualified responsibility;
 - (b) To consider an unimportant question where a particular decision is a foregone conclusion;
 - (c) To pool the splintered authority of several managers;
 - (d) To gather data requiring independent study and investigation. A committee does well in criticising the result of a research study but not in conducting it.

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 Management²⁹ 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-à-vis the level below him and as a subordinate vis-à-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.

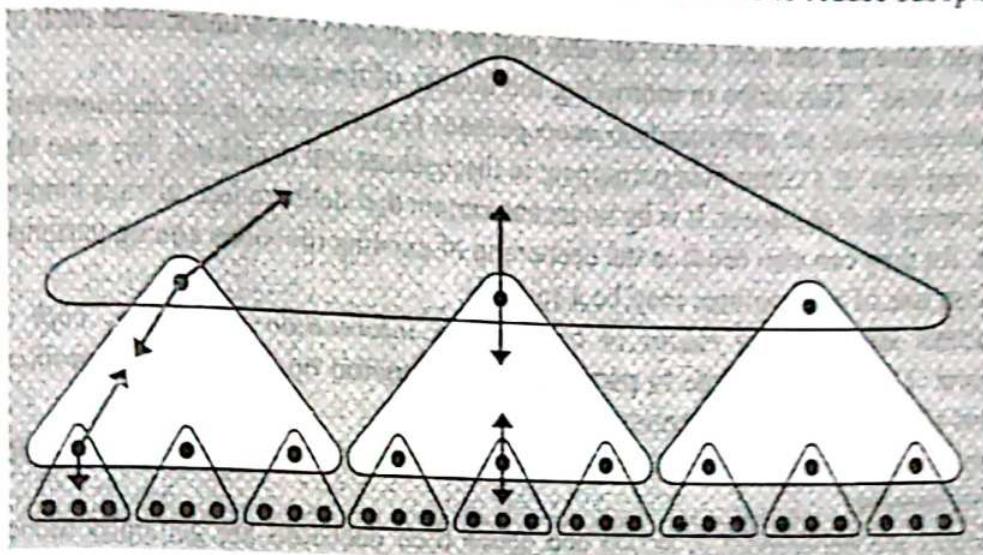


FIG. 7.6 *The linking pin*

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 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

²⁹ Rensis Likert, *New Patterns of Management* (N.Y.: McGraw-Hill, 1961).

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*. It is by no means certain that deliberations always kindle enthusiastic support, for they can also result in the deepening of existing divisions among participants. Should this occur, use of a committee may be a mistake.
4. Committees are *excellent means of transmitting information and ideas, both upward and downward*. They allow people to participate in discussion on solution of a problem and to be informed simultaneously concerning it.
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 Urwick³⁰, 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. 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. Urwick made an analogy that a committee is like a corporation with neither a soul to be damned nor a body to be kicked.
3. A huge amount is spent in convening meetings and giving allowances to the members. Hence, committees are an *expensive form of administration*.

³⁰ Lyndall Urwick, *Committees in Organisation*, British Institute of Management, 1950.

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 in question.
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—neither fish nor fowl*. 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. If several interests are involved, a committee can limit its membership to individuals who can look at the problem as a whole rather than regard their members as a means of protecting a narrow interest.
2. A committee's authority should be carefully spelled out, and its activities correctly chosen and closely defined. The authority of each member should also fit the decision area.
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. The best areas for group action are policy formulation and 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. He should keep discussion from wandering.
6. It is useful to take careful minutes of the meeting, circulate them in draft for correction and then have the final copy approved by the committee. Checking conclusions for follow-up action is also necessary.
7. 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.
8. Last though not the least, it is important to know whether the committee's benefits are worth its cost.

TEAMS

A boat does not go forward if each one is rowing one's own way.

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. Steve Jobs, the former CEO of Apple Co., employed people of different backgrounds such as Anthropology, Art, History and Poetry as the team making I pod and Tablet as an unparalleled product. Honda purposely designs its teams with individuals who know nothing about its technology. The naive questions they ask challenge the thinking of the team members who have more expertise.
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 per cent 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.

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.
3. The team emphasis on "me" instead of "I" leaves same ambitious individuals disgruntled about their lack of personal recognition.

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.
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** Following the sociotechnical systems approach,³¹ 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. Gulowsen³² 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. 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.

³¹ This approach attempts to develop jobs that adjust the technical needs of the production process technology to the socio-psychological needs of the worker and work group. The term was developed from studies of weaving mills in India and of coal mines in England in the early 1950s. These studies revealed that work groups could effectively handle many production problems better than management if they were permitted to make their own decisions on scheduling, work allocation among members, bonus sharing, and so forth. This was particularly true when variations in the production process required quick reactions by the group or when one shift's work overlapped with other shift's work.

³² Gulowsen in Davis, Louis E. and James C. Taylor (eds), *Design of Jobs* (Santa Monica, California: Good Year, 1979).

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".
- 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.
- 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 <i>cui bono</i> 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.
 - (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?

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 in spite 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.

► 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**

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 Geisler¹, manpower planning is the process by which a firm ensures that it has the right kind of people and the right number 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.

¹ E.B. Geisler, *Manpower Planning: An Emerging Staff Function* (N.Y.: AMA, 1967).

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-focussed 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 Dayal² 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).

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.

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 outplacement the organisation helps employees in several ways (such as career counselling, resume preparation, interviewing workshops, and retraining for other jobs) in finding alternative employment.

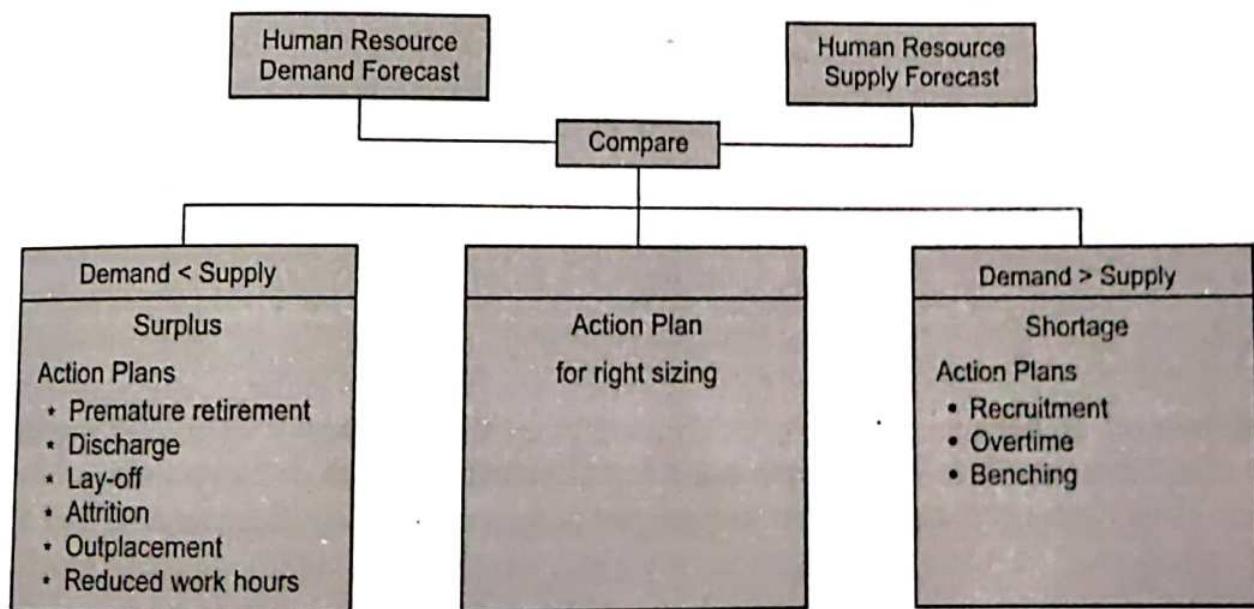


FIG. 11.1 Demand Supply Comparison and Action Plans

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*.

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. McFarland³, 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

³ Dalton E. McFarland, *Personnel Management: Theory and Practices* (N.Y.: Macmillan, 1968).

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 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 workforce. 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. To insure a balance should be one of the main concerns of management.

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
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.

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

⁴ M.M. Mandell, *Selection Process: Choosing the Right Man for Right Job* (Bombay: Taraporevala, 1964).

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 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.

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. Sometimes, however, newcomers are given jobs which are below their abilities, the purpose being to teach them the importance of humility. On the other hand, if they are given demanding tasks, they internalise high standards of performance and are better prepared for future assignments.

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.

TRANSFER

According to Schein⁵, the organisation can be viewed more usefully as a three-dimensional cone, rather than only as the traditional hierarchical triangle. The three dimensions of the cone represent the ways an individual can move through the various parts of the organisation. *Vertical* movement is hierarchical change in one's formal rank. It may be either promotion or demotion. *Radial* movement is movement toward or away from the organisation's central core or inner circle of power. *Circumferential* movement is a transfer to a different division, function or department. With each movement, the individual is socialised to fit into the new position.

INDUCTION (ORIENTATION)

A new employee very often comes to suffer from the *Reality Shock Syndrome* when he discovers that there is a great disparity between his initial job expectations and the hard realities of the job. For example, he may find that there is low initial job challenge, low self-actualisation satisfaction, lack of

⁵ Edgar H. Schein, *Journal of Applied Behavioural Science*, 7, No. 4, 1971.

performance appraisal, and so on. 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 rest of the work-team
- Telling the newcomer his duties
- Selecting a person who can assist the newcomer on the job
- Following up frequently

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 workforce 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 Unilever—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.

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.

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 100th 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.

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 survey⁶ 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.

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 at least 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.

⁶ N.R. Chatterjee, *A Study of Some Problems in Indian Industry*, Department of Business Management and Industrial Administration, University of Delhi, 1965.

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., an 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.

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.

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.

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 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?