

Organisational Theory, Structure and Design



NMIMS GLOBAL ACCESS
SCHOOL FOR
CONTINUING EDUCATION

ORGANISATIONAL THEORY, STRUCTURE AND DESIGN

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**NMIMS GLOBAL ACCESS
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C O N T E N T S

CHAPTER NO.	CHAPTER NAME	PAGE NO.
1	An Introduction to Organisation and Organisation Theory	01
2	Organisational Effectiveness and its Measurement	23
3	Organisational Structure and Design	37
4	External Environment and Analysis	65
5	Internal Environment and Organisational Analysis	83
6	Strategic Management in Organisations	101
7	Organisational Diversity	125
8	Power, Politics and Authority in an Organisation	143
9	Managing Organisational Conflict	163
10	Managing Organisational Culture	183
11	Managing Organisational Change	205
12	Case Studies	227

ORGANISATIONAL THEORY, STRUCTURE AND DESIGN

C U R R I C U L U M

An Introduction to Organisation and Organisation Theory: Organisation–Concept, Features, Organisation as a system, 7-S Framework of an Organisation, Types of Organisations, Organisational Approaches, Fundamental Elements of an Organisation, Organisational Life Cycle

Organisational Effectiveness and its Measurement: Concept of Organisational Effectiveness, Approaches to Organisational Effectiveness—Traditional and Contemporary Approaches

Organisational Structure and Design: Introduction, Concept of Organisational Structure, Features, Principles, Factors Influencing and Elements of Organisational Structure, Managing Complex Structures, Implications of Organisational Structure, Design of Organisational Structure, Problems in Organisational Structure Design, Organisational Structure Design and Flexibility

External Environment and Analysis: Introduction, Concept of Environment, Types of Environment, Components of External Environment—Political Environment, Economic Environment, Socio-Cultural Environment, Technological Environment, Ecological Environment, Legal Environment

External Environment Analysis: Approaches, Techniques and Factors affecting it

Internal Environment and Organisational Analysis: Introduction, Concept of Internal Environment, Organisational Resources, Capabilities and Competencies, Organisational Analysis—Techniques and Factors affecting it

Strategic Management in Organisations: Introduction, Concept of Strategy, Importance of Strategy, Strategic Business Units, Levels of Strategy, Role of Strategists, Types of Strategies, Concept of Strategic Management, Components, Process and Schools of Thought in Strategic Management, Strategic Management in the Indian Scenario, Role of Strategic Management, Strategic Management in Marketing, Finance and Human Resources, Concept of Strategic Planning

Organisational Diversity: Introduction, Concept of Organisational Diversity, Factors Responsible for Organisational Diversity, Benefits of Organisational Diversity at Different Levels, Barriers in Creating and Managing Organisational Diversity, Creating and Managing Organisational Diversity Effectively

Power, Politics and Authority in an Organisation: Introduction, Concept of Power, Aspects of Power, Types of Power, Concept of Organisational Politics, Reasons for Political Behaviour, Political Strategies, Managing Political Behaviour, Concept of Authority, Delegation of Authority, Centralisation and Decentralisation of Authority, Effectiveness of Delegation, Benefits and Limitations of Delegation

Managing Organisational Conflict: Introduction, Concept, Classification, Sources, Levels of Conflict, Conflict Process, Outcomes of Conflict, Global Implications of Conflict, Conflict Management, Negotiation—An Approach to Conflict Resolution, Negotiation—Process and Strategies, Other Approaches to Conflict Resolution

Managing Organisational Culture: Introduction to Organisational Culture, Formation and Sustenance of Organisational Culture, Types of Organisational Culture, Functions of Organisational Culture, Cognitive Levels of Organisational Culture, Analysing Organisational Culture, Managing Cultural Diversity

Managing Organisational Change: Introduction, Concept of Organisational Change, Levels and Types of Change, Resistance to Change: A Challenge to Change Management, Sources of Resistance, Reasons for Individual Resistance to Change, Challenges Faced by an Organisation during Change Management, The Process of Change Management, Change Management Models

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1

C H A P T E R

AN INTRODUCTION TO ORGANISATION AND ORGANISATION THEORY

CONTENTS

1.1	Introduction
1.2	Concept of Organisation
1.2.1	Features of an Organisation
1.2.2	Organisation as a System
1.2.3	7-S Framework of an Organisation
	Self Assessment Questions
	Activity
1.3	Types of Organisations
	Self Assessment Questions
	Activity
1.4	Organisational Approaches
1.4.1	Classical Approach
1.4.2	Neoclassical Approach
1.4.3	Modern Approach
	Self Assessment Questions
	Activity
1.5	Fundamental Elements of an Organisation
	Self Assessment Questions
	Activity
1.6	Organisational Life Cycle
	Self Assessment Questions
	Activity
1.7	Summary
1.8	Descriptive Questions
1.9	Answers and Hints
1.10	Suggested Readings for Reference

INTRODUCTORY CASELET**FLAWS IN THE ORGANISATIONAL STRUCTURE OF TOYOTA**

Toyota Motor Corporation is a renowned name in the automotive industry. In 2007, the company exceeded the sales of General Motors Corporation to become the top automotive manufacturer in the world. Toyota's exceptional reputation for quality and customer care was the reason for its overwhelming success.

In the 1990s when Toyota began to expand its business, it faced serious challenges in the area of resource allocation. As a result, the response time towards the production slowed down. The main reason for such slowdown was ineffective organisational structure of Toyota.

Toyota's organisational structure was rigid, consisting of formal hierarchies. All the US executives of Toyota were mentored by Japanese managers, and all the decisions were made in Japan. Because of its centralised structure, the company was not able to respond to external threats (such as entry of new competitors, changes in the market environment and so on) immediately. Moreover, employees were hesitant to take small decisions at required times due to a lack of support from superiors. Further, due to the absence of clear delegation of authority, the management was unable to respond to the changes occurring in the external environment quickly.

To overcome such crisis, Toyota made changes in its organisational structure and adopted a matrix organisational structure. In this structure, functional and product structure responsibilities are amalgamated wherein the responsibility of developing the product structure is assigned to chief engineers and managers are assigned functional responsibilities. Thus, the structure focuses equally on both functions and outputs, which has built a transitional management attitude in the company.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Explain the concept of an organisation
- Identify and discuss the types of organisations
- Evaluate the importance of organisational approaches
- List and discuss the elements of an organisation
- Describe the phases of the organisational life cycle

1.1 INTRODUCTION

According to Stephen P Robbins, *organisation is a consciously coordinated social entity with a relatively identifiable boundary that functions on a relatively continuous basis to achieve a common goal or set of goals.*

An organisation is a group of people working together to achieve defined goals and objectives through shared interests, values and rules. Organisations are formed because it is difficult to achieve bigger and complex goals individually that require different skill sets. In an organisation, individual goals are foregone for the group goals and the group goals are compromised for organisational goals so the maximum benefit can be derived by using limited available resources.

Every organisation selects a unique path to achieve its long and short-term objectives. The vision statement of an organisation describes the objectives that an organisation aspires to achieve in the future; whereas, the mission statement defines the means to achieve the vision. There can be various types of organisations, such as bureaucratic organisations, democratic organisations, participative organisations and pyramid organisations. However, organisations differentiate on the basis of structure, size, objectives, timeframe and decision-making authority.

Every organisation is characterised by numerous features that help in getting a better understanding of several organisational issues. These features can employee involvement, team culture, changes in business environment and so on. Organisations assign different levels of authority and responsibility to different individuals based on their skill sets and working experience. This chapter discusses the concept of organisation, its features, types and approaches.

1.2 CONCEPT OF ORGANISATION

In your day-to-day lives, you may come across different types of organisations such as schools, colleges, sports clubs, music groups etc. An organisation is a setup where individuals strive to attain corporate goals and at the same time, achieve their personal goals. Different

N O T E S

management scholars have defined the term ‘organisation’ differently. The following are some definitions of organisation:

According to Barnard, *an organisation comes into existence when there are a number of persons in communication and relationship to each other and are willing to contribute to a common endeavour.*

Weber defines an organisation as *a social relationship which is either closed or limits the admission of outsiders by rules, will be called a ‘corporate group’ so far as its order is enforced by the action of specific individuals whose regular function this is, of a chief or ‘head’ and usually also an administrative staff. These functionaries will normally also have representative authorities.*

1.2.1 FEATURES OF AN ORGANISATION

The following are some generic features of an organisation:

- **Goal orientation:** The relevance of an organisation is defined by its goals. These goals guide the organisation’s management in recruiting suitable employees. Moreover, these goals guide the organisation’s course of action in the future.
- **Employee involvement:** In organisations, employee participation is the key to a successful accomplishment of organisational goals and objectives. It ensures commitment among employees while performing tasks. This further develops enthusiasm among employees to achieve individual and organisational goals.
- **Development of team culture:** Organisations comprise people from different backgrounds and ethnicity. Therefore, organisations encourage people to build strong, collaborative and focused teams at all levels for achieving pre-determined goals.
- **Response towards change:** Organisations must be aware of changes taking place in its surroundings. For example, when a technology becomes obsolete, an organisation may need to adopt newer technologies for delivering quality products. If the organisation fails to adopt the technology, competitors may take advantage of market share. Thus, organisations need to be updated about the latest trends in the industry so that appropriate changes can be made on time.
- **Optimisation of resources:** Resources play an important role in the accomplishment of organisational goals. Organisations strive to allocate these resources in the best possible manner so that they can be optimally utilised.
- **Confidentiality:** Every organisation adopts measures to safeguard its trade secrets and other confidential business-related information. These measures help an organisation to sustain its niche market position.

N O T E S

- **Division of work:** Every organisation has well-established policies that clearly define the role and work responsibilities of all employees.

1.2.2 ORGANISATION AS A SYSTEM

An organisation is a system where different interrelated components interact with each other to attain common goals. These components are shown in Figure 1.1:

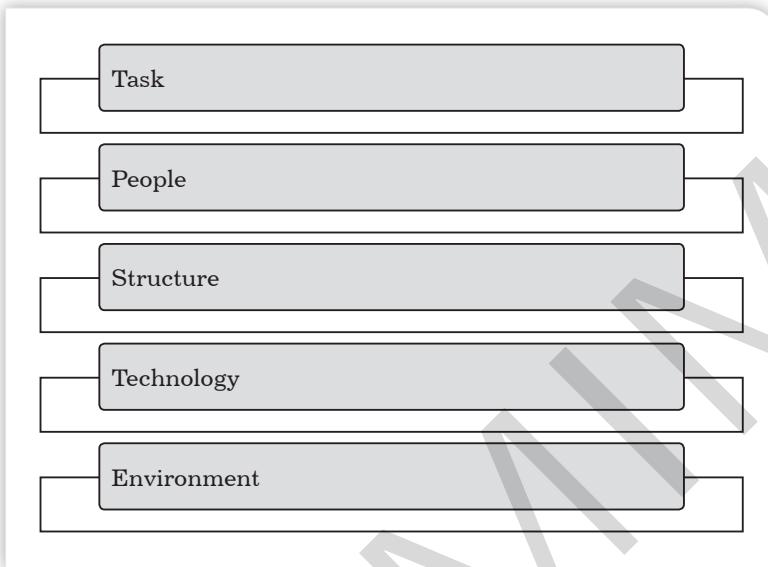


Figure 1.1: Components of an Organisation

Let us have a look at these components:

- **Task:** It is an activity performed to achieve a certain goal within a specified time period. In an organisation, every task is accomplished with the help of people working there.
- **People:** People work to attain organisational goals either individually or as part of a group. They possess adequate skills to perform their respective jobs in a time-bound manner. Therefore, organisations must aim to acquire the most suitable people with rich experience in relevant fields.
- **Structure:** It is an arrangement in which people interact with each other to perform tasks in an organisation. The structure includes infrastructure arrangements, different levels of reporting and reward systems. Employees should be linked in a structural way to ensure effective coordination with each other.
- **Technology:** It involves tools and machinery used by an organisation to complete assigned tasks on time. Every organisation needs to keep itself updated with the latest technologies to maximise productivity and remain competitive in the market.

N O T E S

- **Environment:** It comprises various factors that have a significant impact on the organisation's functioning. An organisation's environment is divided into internal environment and external environment. Internal environment involves current employees, management, corporate culture, and so on. On the other hand, external environment relates to political, economic, social and technological factors.

1.2.3 7-S FRAMEWORK OF AN ORGANISATION

In the 1970s, consultants at McKinsey in the US developed the 7-S framework model to understand the functioning of organisations. The model helps managers to improve an organisation's performance by determining potential changes that may take place in the future and examining how to incorporate the best strategy. According to the 7-S model, there are seven internal aspects of an organisation, which should be aligned with each other for organisational success. These aspects are shown in Figure 1.2:

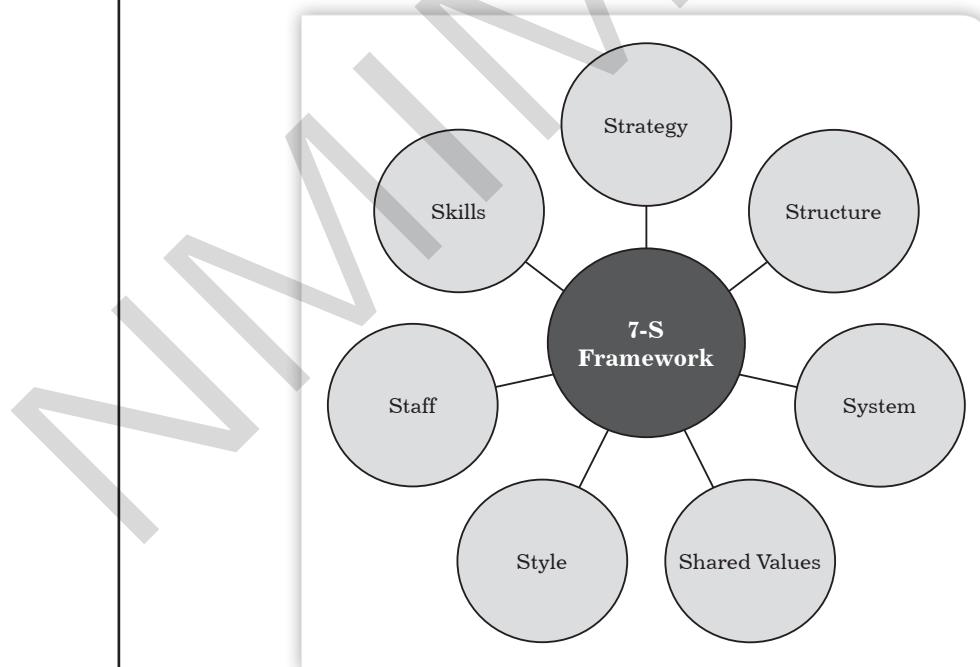


Figure 1.2: Elements of the 7-S Framework

These elements of the 7-S framework are explained as follows:

- **Strategy:** It is a plan of action that helps an organisation to define its goals and determine the steps to attain those goals. According to Michael Porter, a professor at Harvard University, *the essence of strategy formulation is coping with competition*. Thus, an organisation must devise new and sustainable ways to gain a competitive edge over its rivals. For example, many brick and mortar companies (traditional organisations having physical presence) are coming up with online retail portals to increase customer base.

N O T E S

- **Structure:** Organisational structure refers to a framework of relationships among employees working within an organisation. The structure defines power, roles and functions of each individual in the hierarchy. In an organisation having a well-defined structure, management can improve group tasks and delegate authority and responsibility.
- **System:** It includes procedures and processes followed within an organisation. In an organisation, various systems, such as performance management system, management information system and compensation system, are used. These systems help an organisation to complete all tasks needed for attaining its goals and objectives.
- **Shared values:** These are the core values of an organisation that are reflected in its corporate culture and work ethics.
- **Style:** Every manager follows a unique style of managing tasks. The course of action that a manager adopts to attain goals and objectives is referred to as leadership style.
- **Staff:** It comprises employees working in an organisation.
- **Skills:** These include different capabilities or expertise of employees working in an organisation. For example, employees use their interpersonal skills to collaborate with each other for attaining goals.



SELF ASSESSMENT QUESTIONS

1. Every organisation adopts some measures to safeguard its _____ and other confidential business-related information.
2. _____ are the core values of an organisation that are reflected in its corporate culture and work ethics.
3. Structure includes procedures and processes followed within an organisation. (True/False)



ACTIVITY

Research about popular organisations around the world and find out the key features of those organisations that make them stand out among the rest. Prepare a report on your findings.

1.3 TYPES OF ORGANISATIONS

Organisations differ in terms of structure, functions, culture, size, objectives and nature of business. Figure 1.3 shows different types of organisations:

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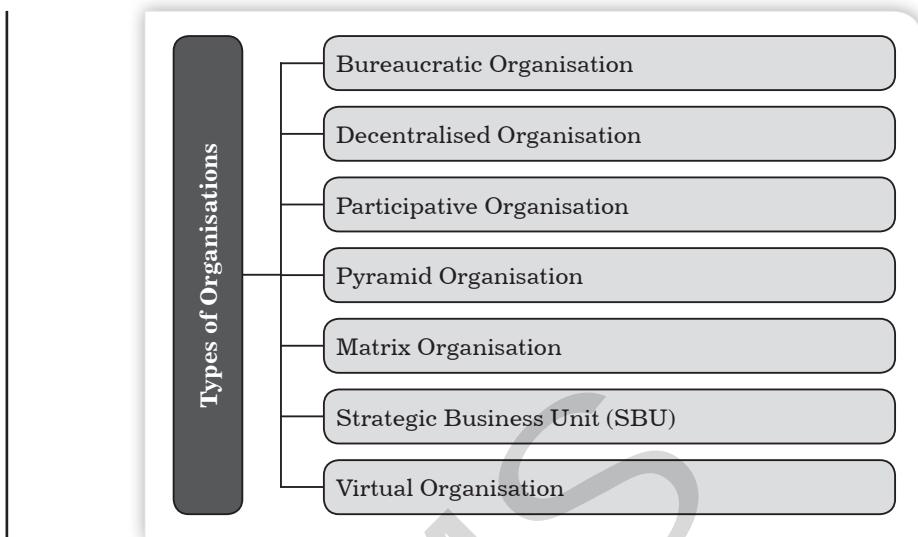


Figure 1.3: Different Types of Organisations

Let us have a look at these organisations:

- **Bureaucratic organisation:** Bureaucratic organisations follow a set of formal and rigid rules and regulations. Such organisations have a centralised decision-making process. In such organisations, organisational charts are designed for every department with an aim to make more organised decisions. Examples of bureaucratic organisations include prisons, police departments, colleges and universities.
- **Decentralised organisation:** In this type of organisation, managers at all levels are empowered to make decisions related to daily operations. This helps top management to focus on major issues, such as strategic expansion.
- **Participative organisation:** This type of organisation takes the middle path and adopts the positive features of both bureaucratic and democratic organisations. In a participative organisation, all employees get involved in the decision-making process. A participative organisation practices specialisation but not very rigidly. It is more flexible than a bureaucratic organisation but less flexible than a democratic organisation.
- **Pyramid organisation:** This type of organisation follows a hierarchical structure containing top-level, middle-level and low-level management. In a pyramid organisation, the decision-making process is highly centralised. Top-level managers make major decisions. The concern for employees is low in a pyramid organisation.
- **Matrix organisation:** In this type of organisation, dual lines of authority are formed. An employee working on a particular project could report to different managers. For example, an employee may have to report to the head of a financial department and the head of the production department. In this case, the financial head

N O T E S

would be the primary reporting authority, while the production head would be the secondary reporting authority, whom the employee reports for a particular time period.

- **Strategic Business Unit (SBU):** It refers to a small part of an organisational arrangement that performs a specific task. An SBU forms its own business strategies and objectives, which are different from the SBU's parent organisation. In addition, it is a separate organisation with its own product lines and geographic markets.
- **Virtual organisation:** This type of organisation focuses on outsourcing its operations so that assets can be reduced to minimum. In a virtual organisation, various functions, such as production, supply chain or logistics operations are managed through a network of contacts. Moreover, a virtual organisation does not have any physical location; therefore, it is cost effective. However, a major drawback of such kind of organisation is that the management's control is reduced.

**SELF ASSESSMENT QUESTIONS**

4. The type of organisation that takes the middle route and adopts the positive features of both bureaucratic and democratic organisations is _____.
5. In the matrix organisation, dual lines of authority are formed and the work is done based on various projects. (True/False)
6. _____ focuses on outsourcing its operations so that assets can be reduced to minimum.

**ACTIVITY**

Research on virtual and matrix type of organisations. Find the basic features that differentiate these two organisations. Prepare a report based on your findings.

1.4 ORGANISATIONAL APPROACHES

Organisational approaches describe the functioning and performance of an organisation as well as the behaviour of individuals working in it. These approaches help organisations in developing desired organisational structures that can enhance their efficiency in attaining goals. Different researchers have presented different organisational approaches. However, there are basically three well-known approaches that define the management perspective or throw light on how organisations manage their employees. These three organisational approaches along with the theories mapped under each approach are shown in Figure 1.4:

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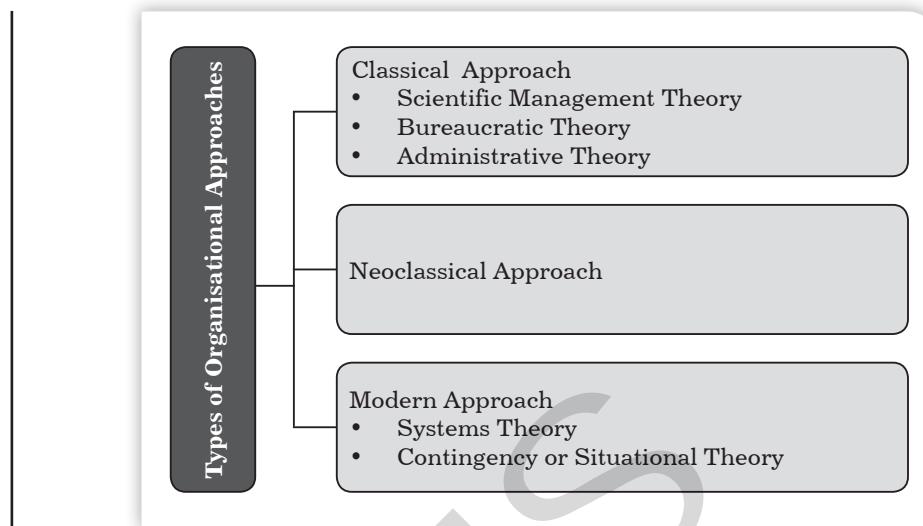


Figure 1.4: Types of Organisational Approaches

1.4.1 CLASSICAL APPROACH

The classical approach was advocated by F. W. Taylor, Max Weber and Henri Fayol. Fayol is regarded as the father of the classical approach as he was the first to present this approach.

The classical approach is based on the traditional assumption that improvement in the efficiency of an organisation's human resource can increase the productivity of the organisation. In other words, the classical theory considers human beings as machines. Thus, it is also known as the machine theory or physiological theory. The classical approach lays emphasis on:

- ❑ Monitoring and controlling all organisational activities.
- ❑ Detecting errors and minimising work processes.
- ❑ Reducing employee resistance towards change in the organisation.
- ❑ Integrating activities performed in the organisation.

The classical approach is based on four principles, which are as follows :

- ❑ **Division of labour:** This principle emphasises the division of work to be allocated to employees in accordance with their skills and efficiency. This helps to improve employees' performance, which results in increasing organisational efficiency.
- ❑ **Scalar and functional processes:** According to this principle, the scalar chain of command helps in performing various functions by delegating authority, creating power and building a sense of responsibility among employees within the organisation. Scalar processes improve superior-subordinate relationships in an organisation, whereas functional processes help to create the specialisation of work activities and regroup these activities in an organisational network.

N O T E S

- **Structure:** It is the framework of an organisation in which all elements of a group interact with each other. The structure of an organisation defines the boundary or limit beyond which an organisation has no direct control.
- **Span of control:** Span of control refers to the number of subordinates directly supervised by a superior or manager in an organisation.

Let us briefly discuss the theories under the classical approach:

- **Scientific management theory:** This theory was provided by Frederick W. Taylor, Frank and Lilian Gilbreth and Henry L. Gantt. According to Taylor, scientific management is all about finding the 'one best way to perform a task'. For achieving this, he laid out four principles of management, which are as follows:
 - ◆ There should not be a rule of thumb in organisations to perform different tasks. Instead, various scientific methods, such as mechanisation and automation, should be employed to identify the most effective way to perform tasks. In other words, organisations should replace its traditional methods, such as manual production methods of performing work with more advanced ones.
 - ◆ Those tasks should be assigned to employees that best match with their skills and abilities. Moreover, employees should be motivated and trained to perform specific tasks. This would help the organisation in attaining maximum efficiency.
 - ◆ Organisations must evaluate the performance of employees periodically and ensure that the most efficient ways to accomplish tasks are being used.
 - ◆ Tasks should be allocated to employees in a manner that allows managers to focus on efficient planning and training employees.
- **Bureaucratic theory:** This theory was given by Weber. According to this theory, organisations should have a clearly defined hierarchy. In addition, the roles of employees at different levels should be defined clearly. There should be strong lines of authority (rules of system), division of labour, specialisation, control and interpersonal relations in organisations.
- **Administrative theory:** This theory was given by Fayol. He emphasised the need for organising people and processes. Fayol gave a set of 14 principles that broke the myth that managers are born, not made. The principles are division of work, authority, discipline, unity of command, unity of direction, subordination of individual interest to organisational interests, remuneration, centralisation, scalar chain, order and equity, stability of tenure of personnel, initiative and esprit de corps.

N O T E S

Many modern management experts criticised the classical approach because of the lack of motivational aspect. Moreover, this approach is developed on a hypothesis that organisations are closed systems (a system that is isolated from the external environment). However, modern organisations operate in both internal and external environments.

Another criticism of the classical approach is that the theory presumes a rigid organisational structure with no scope of change. In modern times, such an assumption may not work as today's organisations are highly dynamic in nature.

1.4.2 NEOCLASSICAL APPROACH

The neoclassical approach was developed by Elton Mayo and his associates. According to this approach, an organisation is a social system, involving a group of individuals sharing a common objective. The approach emphasises that all individuals in an organisation must interact with each other, and their behaviour can be judged on the basis of social and psychological factors. Some of the important features of the neoclassical approach are as follows:

- ❑ An organisation is a social system.
- ❑ There are informal groups within a formal structure.
- ❑ Human beings do not always behave rationally.
- ❑ Teamwork improves the efficiency of both the organisation and employees.

The neoclassical approach lays emphasis on the decentralisation and development of informal organisations. However, this approach is criticised by modern management practitioners on the grounds of inapplicability of organisational structures proposed by neo-classicists and lack of research evidence and proof to validate the neo-classical theory.

1.4.3 MODERN APPROACH

The modern approach was developed by the management practitioners of more recent times. This approach was initially advocated by Hicks and Gullet and further enhanced by Chester Irving Barnard and Von Bertalanffy. The approach is based on the assumption that the organisation as a system must be able to adapt to changes in its environment.

The modern approach can be divided into two types of approaches, which are as follows:

- ❑ **Systems approach:** In this approach, organisations are assumed to be integrated systems that exist in totality. According to this ap-

N O T E S

proach, there are interdependent variables in organisations that influence each other. In addition, the approach assumes that every organisation has subsystems or sub-entities that interact regularly to form a larger entity. Each subsystem or sub-entity in the organisation has its own functions, roles and objectives. These subsystems are technological systems, power systems, social systems and managerial systems.

- **Contingency approach:** As per this approach, an organisation should customise its structure based on its objectives and functions. This approach is based on an assumption that an organisation cannot work with the same structure for a long time. Moreover, an organisation should consider various internal and external factors, such as basic operations of the organisation, its size and market conditions, while designing its structure.

**SELF ASSESSMENT QUESTIONS**

7. _____ describe the functioning and performance of an organisation as well as the behaviour of individuals working in it.
8. Who among the following personalities did not advocate the classical approach?
 - a. F. W. Taylor
 - b. Max Weber
 - c. Elton Mayo
 - d. Henry Fayol
9. In which approach organisations are assumed to be integrated systems that exist in totality?

**ACTIVITY**

Research about three organisations that use the contingency approach for designing their organisational structure. You can take help of various sources for your research such as the Internet, magazines and newspapers.

1.5**FUNDAMENTAL ELEMENTS OF AN ORGANISATION**

There are three important elements that are instrumental in the development of an organisation. These elements are shown in Figure 1.5:

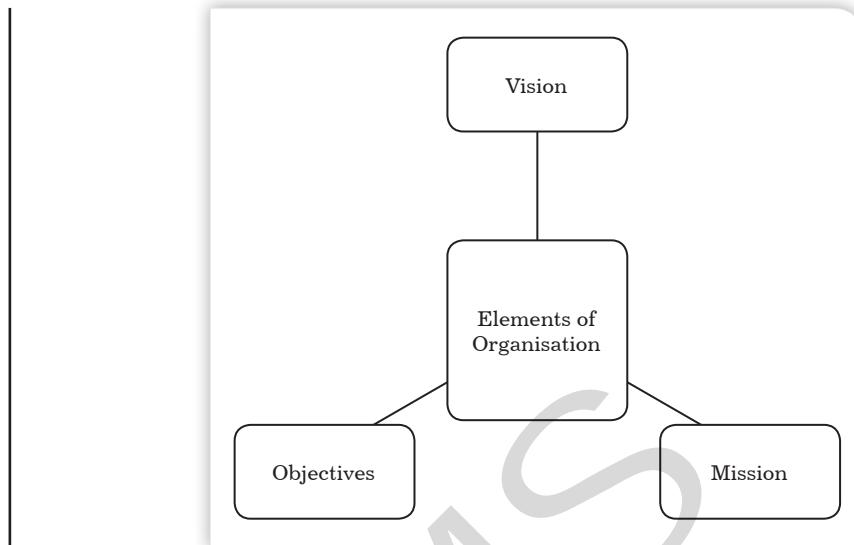
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Figure 1.5: Elements of Organisation

Let us discuss these elements in detail.

VISION

Vision defines what an organisation aspires to be in the long run. Thus, it can be referred to as the long-term goal of an organisation. According to El-Namaki, *vision is a mental perception of the kind of environment an individual, or an organization aspires to create within a broad time horizon and the underlying conditions for the actualisation of this perception*. An organisation cannot work effectively if it does not have a clear vision. A vision statement consists of the aspirations of an organisation in a written form. The following points explain the purpose of a vision statement:

- Develops an identity for an organisation
- Inspires the organisation to achieve its aim
- Nurtures long-term perspective in the organisation
- Encourages the organisation to innovate and experiment

**EXHIBIT****Examples of Vision Statements****APPLE INC.**

“We believe that we are on the face of the earth to make great products and that’s not changing. We are constantly focusing on innovating. We believe in the simple not the complex. We believe that we need to own and control the primary technologies behind the products that we make, and participate only in markets where

N O T E S

we can make a significant contribution. We believe in saying no to thousands of projects, so that we can really focus on the few that are truly important and meaningful to us. We believe in deep collaboration and cross-pollination of our groups, which allow us to innovate in a way that others cannot. And frankly, we don't settle for anything less than excellence in every group in the company, and we have the self-honesty to admit when we're wrong and the courage to change. And I think regardless of who is in what job those values are so embedded in this company that Apple will do extremely well". – Tim Cook, CEO of Apple Computer (Quoted from CNN Money.com).

PEPSICO

"PepsiCo's responsibility is to continually improve all aspects of the world in which we operate - environment, social, economic-creating a better tomorrow than today. Our vision is put into action through programs and a focus on environmental stewardship, activities to benefit society, and a commitment to build shareholder value by making PepsiCo a truly sustainable company". (Quoted from PepsiCo.com.)

AMAZON

"Our [Amazon's] vision is to be earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online". (Quoted from Amazon.com)

MISSION

A mission defines the reason for the existence of an organisation and is used to make decisions related to priorities, actions and responsibilities. In other words, mission statements are written declarations highlighting the core purpose and focus of organisations. According to Thompson, *mission is the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business (es) it is in and the customers it seeks to serve and satisfy.*

The mission statement helps an organisation to identify its purpose, allocate resources, motivate employees for efficient resource utilisation and ensure stability of the purpose. The main features of a mission statement are as follows:

- ❑ Feasibility:** A mission statement must be realistic. The availability of resources in an organisation can make its mission either feasible or infeasible.
- ❑ Clarity:** A mission statement should be transparent and clear so that it is understood by everyone in the organisation.

N O T E S

- **Motivation:** A mission statement should encourage employees to work towards achieving organisational goals.
- **Uniqueness:** A mission statement should be unique and should distinguish the organisation from its competitors.

OBJECTIVES

Objectives can be defined as targets that help an organisation in reaching its goals. These goals represent the financial and non-financial aims of the organisation. Therefore, objectives are framed in such a way that the employees of the organisation can easily pursue them. The essential features of an organisation's objectives are as follows:

- **Unambiguous:** Objectives should be clear and precise. Ambiguous objectives may lead to wrong measures, resulting in heavy losses for the organisation.
- **Specific time frame:** Objectives are designed for a specific period of time. By defining time limits, managers can understand and develop an appropriate course of action to attain the objectives more efficiently.
- **Measurable and controllable:** Objectives are quantifiable. This helps a strategist in comparing achieved objectives with the desired objectives. In addition, measurable objectives can help an organisation in identifying deviations and loopholes so that appropriate controls can be exercised.



SELF ASSESSMENT QUESTIONS

10. A vision statement is the aspiration of an organisation in a written form. (True/False)
11. _____ can be defined as targets that help an organisation in reaching its goals.



ACTIVITY

Assume that you want to open an electronics manufacturing company that will sell mobile phones and music systems. Define the vision and mission statements for your company.

1.6 ORGANISATIONAL LIFE CYCLE

An organisational life cycle is a sequence of events experienced by an organisation throughout its tenure. An organisational life cycle has five phases as shown in Figure 1.6:

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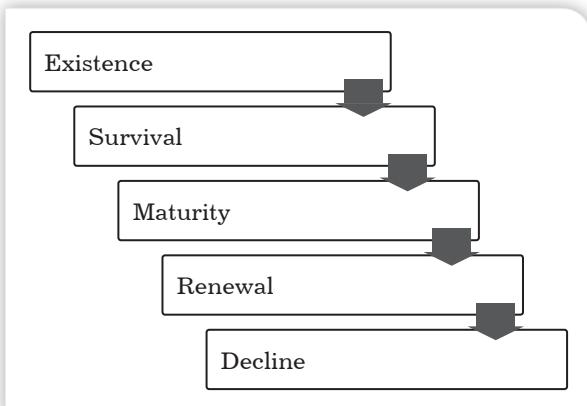


Figure 1.6: Phases of Organisational Life Cycle

Let us have a look at these phases:

- **Existence:** This is the initial phase of an organisational life cycle and is referred to as the birth or entrepreneurial stage. At this stage, an organisation makes efforts to expand its market share. It strives to acquire customers to sustain its business.
- **Survival:** Organisations aim to expand their business by establishing a framework and developing their capabilities. The primary focus is on setting targets regularly to generate sufficient revenue. Many organisations successfully establish in the market and enter the next stage. On the other hand, organisations that are unsuccessful in achieving growth fail to survive.
- **Maturity:** An organisation reaches its peak position, and its revenues cease to increase further. The organisation at the maturity stage strives to safeguard its growth and focuses on generating stabilised profits as opposed to increased revenues.
- **Renewal:** To avoid decline, organisations renew their structure to revive their position. For example, an organisation may transform its hierarchical structure into matrix style, which further brings creativity and flexibility.
- **Decline:** At this stage, the growth of an organisation ceases. During the decline stage, employees focus on achieving personal objectives instead of focusing on organisational goals and objectives. This deteriorates the organisation's functionality, resulting in the shutdown of the organisation.



EXHIBIT

Phases of Organisational Growth

According to L. Greiner, the growth of an organisation takes place in five different phases. These phases begin with evolution and end with revolution/crisis.

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The phases of growth are shown in the following figure:

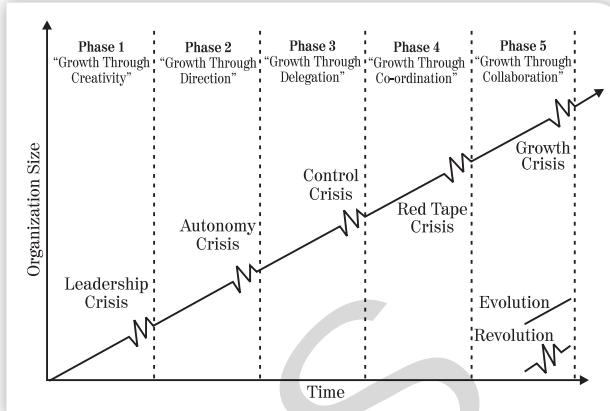


Figure: Greiner's Growth Model

Source: <http://www.businesssetfree.com/5-keys-to-small-business-growth/>

- **Phase 1:** A novel organisation focuses on selling its products in the market. There is absence of any formal system in such organisation, which can lead to problems at all levels. Consequently, managerial problems may arise because of the absence of sound leadership. Therefore, an organisation needs a more structured form of management.
- **Phase 2:** The adoption of directive leadership in an organisation requires the adoption of a highly structured and formal system for expansion. However, this may result in autonomy crisis as managers at lower levels may feel that they are ignored in the decision-making process. Therefore, the delegation of authority is required at lower levels for motivating employees to work for the growth of the organisation.
- **Phase 3:** Because of a high degree of delegation, top-level managers may reduce their involvement in routine operations, and low-level supervisors may become accustomed to working without the interference of high-level managers. Because of this, the communication between both levels would be reduced, leading to a crisis of control. This may further result in a conflict of interest between both high- and low-level managers.
- **Phase 4:** In order to achieve growth, efficient coordination methods are adopted for the proper allocation of resources. Formal rules and regulations are established to achieve increased coordination. However, increased coordination can lead to bureaucracy, which may result in many administrative obstacles and reduction in efficiency.
- **Phase 5:** Organisations attempt to resolve administrative issues by adopting methods that ensure collaboration. For this, organisations focus on building teams and adopt various flexible and behavioural approaches for problem solving.

N O T E S**SELF ASSESSMENT QUESTIONS**

12. Which of the following is the first phase of the organisational life cycle?
 - a. Existence
 - b. Survival
 - c. Maturity
 - d. Decline
13. An organisation at the maturity stage strives to safeguard its growth and focuses on generating stabilised profits as opposed to increasing revenues. (True/False)
14. In which stage of organisational life cycle, organisations change their structure to revive their position.

**ACTIVITY**

Research on the life cycle of Samsung Electronics and discuss the stage at which the company is positioned currently.

1.7 SUMMARY

- ❑ An organisation is a setup where individuals strive to attain corporate goals and at the same time, achieve their personal goals.
- ❑ An organisation is a system where different interrelated components interact with each other to attain common goals. The components include task, people, structure, technology and environment.
- ❑ The 7-S framework helps managers to improve an organisation's performance by determining potential changes that may take place in the future and examining how to incorporate the best strategy.
- ❑ The different types of organisations are bureaucratic organisation, decentralised organisation, participative organisation, pyramid organisation, matrix organisation, SBU and virtual organisation.
- ❑ Different organisational approaches are classical approach, neo-classical approach and modern approach.
- ❑ Three important elements instrumental in the development of an organisation are vision, mission, and objectives.
- ❑ An organisational life cycle begins with its creation and ends at its closure. It can also be described as the sequence of events experienced by an organisation during its operations throughout its tenure.

N O T E S



KEY WORDS

- ❑ **Authority:** It is the legitimate control of an individual or a group over organisational processes and subordinates.
- ❑ **Coordination:** It involves creating a network of all activities and tasks to perform a task.
- ❑ **Leadership:** It is an act of leading or directing a group of people or an organisation.
- ❑ **Matrix organisation:** It is an organisational structure with more than one reporting line.
- ❑ **Monitoring:** It is an act of observing and keeping a track of activities taking place at a particular place and time.

1.8 DESCRIPTIVE QUESTIONS

1. Explain the main features of an organisation.
2. Describe the 7-S framework of an organisation.
3. Briefly describe pyramid and matrix organisation and discuss their main differences.
4. Discuss the main features of the neo-classical approach.
5. What do you understand by the mission of an organisation? Explain with examples.
6. Explain the phases of organisational growth.

1.9 ANSWERS AND HINTS**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q.No.	Answers
Concept of Organisation	1.	Trade secrets
	2.	Shared values
	3.	False
Types of Organisations	4.	Participative organisation
	5.	True
	6.	Virtual
Organisational Approaches	7.	Organisational approaches
	8. c.	Elton Mayo

N O T E S

Topic	Q.No.	Answers
	9.	Systems approach
Fundamental Elements of an Organisation	10.	True
	11.	Objectives
Organisational Life Cycle	12.	a. Existence
	13.	True
	14.	Renewal

HINTS FOR DESCRIPTIVE QUESTIONS

1. The features of an organisation include goal orientation, employee involvement, development of team culture, response towards a change, optimisation of resources and confidentiality. Refer to Section **1.2 Concept of Organisation**.
2. In the 1970s, consultants of McKinsey Company in the United States developed the 7-S framework model to understand the functioning of organisations. Refer to Section **1.2 Concept of Organisation**.
3. A pyramid organisation follows a hierarchical structure containing top-level, middle-level and low-level management. On the other hand, in a matrix organisation, dual lines of authority are formed Refer to Section **1.3 Types of Organisations**.
4. The neo-classical approach considers an organisation as a social system. Refer to Section **1.4 Approaches to Organisation**.
5. A mission defines the reason for the existence of an organisation and helps to make decisions related to priorities, actions and responsibilities. Refer to Section **1.5 Fundamental Elements of an Organisation**.
6. An organisational life cycle involves five phases: existence, survival, maturity, renewal and decline. Refer to Section **1.6 Organisational Life Cycle**.

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2

C H A P T E R

ORGANISATIONAL EFFECTIVENESS AND ITS MEASUREMENT

CONTENTS

- | | |
|-----|--|
| 2.1 | Introduction |
| 2.2 | Concept of Organisational Effectiveness
Self Assessment Questions
Activity |
| 2.3 | Approaches to Organisational Effectiveness
2.3.1 Traditional Effectiveness Approaches
2.3.2 Contemporary Effectiveness Approaches
Self Assessment Questions
Activity |
| 2.4 | Summary |
| 2.5 | Descriptive Questions |
| 2.6 | Answers and Hints |
| 2.7 | Suggested Readings for Reference |

INTRODUCTORY CASELET

RIGHT MANAGEMENT AND ORGANISATIONAL EFFECTIVENESS

Right Management is one of the world's leading providers of talent and career management solutions. The company has expertise in five broad categories namely, talent assessment; leader development; organisational effectiveness; employee engagement and workforce transition and outplacement. Its client base includes many Fortune 500 companies across the globe. Right Management helps its clients to overcome workforce management challenges, reduce costs and accelerate performance.

One of the clients of Right Management was a high-end server manufacturer with more than 1,000 employees on long-term contracts. The client company followed a standard working schedule, i.e. 9AM–5PM a week. However, due to the dynamic nature of the market, the client company faced challenges in achieving organisational effectiveness. To overcome these challenges, the client desired to make alterations in its current working schedule without losing its existing employees. This is because employees are generally reluctant to adapt to changes.

To meet the expectations of the client company, Right Management adopted a holistic approach to improve the organisational effectiveness of the client company. The company provided the following solutions to the client company:

- ❑ **Strategy implementation:** Right Management enabled the client company to execute its business strategy successfully by focusing on its organisational structure, people systems and processes and customers' needs and preferences.
- ❑ **Strategic workforce alignment:** Right Management's Right-Navigator™ is a specially designed diagnostic process that is based on the Six Sigma methodology. This process helped the client company to assess employee needs and their level of satisfaction and formulate and implement workforce strategies accordingly.
- ❑ **Change management:** Right Management suggested the client company to transform its working schedule by replacing the fixed weekly schedule with a flexi-work schedule. For this, the company assisted executives at the client company to bring about organisational change, empowered managers to lead through the change, and enabled employees to respond to the change appropriately.

As a result, the client company enjoyed improved manufacturing productivity and attained sustainable competitive advantage. Moreover, the client company was able to integrate and align its business strategy with its workforce strategy.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Explain organisational effectiveness
- Discuss various approaches to achieve organisational effectiveness

2.1 INTRODUCTION

In the previous chapter, you have studied about the concept of an organisation. An organisation is a group of individuals who work for common goals and objectives. To survive in today's competitive business environment, an organisation needs to check its effectiveness regularly.

Organisational effectiveness constitutes the ability of an organisation to achieve its pre-defined goals and objectives with the available resources. In other words, organisational effectiveness is a tool that determines whether an organisation is successful in achieving its intended results. Organisational effectiveness can be measured in terms of high productivity, morale, conformity, and willingness to change.

Measuring effectiveness helps organisations to identify and eliminate ineffective processes and modify their approach to prevent losses. An organisation needs to answer the following questions to measure its effectiveness:

- ❑ Are the organisation's strategic goals and objectives clear and well-communicated within the organisation?
- ❑ Is the leadership team of the organisation cohesive?
- ❑ Are the roles, responsibilities, reporting relationships and controlling mechanisms defined clearly?
- ❑ Does the overall structure of the organisation support its business strategy?
- ❑ Does the organisation have the right people and capabilities to achieve the organisation's vision and strategic goals?
- ❑ Does the organisation have processes in place to develop capabilities required for the organisation's future success?
- ❑ Does the organisation have a strong culture that is open and adaptable to change?

Organisations measure their effectiveness to gauge various areas, such as employee performance, profits, process efficiency, and production volume. There are no fixed parameters or a defined mathematical formula for measuring organisational effectiveness. This is because every organisation creates its own method of measuring effectiveness

N O T E S

depending on its requirements. However, there are some common approaches given by management experts to measure organisational effectiveness. These are goal approach, systems approach, internal process approach, stakeholder approach and competing value approach. In this chapter, you will study all about organisational effectiveness and its significance.

2.2 CONCEPT OF ORGANISATIONAL EFFECTIVENESS

Organisational effectiveness is the measure of an organisation's performance in terms of profitability, productivity, competitiveness and employee satisfaction. In other words, organisational effectiveness is the measure of an organisation's success in achieving its desired outcomes.

According to S.P. Robbins, *an organisation is said to effective if it is able to achieve its goals.*

Basil Georgopoulos and Arnold S Tannenbaum defined organisational effectiveness as *the extent to which an organisation, given certain resources and means, achieves its objectives without placing undue strain on its members.*

By measuring its effectiveness, an organisation can assess its competitive advantage in the market and measure whether it has potential to achieve the pre-defined goals. To measure its effectiveness, an organisation needs to consider factors, such as growth, turnover, stability and cohesion. Organisational effectiveness can be viewed at three levels, which are as follows:

- ❑ **Individual level:** This level lays emphasis on the performance of tasks by each employee. Effectiveness of an individual depends on his/her skills, knowledge, attitude and motivation. To assess an individual effectiveness, organisations use performance appraisal. Based on the appraisal, organisations decide salary, promotions and other incentives for employees. In an organisation, individual effectiveness depends on the individuals' skills, attitude and motivation to perform.
- ❑ **Group level:** In an organisation, employees work in groups to achieve organisational goals and objectives. Thus, it is necessary for an organisation to assess group effectiveness by evaluating the ability of each member of a group to achieve organisational goals and objectives. Group effectiveness depends on various factors, such as cohesiveness, leadership and the roles of members.
- ❑ **Organisational level:** This level considers both individual and group effectiveness. To achieve organisational effectiveness, a synergy among all employees needs to be created. Organisational effectiveness is assessed on the basis of sales volume, productivity,

N O T E S

labour turnover, etc. To achieve organisational effectiveness, management must respond to changes taking place in the business environment quickly, such as change in technology, processes and organisational culture.

**SELF ASSESSMENT QUESTIONS**

1. Which level of organisational effectiveness depends on cohesiveness and leadership?
 - a. Individual level
 - b. Group level
 - c. Organisational level
 - d. Process level
2. What is the basis for deciding salary, promotions and other incentives for employees?
3. To achieve organisational effectiveness, management should only consider external factors, such as introduction of new technology and changes in government policies. (True/False)

**ACTIVITY**

List the goals that should be established by an organisation to achieve individual effectiveness.

2.3**APPROACHES TO ORGANISATIONAL EFFECTIVENESS**

Effectiveness could mean different to different organisations due to variation in their requirements, goals and objectives, availability of resources, financial budget, customer demands, etc. Therefore, organisations adopt different approaches to attain organisational effectiveness. There are mainly two types of organisational approaches, which are further divided as shown in Figure 2.1:

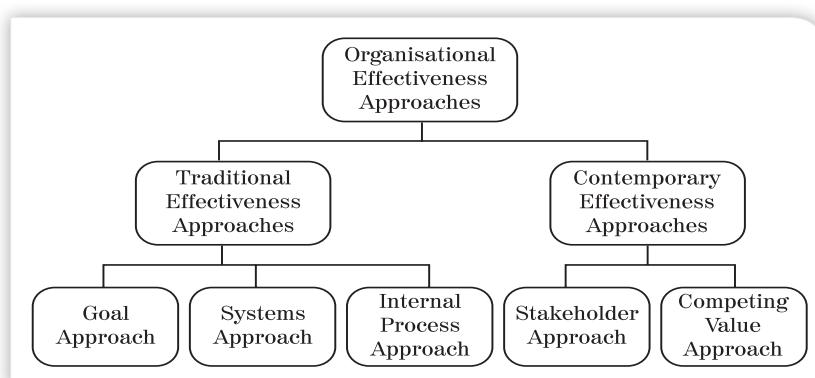


Figure 2.1: Approaches to Organisational Effectiveness

Let us discuss these approaches in detail in subsequent sections.

N O T E S

2.3.1 TRADITIONAL EFFECTIVENESS APPROACHES

Earlier, many organisations used rigid, traditional approaches to measure their effectiveness. These approaches only focused on goal attainment and internal process improvement. There are four traditional approaches to gauge organisational effectiveness namely goal approach, systems approach, internal process approach and competing value approach. Let us discuss these approaches in detail.

GOAL APPROACH

This is the oldest approach used by organisations to analyse their effectiveness. The goal approach is also known as the rational goal or the goal attainment approach. According to this approach, goals define the existence of an organisation. Therefore, the attainment of goals serves as the measure of organisational effectiveness.

According to the goal approach, an organisation needs to identify achievable goals and evaluate how those goals can be achieved. This approach is suitable for organisations that endeavour to achieve pre-defined outcomes, such as profits and client satisfaction. The goal approach assumes organisations as rational and goal-seeking entities.

Thus, to measure organisational effectiveness using the goal approach, the following assumptions are made:

- Organisations have measurable goals.
- Goals are understood by employees.
- A general consensus on goals is achieved between the top management and employees.

Although organisations use the goal approach to measure organisational effectiveness, there are a few loopholes in this approach. These loopholes are as follows:

- Existence of multiple goals:** Often, an organisation lays emphasis on various conflicting goals to be achieved simultaneously, making it difficult for the organisation to measure its effectiveness. For example, the goal of an organisation could be to maximise profits and bring advancement in the existing infrastructure. However, these two goals are conflicting as making advancements in infrastructure could incur huge investments that would affect profitability.
- Non-measurable goals:** If the goals set by an organisation are not measurable, it becomes difficult to measure organisational effectiveness. For example, an organisation may have a goal to increase market awareness of its products. However, it is not easy to define the extent to which this goal can be achieved.
- Differences in term goals:** An organisation forms both short-term and long-term goals. These goals are often different from each other. In such a case, the goal approach cannot be applied. For exam-

N O T E S

ple, the long term goal of an organisation could be to earn double revenue by the end of the year, whereas the short-term goal could be selling products at discounted prices. However, while applying the goal approach, it becomes difficult for the organisation to assess as to which goal should be used for evaluating its effectiveness.

SYSTEMS APPROACH

In the previous chapter, you have studied that a system is a set of independent and interrelated components interacting with each other. According to the systems approach, an organisation is said to be effective if it utilises its available resources optimally. As per the systems approach, the following are the main features of an organisation:

- An organisation is a subsystem of a broad environment.
- It has goals.
- It applies knowledge, techniques, equipment and facilities to become a subsystem.
- It consists of people who work together and form social relationships.
- It has managers who perform various functions, such as planning, organising, motivating, communicating, and controlling, to achieve a pre-defined set of goals.

To achieve organisational effectiveness using the systems approach, an organisation must take into consideration two points, which are as follows:

- Firstly, the organisation's survival depends upon its ability to adapt to changes taking place in the business environment.
- Secondly, to adapt to various changes, the management of the organisation must focus on the input-process-output cycle. According to cycle, an organisation as a system receives input and transforms it into output through a process.

INTERNAL PROCESS APPROACH

In the internal process approach, an organisation's internal health and efficiency are the measures of its effectiveness. In other words, an organisation is said to be effective if its internal processes yield high productivity. Changes in the external environment (for instance, change in competitors' strategies, government policies, consumer behaviour, etc.) are not taken into account in this approach.

According to the internal process approach, the following are the indicators of an effective organisation:

- Cooperation among employees
- Progressive work culture

N O T E S

- Mutual trust among the management and employees
- Effective flow of information
- Quick resolution of conflicts

The internal process approach also has certain drawbacks, which are as follows:

- Internal factors on which organisational effectiveness is evaluated are often subjective in nature due to non-quantifiable inputs. For example, it is difficult to acquire the precise measure of satisfaction of employees in an organisation.
- As the internal process approach does not consider external factors for measuring organisational effectiveness, the evaluation remains incomplete. This is because the effectiveness of an organisation is influenced by various external factors, such as changes in government policies and introduction of new technology.

Traditional approaches consider only those factors that can be easily controlled. However, organisations work in a dynamic environment where changes take place frequently and are beyond the control of an organisation. Therefore, the need to consider external factors while measuring organisational effectiveness was felt. Modern approaches reportedly help in providing a real picture of the organisation's performance.

Let us now discuss some modern approaches used for measuring organisational effectiveness.

2.3.2 CONTEMPORARY EFFECTIVENESS APPROACHES

Contemporary effectiveness approaches consider various indicators into a single framework to analyse the performance of an organisation. According to these approaches, an organisation is effective if it responds to the changes taking place in the external environment quickly.

As shown in Figure 2.1, there are two types of contemporary effectiveness approaches. Let us discuss these approaches in detail.

STAKEHOLDER APPROACH

Stakeholders are individuals who have a stake in an organisation's performance. They can be within or outside the organisation. As stakeholders have interest in an organisation, their criterion for measuring organisational effectiveness would be different.

In the stakeholder approach, organisational effectiveness is measured through the satisfaction of stakeholders. The stakeholders approach

N O T E S

is also known as the constituency approach. Table 2.1 shows different criteria for organisational effectiveness in the stakeholder approach:

TABLE 2.1: CRITERIA FOR ORGANISATIONAL EFFECTIVENESS

Stakeholders	Effectiveness Criteria
Shareholders/Owners	Dividends at specified periods
Employees	Fair compensation, congenial work climate, high employee satisfaction, job security
Customers	High quality goods and services
Creditors	On-time repayment of loans and creditworthiness
Community	Contribution to the preservation of the environment, for example, maintaining a low-level of pollution
Suppliers	Swift payments, continue providing large orders and reasonable terms and conditions.
Government	Abiding government laws and paying taxes on time

COMPETING VALUE APPROACH

Developed by Robert Quinn and John Rohrbaugh, the competing value approach combines various performance indicators into a comprehensive list. These indicators are then rated for similarity by a panel of experts to produce competing management values in an organisation. These values are used as dimensions of effectiveness, which help in evaluating the organisation's performance. The competing value approach considers two dimensions, which are explained as follows:

- **Focus:** This value dimension represents the emphasis of the organisation's management on both internal and external environments. In the internal environment, management focuses on the well-being of its employees, whereas in the external environment, the emphasis is laid on abiding by government laws, meeting customers' needs and building long-term relationships with suppliers.
- **Structure:** This value dimension represents how tasks are allocated, coordinated and supervised towards the accomplishment of organisational goals and objectives. In the structure of an organisation, the main emphasis is laid on stability and flexibility. Stability represents management's view about vertical (top-down) control, whereas flexibility represents the willingness of an organisation to adapt to changes taking place in the business environment.

Figure 2.2 represents Quinn and Rohrbaugh's model of organisational effectiveness based on dimensions:

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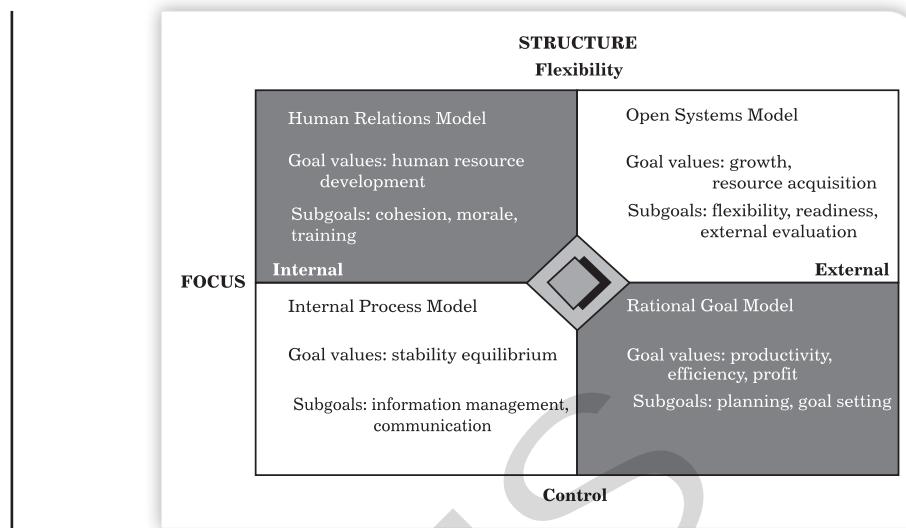


Figure 2.2: Models of Effectiveness Values

Source: Robert E. Quinn and John Rohrbaugh, (1983), "A Spatial Model of Effectiveness Criteria: Towards a Competing Values Approach to Organizational Analysis", Management Science 29, Page 363-77.

In Figure 2.2, the model shows a combination of dimensions that provide four interrelated models of organisational effectiveness, which are:

- **Human relations model:** In this model, the main concern of management is the development of employees. Therefore, the sub-goals adopted by management are to train employees, boost their morale and build cohesion. This helps to gain the commitment of employees towards achieving organisational effectiveness.
- **Internal process model:** In this model, management focuses on achieving a stable organisational setting. Therefore, sub-goals in this model are efficient communication and information management. This helps organisations in establishing and maintaining their position in the market.
- **Open systems model:** In this model, a combination of external focus and stability is adopted. Organisations lay emphasis on achieving growth and resource acquisition. To achieve these goals, organisations focus on attaining several sub-goals including building flexibility and evaluating external environment.
- **Rational goal model:** In this model, organisations adopt structural control and external focus. Thus, the key goals in this model are to increase in productivity, efficiency and profit. In order to achieve these goals, organisations must exercise complete control. Internal planning and goal setting are the sub-goals of the rational goal model.

By adopting the competing value approach, organisations can effectively develop a single perspective from varied concepts of effectiveness. Additionally, the approach acts as a guide to managers for identifying the appropriate criteria for evaluating organisational effectiveness.

N O T E S**SELF ASSESSMENT QUESTIONS**

4. In which model the sub-goals adopted by management are to train employees, boost their morale and build cohesion?
5. Write the effectiveness criteria for the following stakeholders of an organisation:
 - a. Shareholders
 - b. Community
6. Existence of multiple goals is one of the loopholes of the goal approach. (True/False)
7. As the _____ approach does not consider external factors for measuring organisational effectiveness, the evaluation remains incomplete.

**ACTIVITY**

You have been freshly hired as a manager in a small manufacturing company. The company is facing challenges with respect to productivity, which has resulted in the production of products that are below the standards. Discuss in detail the approach that you would use to achieve organisational effectiveness.

2.4 SUMMARY

- ❑ Organisational effectiveness is the measure of an organisation's performance in terms of profitability, productivity, competitiveness and employee satisfaction.
- ❑ Organisational effectiveness is the measure of an organisation's performance in terms of profitability, productivity, competitiveness and employee satisfaction.
- ❑ Organisational effectiveness can be viewed at three levels: individual, group, and organisational levels.
- ❑ Organisations adopt different approaches to attain organisational effectiveness. There are mainly two types of organisational approaches: traditional effectiveness approach and contemporary effectiveness approach.
- ❑ There are three types of traditional approaches: goal approach, systems approach, and internal process approach.
- ❑ According to the goal approach, goals define the existence of an organisation. Therefore, the attainment of goals serves as the measure of organisational effectiveness.
- ❑ According to the systems approach, an organisation is said to be effective if it utilises its available resources optimally.
- ❑ In the internal process approach, an organisation's internal health and efficiency are the measures of its effectiveness.

N O T E S

- Contemporary effectiveness approaches consider various indicators into a single framework to analyse the performance of an organisation. There are two types of contemporary effectiveness approaches: stakeholders approach and competing value approach.
- In the stakeholder approach, organisational effectiveness is measured through the satisfaction of stakeholders.
- The competing value approach combines various performance indicators into a comprehensive list. These indicators are then rated for similarity by a panel of experts to produce competing management values in an organisation.



KEY WORDS

- **Cohesion:** It is an act of forming a united group/team.
- **Information management:** It is a process of collecting, analysing, storing, and disseminating information.
- **Motivation:** Motivation is a theoretical concept used to explain behaviour. It explains the reasons why people act in different ways based on their actions, desires and needs.
- **Performance appraisal:** It is a method by which the performance of employees is evaluated and documented.
- **Synergy:** It is interaction between two or more individuals/groups to produce a combined effect which exceeds the sum of their distinct effects.

2.5 DESCRIPTIVE QUESTIONS

1. What is organisational effectiveness? Explain the three levels of organisational effectiveness.
2. Discuss the issues faced by organisations while using the goal approach?
3. Briefly describe the competing value approach.

2.6 ANSWERS AND HINTS**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q.No.	Answers
Concept of Organisational Effectiveness	1.	b. Group level
	2.	Performance appraisal
	3.	False

N O T E S

Topic	Q.No.	Answers
Approaches to Organisational Effectiveness	4.	Human relations model of the Quinn and Rohrbaugh's model of organisational effectiveness
	5.	a. Shareholders: Dividends at specified periods b. Community: Contribution to the preservation of the environment, for example, maintaining a low-level of pollution
	6.	True
	7.	Internal process

HINTS FOR DESCRIPTIVE QUESTIONS

1. Organisational effectiveness can be defined as the efficiency of an organisation to achieve its intended outcomes. Refer to Section **2.2 Concept of Organisational Effectiveness**.
2. There are various issues associated with the goal approach. Some of these issues are existence of multiple goals, non-measurable goals and differences in term goals. Refer to Section **2.3 Approaches to Organisational Effectiveness**.
3. The competing value approach was developed by Robert Quinn and John Rohrbaugh. In this approach, different performance indicators of an organisation are combined into a list and rated for similarity by a panel of experts with an aim to produce competing management values. Refer to Section **2.3 Approaches to Organisational Effectiveness**.

2.7 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

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3

C H A P T E R

ORGANISATIONAL STRUCTURE AND DESIGN

CONTENTS

3.1	Introduction
3.2	Concept of Organisational Structure
3.2.1	Features of Organisational Structure
3.2.2	Principles of Organisational Structure
3.2.3	Factors Influencing Organisational Structure
	Self Assessment Questions
	Activity
3.3	Elements of Organisational Structure
3.3.1	Departmentation
3.3.2	Span of Management
3.3.3	Delegation of Authority
3.3.4	Assignment of Responsibility
3.3.5	Organisational Strategy
	Self Assessment Questions
	Activity
3.4	Managing Complex Structures
	Self Assessment Questions
	Activity
3.5	Implications of Organisational Structure
	Self Assessment Questions
	Activity
3.6	Design of Organisational Structure
3.6.1	Problems in Organisational Structure Design
	Self Assessment Questions
	Activity
3.7	Organisational Structure Design and Flexibility
	Self Assessment Questions
	Activity

CONTENTS

- | | |
|------|----------------------------------|
| 3.8 | Summary |
| 3.9 | Descriptive Questions |
| 3.10 | Answers and Hints |
| 3.11 | Suggested Readings for Reference |

NMIMS

INTRODUCTORY CASELET

N O T E S

RESTRUCTURING OF BAYER AG

Bayer AG is a German multi-national company that specialises in healthcare, agriculture and high-tech polymer materials. Bayer's niche product is aspirin, used across the world.

In the 1980s, Bayer AG experienced a heavy rise in its sales, which encouraged the company to further expand its operations overseas. Bayer AG announced the reorganisation of the existing structure. It aimed to achieve three primary goals:

- ❑ Transfer control from the parent company to foreign divisions.
- ❑ Restructure business divisions to define their roles more clearly.
- ❑ Adopt a flat organisational structure and delegate decision-making authority to lower levels.

Bayer AG adopted a matrix organisational structure under the parent company and re-defined all its business operations into six groups, namely, Bayer HealthCare, Bayer CropScience, Bayer Material Science, Bayer Business Services, Bayer Technology Services and Currenta. These groups were further divided into subgroups for different product categories, such as dyestuffs, fibres or chemicals.

The company also restructured its administrative and service functions—the top management was given the responsibility of heading different geographic regions. The adoption of matrix structure helped Bayer AG to achieve its primary goals, increase its responsiveness to change and streamline plant operations and division activities.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Explain the concept of organisational structure
- Identify the elements of organisational structure
- Discuss the management of complex structures
- Describe the implications of organisational structure
- Define the design of organisational structure
- Relate organisational structure design and flexibility

3.1 INTRODUCTION

In the previous chapter, you have studied about organisational effectiveness, which helps in determining the success of a company. Organisational effectiveness measures the extent of success in an organisation. A key factor contributing to the success of an organisation is its structure, which defines the relationship among individuals working at different hierarchical levels of the organisation.

An organisational structure is a framework constituted by the top management to divide, organise and coordinate different tasks and processes at multiple hierarchical levels within an organisation. In other words, it is a hierarchy wherein tasks are allocated to individuals to achieve organisational goals and objectives. The organisational structure also determines how business decisions are taken and implemented at different levels of the organisation. It helps employees to clearly understand their roles and responsibilities in the organisation, which, in turn, improves their efficiency.

There are different types of organisational structures, such as line structure, line and staff structure, functional structure and divisional structure. The selection of the structure varies from one organisation to the other depending on its environment, size, and technology. The organisational structure can be effective if it is framed after taking into consideration various principles, such as division of labour, work specialisation, unity of command and unity of purpose.

This chapter introduces organisational structure, its elements and implications. You will also study about organisational design and the importance of flexibility in organisational design.

3.2 CONCEPT OF ORGANISATIONAL STRUCTURE

An organisation is a group of individuals working together to achieve pre-defined goals. In order to meet these goals, organisations require

N O T E S

an arrangement/hierarchy that allows individuals to follow specific rules and processes. An organisational structure is a framework where roles and responsibilities are assigned to individuals as per their capabilities in order to meet organisational goals.

Hurley defines organisation structures as *patterns of relationship among the various positions in a firm and among the various people occupying the positions.*

According to William H. Newman, *organisation structure deals with the overall organisational arrangement in an enterprise.*

Without an effective organisational structure, employees would not be clear about their job roles and there would be no chain of command to follow. This would intensify ambiguity among employees regarding tasks, job positions and departments and result in the wastage of time and resources. Different organisations have different organisational structures based on their requirements, size and nature of business and employee strength. The following are different types of organisational structures:

- **Line organisational structure:** A single line of command exists, and orders and approvals take place from top to bottom in a line. It is an informal organisational structure, which is particularly suitable for small-scale organisations. The decision-making process in a line organisational structure is easy and simple. This structure is also referred to as scalar, military or vertical organisational structure. Figure 3.1 shows an example of line organisational structure:

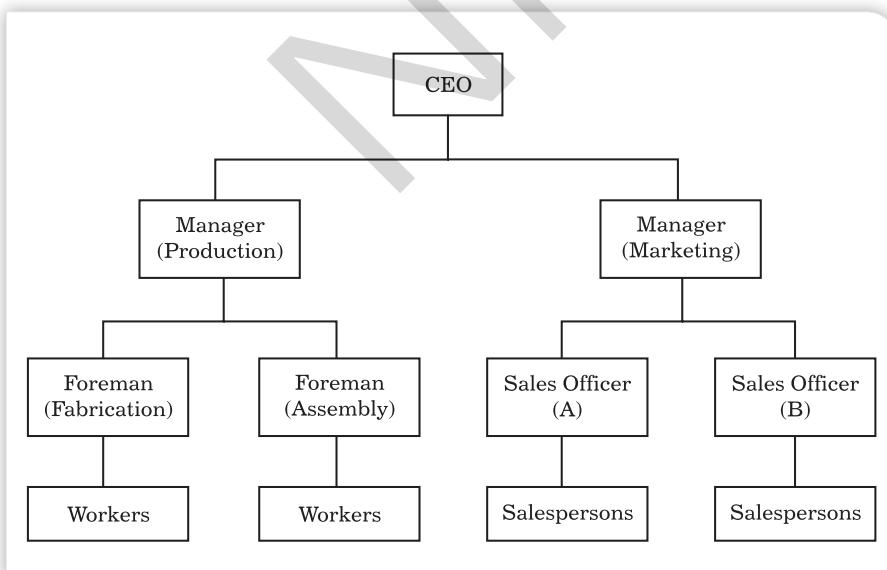


Figure 3.1: Line Organisational Structure

Source: <http://www.yourarticlelibrary.com/organization/8-types-of-organisational-structures-their-advantages-and-disadvantages/22143/>

N O T E S

- **Line and staff organisational structure:** In this type of structure, the flow of information takes place from top to bottom in a line and line managers are supported by staff members. For example, the production manager (line employee) is accountable for the production of goods, whereas the quality manager (staff member) is responsible for ensuring the quality of goods. Line and staff organisational structure is generally adopted in medium- and large-scale organisations. In this case, the decision-making process is slower than the line organisational structure. Figure 3.2 shows an example of line and staff organisational structure:

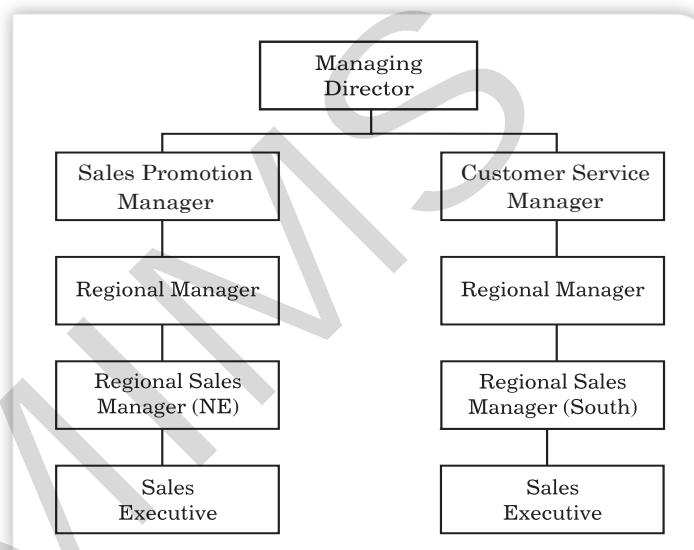


Figure 3.2: Line and Staff Organisational Structure

Source: http://www.gitam.edu/eresource/cms_sm_mvramprasad/sm_unit1_chap1_2.htm

- **Functional organisational structure:** Individuals with similar functional areas or skills are clustered in separate units. These units are controlled and coordinated by the top management of the organisation. For example, in an organisational structure, personnel from the human resource department perform functions, such as recruiting, hiring, appraisal and training and development. On the other hand, the accounting personnel are responsible for handling financial activities of the organisation. Figure 3.3 shows an example of a functional organisational structure:

N O T E S

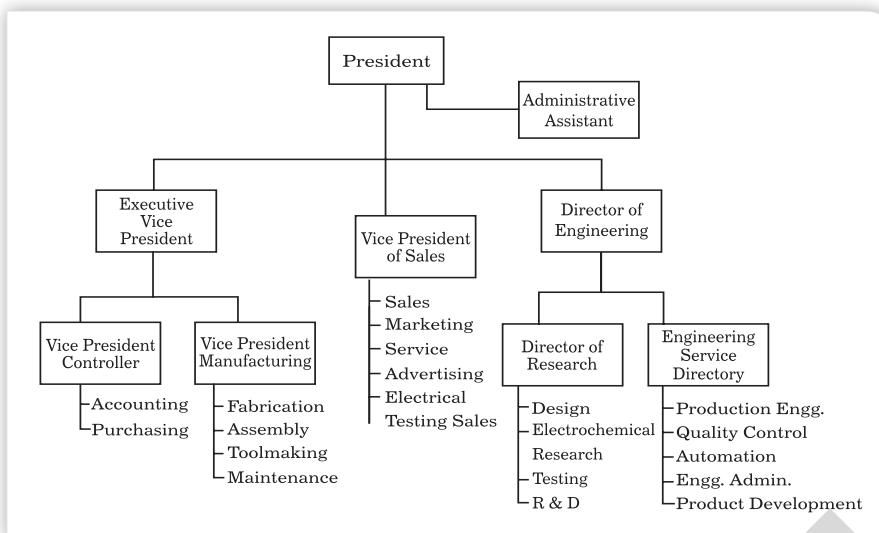


Figure 3.3 Functional Organisational Structure

Source: <http://www.transtutors.com/homework-help/industrial-management/organization/functional-approach-to-organization.aspx>

- **Divisional organisational structure:** An organisation is divided into several independent or autonomous units on the basis of product, market and geographic region. For example, an organisation with three different product lines may prefer to keep separate divisions for each product line. Similarly, an organisation dealing in three different markets may create separate divisions for each market. Figure 3.4 shows an example of a divisional organisational structure:

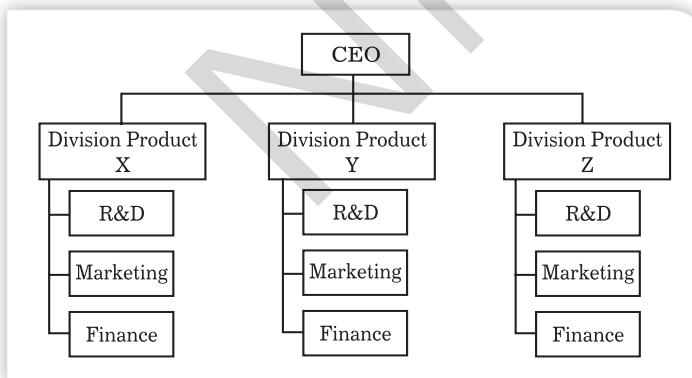


Figure 3.4: Divisional Organisational Structure

Source: http://www.tutorialspoint.com/management_concepts/organizational_structures.htm

- **Project organisational structure:** It is a temporary structure that remains in operation until the completion of a particular project.

N O T E S

In this structure, individuals from different departments interact with each other to complete a project. Figure 3.5 shows an example of project organisational structure:

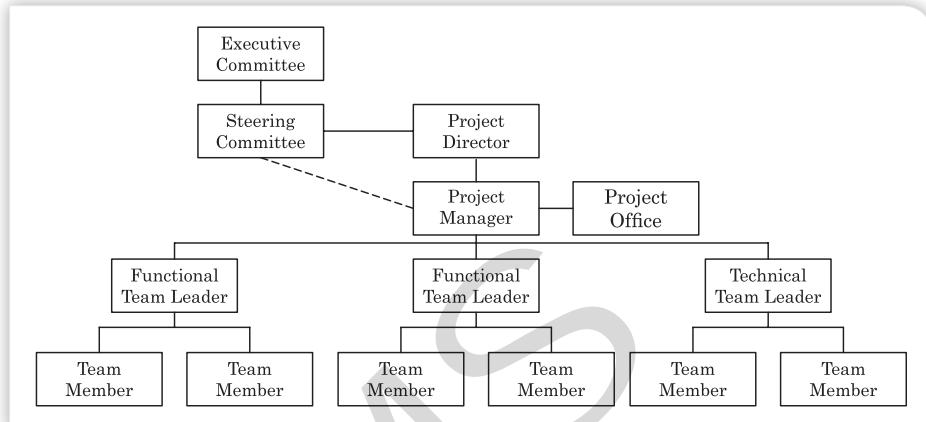


Figure 3.5: Project Organisational Structure

Source: <http://www.epmbook.com/structure.htm>

- **Matrix organisational structure:** It represents a structure where the reporting relationships are set up as a grid or matrix, rather than in a hierarchy. In other words, employees have dual reporting relationships. They report to both a functional manager and the project manager. In a matrix structure, no single direction of authority and responsibility is followed. Figure 3.6 shows a matrix organisational structure:

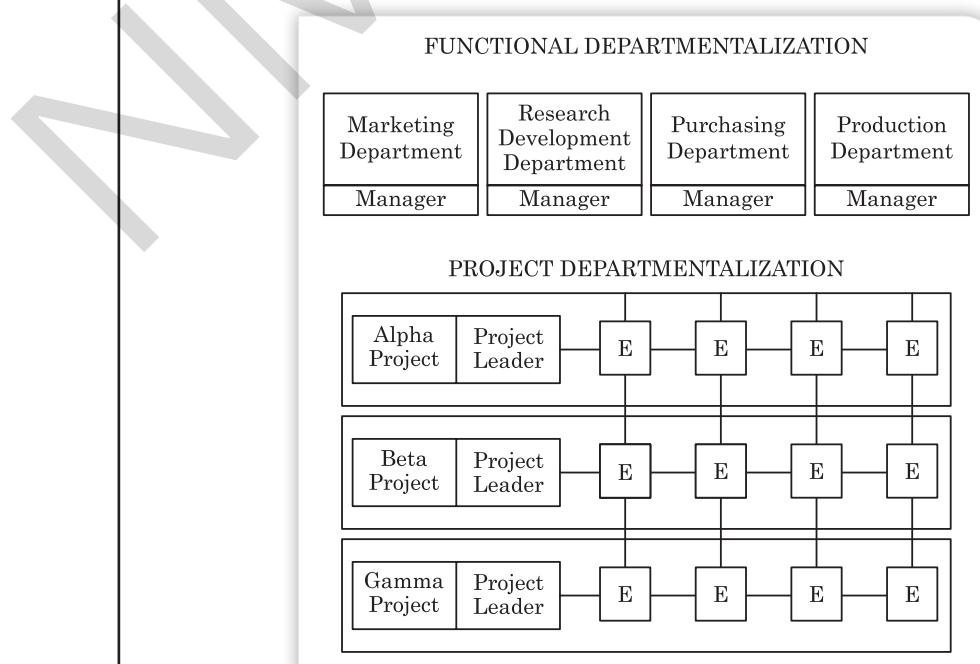


Figure 3.6: Matrix Organisational Structure

Source: <http://www.docstoc.com/docs/72357534/A-Matrix-Design>

N O T E S

3.2.1 FEATURES OF ORGANISATIONAL STRUCTURE

A key feature of any organisational structure is the development of formal and informal associations. The formal structure is established by the top management, whereas informal structure is formed through interaction between employees within an organisation. Apart from this, the other features of organisational structure are as follows:

- **Simple and unambiguous:** The structure of an organisation should be simple and there should be minimum chains of relationships. This reduces the probability of confusion and chaos within the organisation. A chain of command should flow from a single superior to his/her subordinates. If there is more than one supervisor, it can lead to communication gaps and inefficient monitoring.
- **Flexible and adaptable:** The structure of an organisation should be such that can respond to changes taking place in the business environment quickly. Moreover, it should mould itself according to future needs/demands.
- **Clarity of roles:** The authority-responsibility relation whether from top-to bottom or horizontal should be clearly defined so that employees can work toward organisational goals and objectives.
- **Minimum supervisory positions:** There should be minimum managerial positions in an organisational structure. It reduces the scope of chaos and miscommunication in the organisation.
- **Involvement of top management:** The top management should participate in designing the organisational structure. This is because the top management defines organisational objectives, functions and policies, which are the important elements of an organisational structure.

3.2.2 PRINCIPLES OF ORGANISATIONAL STRUCTURE

A structure enables an organisation to communicate with all levels, set goals and objectives, and work further towards achieving those goals and objectives. There are certain principles that need to be followed by an organisation while developing its structure. These principles are explained as follows:

- **Unity of purpose:** This principle implies that an organisation must aim at achieving certain objectives. Therefore, employees in all departments of the organisation need to be aware of the organisational goals and strive to achieve them.
- **Unity of command:** This principle implies that an employee must be given command by only one supervisor/manager. In other words, there should not be more than one supervisor to mentor a subordinate. Dual subordination leads to poor decision making and affects the performance of employees to a large extent.

N O T E S

- **Unity of direction:** According to this principle, there must be a single plan of action for all the activities with similar objectives. This principle serves as a guide for all employees in an organisation by providing a proper path for achieving common objectives.
- **Division of work:** This principle implies that the roles and responsibilities of all individuals working in an organisation must be defined clearly. The division of work helps in increasing the efficiency of the entire organisation as employees better understand the requirements and expectations of the organisation.
- **Span of management:** This principle refers to the number of subordinates supervised by a manager. An appropriate span of management helps in improving the efficiency of subordinates, which, in turn, enhances the overall performance of the organisation.
However, the span of management can be effective if a manager monitors and controls the performance of subordinates and provide them with timely feedback from time to time.
- **Scalar chain:** This principle states that there should be a clear chain of command in an organisation. In other words, there should be a vertical division of authority in an organisation, i.e., from top to bottom. An organisation should ensure that there is a proper chain of command in place in order to make employees aware of their reporting managers and prevent the wastage of time.
- **Principle of exception:** According to this principle, only complex problems should be referred to the top management, and routine problems should be solved at lower levels. This helps the top management to focus on strategic issues that are relevant for the growth of the organisation.
- **Principle of authority:** This principle refers to the rights of individuals working at different levels of the organisational hierarchy. The flow of authority in an organisation must empower employees to make decisions without delay.
- **Principle of flexibility:** This principle implies that an organisation must quickly respond to environmental changes to maintain its position in the market. In other words, an organisation must be flexible enough to adapt to the changes taking place in internal or external environments.
- **Principle of simplicity:** An organisational structure is said to be effective if it is simple and has minimum levels of hierarchy. This helps an organisation to achieve the desired level of efficiency as minimum levels of hierarchy reduce confusions and conflicts in the organisation.
- **Principle of team spirit:** Organisations need to encourage team spirit and healthy competition among different teams. By promoting team spirit, an organisation helps its employees to understand each other and learn to adjust with individual differences.

N O T E S

3.2.3 FACTORS INFLUENCING ORGANISATIONAL STRUCTURE

An organisational structure is influenced by various factors. These factors can be internal as well as external to an organisation. Some of these factors are listed in Figure 3.7:

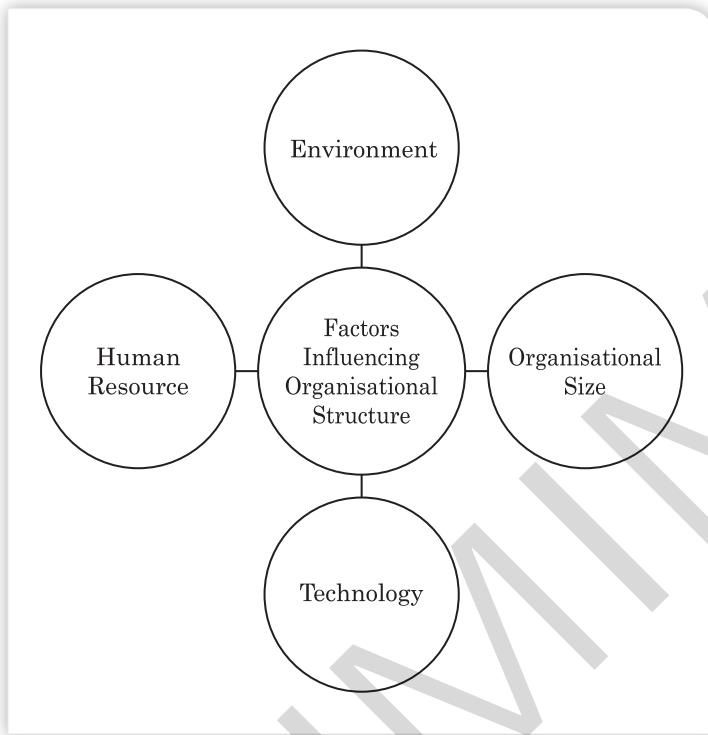


Figure 3.7: Factors Influencing Organisational Structure

Let us understand these factors in detail.

ENVIRONMENT

To develop an effective organisational structure, it is important to consider the environment in which the organisation operates. An organisation's environment is divided into internal and external environment. The internal environment includes factors that are within the control of an organisation; for example, production process, employees, management policies and corporate culture. In addition, the internal environment of an organisation comprises owners, managers, customers, suppliers who affect the organisation's performance directly or indirectly. On the other hand, the external environment includes factors that are beyond the control of an organisation. These factors include consumer behaviour, market trends, regulations, market structure, social customs and technology. Analysing the internal environment helps an organisation to assess its strengths and weaknesses to identify opportunities and threats in the external environment.

N O T E S**ORGANISATIONAL SIZE**

Organisational size comprises the total number of employees, customers and market share of an organisation. The size of an organisation has a considerable impact on its structure. For example, a small organisation with around 40 to 50 people would prefer the line organisational structure. On the other hand, large organisations generally adopt line and staff or matrix organisational structures depending on their functional requirements. The degree of formalisation also depends on the size of the organisation.

TECHNOLOGY

Technology enhances the problem-solving ability of an organisation by reducing the time and effort involved in problem analysis and decision making. For example, the automation of cheque processing, cash deposit, balance enquiry and loan processing in the banking sector has led to speedy customer services. Thus, advanced technologies reduce the dependence on manpower, which consequently affects the structure of organisations.

HUMAN RESOURCE

Human resource is a key factor that influences the structure of an organisation to a large extent. Skills, capabilities, and knowledge of people are of paramount for an organisation to achieve a high efficiency level. Therefore, organisations must adopt a structure that utilises the capabilities of employees in the best possible manner. For example, a manufacturing organisation may require technical skills to perform most of the functions. Thus, it may need to hire people with sound technical skills.

**SELF ASSESSMENT QUESTIONS**

1. In the case of line and staff organisational structure, the decision-making process is slower than the line organisational structure. (True/False)
2. Which principle states that an employee must be given commands by only one supervisor/manager?
 - a. Unity of Purpose
 - b. Unity of Command
 - c. Unity of Direction
 - d. Division of Work
3. The external environment includes all factors that are within the control of an organisation. (True/False)

N O T E S**ACTIVITY**

What, according to you, could be an appropriate organisational structure design for a small-scale organisation with limited resources? Research on small-scale organisations and find out the structure they follow. Also, find out which of these organisations are doing well. Explain the reasons for their success.

3.3 ELEMENTS OF ORGANISATIONAL STRUCTURE

An appropriate structure enables an organisation to frame the delegation of authority and flow of communication. Further, it helps to establish policies, rules and responsibilities for employees in an organisation. The management should consider several elements to establish an effective organisational structure. Figure 3.8 shows the elements of an organisational structure:



Figure 3.8: Elements of Organisational Structure

These elements are explained in the subsequent sections.

3.3.1 DEPARTMENTATION

Departmentation is a method of dividing a large organisation into smaller, flexible units on the basis of specialisation. It helps an organisation to improve its performance as employees are assigned work according to their area of specialisation. Departmentation can be done on different basis, such as functions, product line and geographic region. Some of the bases of departmentation are explained as follows:

- **Function-wise departmentation:** It involves combining the homogenous activities of an organisation into a unit. These homogenous activities are grouped into basic functions and secondary

N O T E S

functions. For example, the basic function can be marketing, while advertisement, sales and promotion can be the secondary activities of this department. Function-wise departmentation is easy and simple and helps the top management in better control of different departments.

- **Process-wise departmentation:** This departmentation is based on the type of a process and the equipment used for that process. The main process is further broken down into smaller activities. For example, in a textile manufacturing unit, a work process can be broken down into activities such as spinning, weaving, and dyeing.
 - **Customer-wise departmentation:** It involves the formation of departments based on the considerations, needs and preferences of customers. For example, an organisation may have departments to deal with retail and wholesale customers. Customer-wise departmentation helps an organisation in establishing and maintaining amiable relationships with customers and gain a competitive advantage in the market.
 - **Product-wise departmentation:** All activities involved in the manufacturing of a product or product line are combined together to form different units. For example, in an automobile manufacturing unit, various divisions can be formed for different products, such as car, truck and bike. Product-wise departmentation helps managers to exercise control on a large number of product lines within an organisation. Organisations often use this method for diversification and expansion of products.
 - **Territory-wise departmentation:** When large organisations are spread across different geographical areas and time zones, each with distinct needs, it is desirable to create departments along geographical lines. The process is termed as territorial departmentation. Such departmentation makes it easier for an organisation to handle variations in laws, local customs and customer needs.
- Territorial departmentation brings about efficient marketing because of face-to-face communication with local interests and effective utilisation of locally available resources. Most importantly, the approach caters to the region-specific variations and cultural sentiments of the people.
- **Time-wise departmentation:** Work processes are divided into shifts, such as day shifts and night shifts. Time-wise departmentation is carried out in organisations operating 24 hours a day, seven days a week. Therefore, organisations have separate departments for each shift. Time-wise departmentation is best suited for organisations that deal with clients spread across different geographical areas and time zones.

N O T E S

3.3.2 SPAN OF MANAGEMENT

Span of management refers to a number of subordinates that a manager can efficiently manage. Ideally, there should be 15-20 employees working under one superior. The span of management represents the relationship between employees and their immediate superior. It is important for defining the complexity of an individual manager's job and determining the shape and structure of the organisation. The span of management is different for every organisation due to difference in nature of the organisation, efficiency of managers, skills of employees and nature of jobs. A large span of management gives rise to a flat and wide organisational structure.

According to Graicunas, a French management consultant, there are three types of superior–subordinate relationships that exist in an organisation's span of management. These are explained as follows:

- **Direct single relationship:** It refers to the professional relationship that exists due to direct communication between a superior and his/her subordinate. This is also called one-on-one relationship. For example, if a manager supervises three people, there will be three direct single relationships.
- **Direct group relationship:** It refers to the professional relationship that exists between the superior and subordinates in various combinations. For example, if a superior has three subordinates, there would be nine possible ways of forming professional relations with each one of them.
- **Cross relationship:** It refers to mutual relationships that may exist between various subordinates working under the same superior. Assume that a superior A, has three subordinates, B, C and D. In such a context, subordinate B would have one-to-one relationship with each of the subordinates in the group. The total number of relations formed is the total number of cross relationships in that group.

3.3.3 DELEGATION OF AUTHORITY

Delegation is all about assigning responsibility or authority to another person, usually from a manager to a subordinate, to carry out specific tasks. It is one of the core concepts of management leadership. In the context of business organisations, authority could be defined as the power vested on a person to use and allocate resources efficiently, to take decisions and to give orders so as to realise organisational objectives. However, authority can also be subject to change depending on changes in internal and external environmental factors, such as society, law, politics and economy.

N O T E S

According to Max Weber, *authority is the willing and unconditional compliance of people, resting upon their belief that it is legitimate for superior to impose his will on them and illegitimate for them to refuse to obey*.

The various management schools of thought have been instrumental in developing the concept of authority. Let us study these perspectives in detail.

- **Views of Max Weber:** He classified authority into three main types, namely, rational-legal, traditional and charismatic. According to Weber, in rational-legal authority, the power of authority exists in the position that an individual holds. As per the traditional viewpoint, authority is present in social order and follows a long-established social norm. The charismatic viewpoint states that authority is present in the readiness of the subordinate instead of the position of the superior.
- **Classical viewpoint:** According to classical theorists, authority is inherent in the management function and can be attained through proper delegation of work. A project manager delegates authority to a team leader to perform specific tasks. For proper delegation of authority, it should be extended to the lower level of the organisational hierarchy.
- **Acceptance theory:** Authority can legitimately exist in an organisation only when subordinates accept it in the organisational hierarchy. The acceptance theory states that a manager's authority depends on whether the employees accept the manager's right to give orders and expect compliance. There are a few reasons for this expectation:
 - ◆ Workers will be rewarded for obedience
 - ◆ There will be punishment for non-compliance
 - ◆ Workers respect the manager for his experience

3.3.4 ASSIGNMENT OF RESPONSIBILITY

Responsibility is the key element to motivate employees to increase their commitment towards organisational goals and objectives. According to Morris B. Hurley, *Responsibility is the duty to which a person is bound by reason of his status or task*. Such responsibility implies compliance with directives of the person making the initial delegation.

Thus, every individual in an organisation has certain responsibilities towards work. For example, an employee working in the production department is responsible for meeting production targets and reporting to the production manager. On the other hand, managers are responsible for managing projects, monitoring the efforts of subordinates and addressing problems that affect employees' performance.

N O T E S**3.3.5 ORGANISATIONAL STRATEGY**

According to Johnson and Scholes, *strategy is the direction and scope of an organisation over the long term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations.*

The word strategy comes from the Greek word *strategia*, which means a military general. An organisational strategy represents the aggregate actions an organisation plans to take to achieve long-term goals. It can also be referred to as a route map, which includes steps, actions, standards, plans and policies for future goals.

Igor Ansoff, considered to be the father of strategic management, first conceptualised the concept of strategy in the 1960s. He developed a strategy grid, which compared various strategies, such as product development strategies, horizontal and integration strategies. His research made strategic planning a part of management activity. The main objectives of a strategy are to:

- Provide direction and stability to an organisation.
- Determine the long-term goals of the organisation.
- Prioritise organisational targets on the basis of organisational resources.
- Facilitate planning and execution of long-term, medium-term, short-term, and day-to-day plans.
- Speed up the decision-making process.
- Allocate resources to various departments of the organisation, such as marketing, human resource, finance, and operations.

**SELF ASSESSMENT QUESTIONS**

4. Which of the following involves combining the homogenous activities of an organisation into a unit?
 - a. Function-wise departmentation
 - b. Process-wise departmentation
 - c. Customer-wise departmentation
 - d. Product-wise departmentation
5. Name the reasons that differentiate the span of management for every organisation.
6. What type of relationships exist between various subordinates working under the same superior?
 - a. Direct single relationship
 - b. Direct group relationship
 - c. Cross relationship
 - d. Functional relationship

N O T E S



ACTIVITY

Using the Internet, find out the names of some organisations whose structure is based on time-wise departmentation.

3.4 MANAGING COMPLEX STRUCTURES

A simple organisational structure is always difficult to manage, particularly in large organisations. Generally, a simple organisational structure is followed in small-organisations comprising an owner and few employees. As the number of employees increases, the layers in the organisational structure also multiply, which results in a complex structure. Thus, a complex organisational structure is a result of various divisions of an organisation spread across the globe.

This may often lead to problems, making it difficult for the management to exercise control on all layers. Thus, it is necessary to understand how to manage an organisation with a complex structure. Let's discuss common problems that are faced by organisations while managing complex structures.

- **Slow response time:** Owing to multiple layers, it becomes difficult for an employer to mobilise resources at each level. In a complex organisational structure, managers take decisions to allocate resources and then communicate employees their respective tasks. In case a problem arises at lower levels, subordinates need to talk to their supervisors for a solution. The supervisors then communicate to middle managers, and the process continues along the chain of command upwards. Similarly, the decisions made at the top management reach to the employees in the same hierarchical manner. All this process slows down the responsiveness of the organisation towards a potential opportunity or threat.
- **Ineffective dissemination of information:** In large organisations with multiple business divisions and lots of communication channels, it becomes difficult for employees to retrieve job-specific information relevant to their divisions. This affects the overall performance of an organisation as employees are unclear of their job roles.
- **Coordination:** In large organisations with presence in multiple geographic locations, coordination between different business units becomes difficult. Due to segregation, employees across locations face challenges in understanding an organisation's needs and fail to take the necessary steps to fulfil those needs on time.

To overcome the issues of a complex organisational structure, organisations can adopt the following measures:

- Certain degree of authority should be delegated at lower levels to prevent delay in decision making.

N O T E S

- ❑ The hierarchical levels within an organisation should be reduced to make communication more effective and timely.
- ❑ Team culture should be promoted to increase coordination among employees.

By adopting the aforementioned measures, large organisations can resolve the issues generating from complex organisational structure and increase their effectiveness.



SELF ASSESSMENT QUESTIONS

7. Why does a complex organisation face slow response time?
8. Due to segregation, employees across locations face challenges in understanding an organisation's needs and fail to take the necessary steps to fulfil those needs on time. (True/False)



ACTIVITY

Assume yourself the member of the top management of a pharmaceutical firm that is spread across 28 cities in India. Analyse the complexity of the organisational structure and discuss the methods that you would adopt to minimise that complexity.

3.5

IMPLICATIONS OF ORGANISATIONAL STRUCTURE

If an organisational structure is designed to adapt to the changes, it can help an organisation to thrive in many areas, such as development of culture, encouragement of mutual support and enhancement of all employees. Apart from this, the organisational structure also affects employee morale, internal communication and efficiency. Let us discuss these implications in detail.

- ❑ **Employee morale:** An organisational structure helps in boosting employee morale by making them aware of their job roles and responsibilities. This enables employees to respond quickly and make independent decisions. This improves organisational performance and productivity. On the contrary, productivity suffers when the structure of an organisation is designed effectively.
- ❑ **Communication:** In an organisational structure, identifying the communication network that would be appropriate for the organisation is necessary. In an organisation having a complex structure, employees usually follow a hierarchy to communicate at various levels of the organisation. This delays the overall communication process and employees may face difficulties in conveying their concerns to managers on time. However, a simple organisational

N O T E S

structure consists of a clear chain of command and a lesser number of communication channels that make communication easy, effective and prompt.

- **Efficiency:** Organisational efficiency refers to an ability of a business to perform a function with optimal levels of input and output. To maintain efficiency, an organisation needs to design its structure in accordance with its business objectives. For instance, if an employee has to take approval of four managers to perform a task, this may consume a lot of time resulting in unproductivity. Thus, to improve efficiency, the organisation should focus on minimising the layers of hierarchy.

**SELF ASSESSMENT QUESTIONS**

9. How can an organisational structure help in boosting employee morale?
10. An ability of a business to perform a function with optimum levels of input and output is termed as _____.

**ACTIVITY**

Using the Internet, find some other implications of organisational structure in addition to those mentioned in the section.

3.6**DESIGN OF ORGANISATIONAL STRUCTURE**

From the discussion so far, it can be said that the overall performance of an organisation depends on its structure to a large extent. Thus, it is of utmost importance for an organisation to ensure that its structure is designed effectively. An organisation needs to follow certain instructions for the efficient designing of its structure. These instructions are explained below:

- An organisation should define clear goals and objectives based on which the structure is designed and roles and responsibilities are defined.
- An organisation should select a suitable type of organisational structure considering its requirements. For example, an organisation having presence at multiple locations should select a decentralised organisational structure where decisions are made independently at all levels.
- An organisation should decide the chain of command to be followed in the organisation. For instance, if there is a single head or leader, the chain of command would be unitary, that is, functions and roles would be delegated by a single person. On the other

N O T E S

hand, if there are multiple heads, the delegation of functions and roles of individuals would be divided into various heads.

3.6.1 PROBLEMS IN ORGANISATIONAL STRUCTURE DESIGN

Sometimes a structure may turn out impractical in reality even after paying careful attention while designing the structure. This may happen due to a number of problems that may take place while designing an organisation structure. Let us discuss some major problems inherent in organisational structure design:

- People who work under a particular organisational structure may not possess knowledge of roles and responsibilities assigned to them. In such a case, employees do not feel associated with organisational goals, which results in reduced employee productivity.
- Sometimes informal groups emerge in an organisation due to the response and common interests of members. Rise of informal groups may also lead to other problems such as increase in resistance to change, miscommunication of information and discord with formal groups.



SELF ASSESSMENT QUESTIONS

11. An organisation should define clear goals and objectives based on which the structure is designed and roles and responsibilities are defined. (True/False)
12. Formal groups emerge in an organisation due to the response and common interests of members. (True/False)



ACTIVITY

Using the Internet, find two IT organisations that according to you have an ideal organisational structure. Prepare a report based on your findings.

3.7

ORGANISATIONAL STRUCTURE DESIGN AND FLEXIBILITY

The effectiveness of an organisational structure is measured in terms of flexibility that denotes to the degree to which an organisation responds to its external environment. A flexible organisation is able to respond quickly to changes in the external environment. For this, organisations must design a structure that can be altered as per the changing requirements in the environment.

N O T E S

As change is persistent, a flexible organisational structure always remains in the transition phase to adapt to the changes occurring in the business environment. By building a flexible organisational design, an organisation can experience the following advantages:

- **Competitive edge:** An organisation that follows a rigid organisational design, with no scope of change, ceases to exist after a certain period of time. It fails to adapt and respond to the changes taking place in the market. For example, due to technological advancement, organisations need to incorporate many changes in their existing processes. Therefore, organisations that are successful in integrating new technology with their old processes stay ahead in the race.
- **Increased efficiency:** In a flexible organisational design, an organisation tries to adopt a new approach to redefine existing policies and processes. This helps the organisation to identify new work practices and encourage innovation. As a result, the organisation becomes highly efficient and experiences higher profits and reduced costs.
- **Increased employee loyalty:** In a flexible organisational design, employees are offered the flexi work schedules. This makes it easier for employees to maintain a healthy work life balance. For example, job sharing enables two or more employees to share their tasks and work in part time. The flexi work schedules increase employee loyalty as they get sufficient time to fulfil both professional and personal goals.



SELF ASSESSMENT QUESTIONS

13. The effectiveness of an organisational structure is measured in terms of _____ that denotes to the degree to which an organisation responds to its external environment.
14. Which of the following is not an advantage of flexible organisational design?
 - a. Competitive edge
 - b. Increased efficiency
 - c. Increased employee loyalty
 - d. Reduced adaptability



ACTIVITY

Prepare a chart enlisting the steps that can be taken to enhance flexibility in a small manufacturing organisation.

N O T E S**3.8 SUMMARY**

- ❑ In an organisational structure, tasks are allocated to individuals who belong to different hierarchical level for achieving established goals and objectives.
- ❑ An organisation is a group of individuals working together to achieve pre-defined goals.
- ❑ An organisational structure is a framework where roles and responsibilities are assigned to individuals as per their capabilities in order to meet organisational goals.
- ❑ Without an effective organisational structure, employees would not be clear about their job roles and there would be no chain of command to follow.
- ❑ Different organisations have different organisational structures based on their requirements, size and nature of business and employee strength.
- ❑ Following are the different types of organisational structures:
 - ◆ Line organisational structure
 - ◆ Line and staff organisational structure
 - ◆ Functional organisational structure
 - ◆ Divisional organisational structure
 - ◆ Project organisational structure
 - ◆ Matrix organisational structure
- ❑ A key feature of any organisational structure is the development of formal and informal associations.
- ❑ A structure enables an organisation to communicate with all levels, set goals and objectives, and work further towards achieving those goals and objectives.
- ❑ There are certain principles that need to be followed by an organisation while developing its structure. Some of the important principles of an organisation are as follows:
 - ◆ Unity of purpose
 - ◆ Unity of command
 - ◆ Unity of direction
 - ◆ Division of work
 - ◆ Span of management
 - ◆ Scalar chain

N O T E S

- ◆ Principle of exception
 - ◆ Principle of authority
 - ◆ Principle of flexibility
 - ◆ Principle of simplicity
 - ◆ Principle of team spirit
- ❑ An organisation is influenced by various factors. These factors can be internal or external to the organisation. Some of the important factors that could influence an organisation are as follows:
- ◆ Environment
 - ◆ Organisational size
 - ◆ Technology
 - ◆ Human resource
- ❑ The elements of an organisational structure include:
- ◆ Departmentation
 - ◆ Span of management
 - ◆ Delegation of authority
 - ◆ Assigning responsibility
 - ◆ Organisational strategy
- ❑ Some common problems that are faced by organisations while managing complex structures include:
- ◆ Slow response time
 - ◆ Ineffective dissemination of information
 - ◆ Coordination
- ❑ An organisational structure affects employee morale, internal communications and efficiency.
- ❑ The effectiveness of an organisational structure is measured in terms of flexibility that denotes to the degree to which an organisation responds to its external environment.
- ❑ By designing a flexible organisational structure, an organisation can experience the following advantages:
- ◆ Competitive edge
 - ◆ Increased efficiency
 - ◆ Increased employee loyalty

N O T E S**KEY WORDS**

- ❑ **Authority:** The legitimate control over organisational processes and subordinates within an organisation.
- ❑ **Coordination:** It involves developing a productive link between different activities or creating a network so that all tasks are synchronised to attain a desired goal.
- ❑ **Departmentation:** The division of functions or activities into various departments or divisions in an organisation.
- ❑ **Dissemination:** The process of spreading information across a group, organisation, or industry.
- ❑ **Responsibility:** The obligation to perform a task or activity productively.

3.9 DESCRIPTIVE QUESTIONS

1. List and explain various types of organisational structure.
2. What do you understand by the span of management?
3. Discuss the challenges inherent in managing complex organisational structures.
4. Discuss the major implications of organisational structure.
5. What are the instructions to be followed by an organisation while designing its structure?
6. List the advantages of a flexible organisational structure.

3.10 ANSWERS AND HINTS**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q.No.	Answers
Concept of Organisational Structure	1.	True
	2.	b. Unity of Command
	3.	False
Elements of Organisational Structure	4.	a. Function-wise departmentation

N O T E S

Topic	Q.No.	Answers
	5.	The span of management is different for every organisation due to difference in nature of the organisation, efficiency of managers, skills of employees and nature of jobs.
	6.	c. Cross relationship
Managing Complex Structures	7.	Owing to multiple layers, it becomes difficult for an employer to mobilise resources at each level, which in turn slows the response time.
	8.	True
Implications of Organisational Structure	9.	An organisational structure helps in boosting employee morale by making them aware of their job roles and responsibilities.
	10.	Organisational efficiency
Design of Organisational Structure	11.	True
	12.	False
Organisational Structure Design and Flexibility	13.	Flexibility
	14.	d. Reduced adaptability

HINTS FOR DESCRIPTIVE QUESTIONS

1. The different types of organisational structures are line organisational structure, line and staff organisational structure, functional organisational structure, divisional organisational structure, project organisational structure and matrix organisational structure. Refer to Section **3.2 Concept of Organisational Structure**.
2. Span of management refers to a number of subordinates that a manager can efficiently manage. Refer to Section **3.3 Elements of Organisational Structure**.
3. Some common problems that are faced by organisations while managing complex structures are slow response time, ineffective dissemination of information and coordination. Refer to Section **3.4 Managing Complex Structures**.
4. The impact of organisational structure can be experienced in employee morale, communication and efficiency. Refer to Section **3.5 Implications of Organisational Structure**.
5. An organisation needs to follow certain instructions for the efficient designing of its structure; for example, an organisation

N O T E S

should define clear goals and objectives based on which the structure is designed and roles and responsibilities are defined. Refer to Section 3.6 Design of Organisational Structure.

6. The effectiveness of an organisational structure is measured in terms of flexibility that denotes to the degree to which an organisation responds to its external environment. Refer to Section 3.7 Organisational Structure Design and Flexibility.

3.11 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

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4

C H A P T E R

EXTERNAL ENVIRONMENT AND ANALYSIS

CONTENTS

4.1	Introduction
4.2	Concept of Environment
4.2.1	Types of Environment
	Self Assessment Questions
	Activity
4.3	Components of External Environment
4.3.1	Political Environment
4.3.2	Economic Environment
4.3.3	Socio-cultural Environment
4.3.4	Technological Environment
4.3.5	Ecological Environment
4.3.6	Legal Environment
	Self Assessment Questions
	Activity
4.4	External Environment Analysis
4.4.1	Approaches to External Environment Analysis
4.4.2	Techniques of External Environment Analysis
4.4.3	Factors Affecting External Environment Analysis
	Self Assessment Questions
	Activity
4.5	Summary
4.6	Descriptive Questions
4.7	Answers and Hints
4.8	Suggested Readings for Reference

INTRODUCTORY CASELET

PEST ANALYSIS OF GOOGLE INC.

Google, founded in 1995 by Larry Page and Sergey Brin, is the world's most popular search engine. The aim behind developing the search engine was to enable users to find any website or document on the Web on the basis of keywords or exact searches. Google can be used to find books on Google Book Search, news on Google News, videos on Google Video (YouTube) and maps on Google Maps.

To remain in demand, Google formulated its business strategies based on the analysis of its internal as well as external environment. To analyse its external environment, Google carried out PEST (Political, Economic, Social and Technological) analysis, which helped it in developing its business strategy. The results of the analysis are:

- **Political analysis:** Google operates in almost all the countries of the world and every country has its own laws. The laws of countries in which Google operates have a negligible effect on Google as most of the governments do not have well-defined laws for web search engines. This has provided Google an opportunity to work as per their requirements.
- **Economic analysis:** Due to constant rise in the GDP of countries like UK and India, the rate of inflation has been increased to 9.5%. Due to high rate of inflation, companies in the market are compelled to increase the prices of their products. To sell the products at higher prices, sellers in the market need to advertise intensively. As a result, Google's advertisements and the number of clicks for each ad have also increased, leading to rise in profits.
- **Socio-cultural analysis:** As Google is not restricted to any specific demography, income distribution or culture; it has been able to gain a strong hold in the world market. It has presence across the globe.
- **Technological analysis:** The success of Google is largely attributed to its adoption of innovation and technologies, such as PageRank in its search engine, AdWords as an advertising system, the AdSense program for monetisation of websites and blogs, Gmail, Google Spreadsheets & Docs, Google Map, Google Analytics, Google Desktop, Google Earth, Google Gear and Google Page creator.

By performing the PEST analysis of its external environment, Google Inc. has developed and implemented a sophisticated business strategy. It has been able to stay ahead of competition by managing its strengths successfully.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Discuss the concept of environment
- Identify the components of external environment
- Explain the importance of external environment analysis

4.1 INTRODUCTION

In the previous chapter, you have studied about an organisational structure, which is a framework to divide, organise and coordinate different tasks and processes of an organisation. However, an organisational structure may fail to achieve its aim if the organisation does not analyse its business environment correctly.

An organisation is majorly influenced by its external and internal environment. The external environment involves factors that exist outside an organisation and cannot be controlled by that organisation. The internal environment comprises factors that are within an organisation and are under the control of that organisation. As these factors keep changing, they have a serious impact on organisations; therefore, they must be analysed carefully.

External factors can either provide opportunities to an organisation or pose threats for it. For example, if the government policies of a country help an organisation to expand its business, it would serve as an opportunity for the organisation. On the contrary, if the policies hinder the business of the organisation, it would serve as a threat to the organisation.

Internal factors comprise factors that may be identified as a strength or weaknesses of an organisation. Assume that there is a culture that is highly centralised and bureaucratic and one person tries to want a complete control of the organisation. In such a case, the organisation's culture would eventually become a weakness. On the other hand, if there is an amicable environment in the organisation, it would become a strength of the organisation.

Therefore, organisations need to analyse its environment (internal as well as external) from time to time in order to stay competitive and formulate effective strategies. In this chapter, you will study about the concept of environment, its characteristics and types.

4.2 CONCEPT OF ENVIRONMENT

Environment literally means the surroundings in which a person or an animal or a plant lives. In the context of an organisation, environment

N O T E S

can be defined as the sum of all factors existing within or outside an organisation. These factors can be internal or external to an organisation and have either a positive or negative impact on the organisation. Factors, such as government policies, political framework of a country, market structure, consumer demands and change in technology are external factors and are beyond the control of an organisation. For example, during recession, most organisations experience a substantial decline in sales.

On the other hand, internal factors have a direct impact on an organisation's processes and are under the control of the organisation. These factors include organisational culture, structure, competencies and resources. For example, an organisation's performance can be improved by training its employees and developing their skills.

To remain competitive in the market, an organisation needs to be aware of changes taking place in its both internal and external environments. Organisations that fail to understand their environment often lag behind. To adapt to the changing environment, an organisation needs to study three aspects of the environment, which are listed in Figure 4.1:

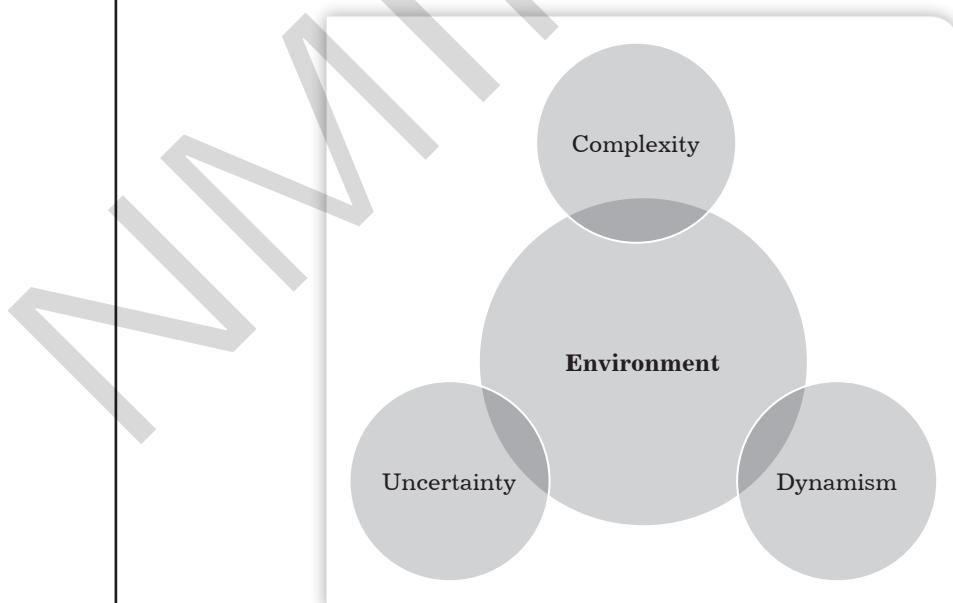


Figure 4.1: Different Aspects of Environment

Let's have a look at these aspects of the environment:

- ❑ **Complexity:** An organisation's environment is a combination of a number of inter-dependent factors, events, and influences. Thus, the environment is too complex and difficult to comprehend.
- ❑ **Dynamism:** The environment of an organisation is not static and is subject to change. This is because numerous forces that affect the environment change over a period of time. The understanding

N O T E S

of dynamic environment provides an opportunity to the organisation to stay ahead of competition.

- **Uncertainty:** Environmental forces are unpredictable in nature. For example, there can be sudden changes in the government's EXIM policy. In such a case, organisations' existing strategies may not work out well.

4.2.1 TYPES OF ENVIRONMENT

In the preceding section, you studied that organisations' environment consists of external and internal factors. The environment can be classified into two broad categories, as shown in Figure 4.2:

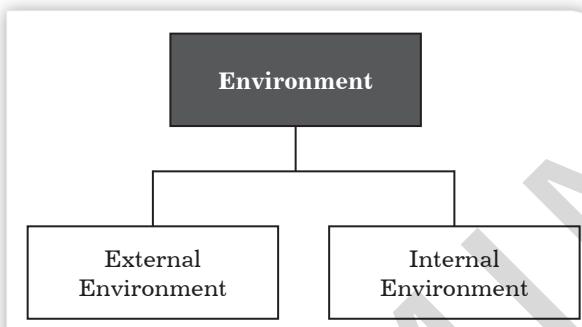


Figure 4.2: Types of Environment

Let us discuss these two types of environments in detail.

- **External environment:** It comprises opportunities and threats arising out of various legal, physical, economic, technological, social, political and cultural factors. For example, people's increasing awareness about the presence of pesticides in soft drinks has posed a serious challenge to the soft drink industry in retaining customer faith.
- **Internal environment:** It comprises factors within an organisation, and represents the strengths and weaknesses of the organisation. Internal environment consists of an organisational culture, competencies, skills of employees, etc. For example, a highly-efficient distribution channel can be an internal strength of an organisation.

To carry out the business functions smoothly, an organisation needs to analyse both its environments. Analysing the internal environment helps an organisation to gauge its strengths and weaknesses in order to exploit opportunities and predict possible threats in the external environment. This chapter provides a detailed explanation on the external environment of organisations. You will study in detail about the internal environment of organisations in the next chapter.

N O T E S



SELF ASSESSMENT QUESTIONS

1. Which environmental factors include organisational culture, structure, competencies and resources?
2. Environmental forces are predictable in nature. (True/False)
3. An organisation's _____ is a combination of a number of inter-dependent factors, events, and influences.
4. Why should an organisation be aware of both its internal and external environments?
5. Assume that you are running a factory that makes dye for Jeans. The dye manufacturing industry is the one where a lot of industrial waste is released and is discharged into a river nearby. The people have started raising their voice against your factory. Do you see this as a potential threat? State yes or no. And if yes, then what would be your next logical step to control the situation.



ACTIVITY

Assume that you own a food chain which has 20 outlets spread across different cities of India. List and discuss the external factors that may impact your business.

4.3

COMPONENTS OF EXTERNAL ENVIRONMENT

As discussed earlier, external environment comprises factors that exist outside an organisation. To formulate effective business strategies, it is imperative for an organisation to analyse the external environment. For this, the first step for an organisation is to understand various components of the external environment. Figure 4.3 shows the main components of the external environment of an organisation:

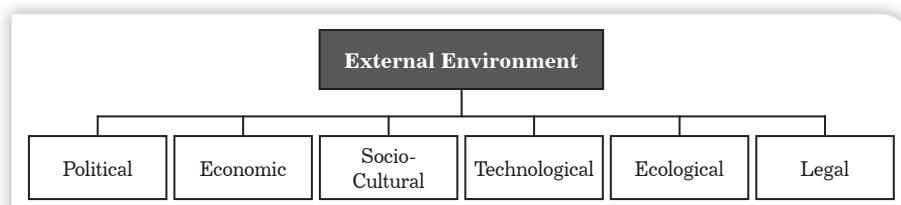


Figure 4.3: Components of External Environment

These political, economic, socio-cultural, technological, ecological and legal components are abbreviated as PESTEL. Thus, external environment analysis is also known as PESTEL analysis. Let us now discuss these components in detail.

N O T E S**4.3.1 POLITICAL ENVIRONMENT**

Political environment encompasses the prevailing political system of a country and the attitude of the government towards businesses. If a country has a stable political environment, it would attract many prospective investors. Political environment comprises factors such as laws associated with public affairs, government policies, fair trade decisions, tax regulations and subsidies.

The impact of political environment on an organisation can be both positive and negative. For example, during the economic recession of 2008, the rate of unemployment increased in the United States. To generate employment opportunities, the US Government took various measures, such as curbing outsourcing and providing tax incentives to organisations. On the contrary, the political environment can disrupt the working of organisations critically. A relevant example for this would be the case of TATA Nano. The plant of TATA Nano was shifted from West Bengal to Gujarat due to the conflict between the West Bengal Government and the opposition party. The conflict caused massive financial loss to TATA as it had already established a plant in West Bengal and was forced to move the plant to Gujarat. TATA had to bear huge financial losses because of this political conflict.

4.3.2 ECONOMIC ENVIRONMENT

One of the most important components of the external environment is the economic environment of a country. There are some indicators to analyse the economic environment of a country in which an organisation operates. These indicators include National Income (NI), Per Capita Income (PCI), Gross Domestic Product (GDP), employment rate, inflation rate, interest rate and credit availability.

Other economic indicators that could affect an organisation's viability are the demand and consumption patterns of the country in which the organisation operates. The demand for goods and services fluctuates depending on the country's economic condition. For example, during recession, the demand for luxury goods falls; but when the economy booms back, the demand goes up.

Wage rate is also an important economic factor because it depends on the employment rate of a country. For example, in developing countries like India and China, the employment rate is low as compared to developed countries such as the US. Therefore, labour is available easily at cheap rates in developing countries, while the cost of labour is considerably high in developed countries. Because of excessive difference in the cost of labour, organisations in developed countries prefer to outsource their business activities to organisations in developing countries.

N O T E S

Moreover, fluctuations in the foreign exchange rate also affect organisations involved in global trading. For example, leading Indian IT companies such as Wipro, TCS, and Infosys tend to suffer considerable losses due to appreciation in the value of the US dollar.

4.3.3 SOCIO-CULTURAL ENVIRONMENT

Socio-cultural environment comprises the values, culture, beliefs, attitude, opinions and lifestyles of a society in which an organisation operates. An organisation depends on a society largely to acquire resources, such as human resource, land and capital. Some of the socio-cultural factors that affect the functioning of an organisation to a large extent are explained as follows:

- **Demographics:** Demographics refer to a country's population, its composition, density and distribution. The demographic factors of a country have a great impact on the demand and consumption patterns of the country. This further influence the way organisations market their products. For example, if a society has a majority of the population of aged people (say the middle-aged group), an organisation needs to target the population with offerings meant for such age group. For example, health products. On the other hand, a society having the majority of youngsters would be inclined to buy electronic gadgets (like tabs, smart phones, etc.) and bikes and sports cars. Therefore, an organisation must consider demographic factors before developing expansion plans into other countries.
- **Social customs:** Beliefs, rituals and practices followed in societies are called social customs. Studies show that consumer behaviour depends on the culture of the inhabitants of a particular geographical area. For example, in Gulf countries, women do not prefer to wear short skirts due to their religious considerations. Thus, organisations need to study cultural factors and consumption patterns of the population before entering foreign markets.
- **Family structure:** Family values and the role of different family members in a society is also a part of the socio-cultural environment. For example, in Japan, family ties are very strong. McDonald's was able to boost its sales in Japan because it focussed on developing a better environment for families in its outlets. The advertisements of McDonald's in Japan, too, bank upon strong family bonds.

4.3.4 TECHNOLOGICAL ENVIRONMENT

Technological environment encompasses the progress made in the field of technology that impacts the functioning of an organisation. For example, with the advent of the Internet during the last two decades, communication has become faster and more convenient. An increasingly large number of organisations are trying to make their market pres-

N O T E S

ence online by creating their websites, advertising online, connecting to customers through e-mails and social media. Social media marketing has transformed the scenario of conventional advertising industry. The advent of e-books has posed a serious threat to the publishing industry. In such a scenario, only those organisations that adapt themselves to technological changes quickly are able to survive in the market.

4.3.5 ECOLOGICAL ENVIRONMENT

Ecological environment refers to the natural environment in which an organisation operates. It comprises both living and non-living things around. Ecological environment affects an organisation in the similar way as the political, economic, socio-cultural and technological environments do.

Nowadays people have become aware of the issues such as global warming and environmental pollution. With every passing day more and more people are switching to eco-friendly products to reduce environmental pollution. Therefore, organisations have started producing products that are eco-friendly.

4.3.6 LEGAL ENVIRONMENT

Legal environment relates to the laws and regulations of a country in which an organisation operates. The legal environment varies from one country to another. Organisations are bound to abide by the practices and procedures established by the government of a country. The Indian government has enacted a number of acts which organisations are bound to comply with. Some of these acts are explained as follows:

- **Factories Act, 1948:** This Act was passed by the Government of India to safeguard the health of workers in organisations established in India. This Act prohibits the employment of any person below the age of 14 in a factory.
- **Industries (Development and Regulation) Act, 1951:** This Act was established to empower the Government of India to take steps for industrial development and regulation of industrial establishments for the welfare of public.
- **Companies Act, 1956:** This Act allows companies to be formed through registration. Further, the Act defines the responsibilities of companies and the roles of people associated with them, such as directors and secretaries.
- **Monopolies and Restrictive Trade Practices Act, 1969:** This Act was passed to ensure that the industries and businesses do not follow monopolistic and restrictive trade practices.
- **Industrial Disputes Act, 1972:** This Act maintains industrial peace and harmony between employers and employees as well as between different organisations.

N O T E S

- Prevention of Food Adulteration Act, 1954:** This Act prevents the use of poisonous and harmful substances in the food and sale of substandard food products in India.

An organisation can face serious consequences if it fails to abide by the laws and regulatory framework of a country where it operates. For instance, when KFC entered India in 1995, it was not aware of the Prevention of Food Adulteration Act, 1954. KFC chicken contained three times more monosodium glutamate (an ingredient used to enhance flavour) than what was permissible as per the Act. Consequently, the company faced challenges in establishing its brand in India. This problem could have been averted if KFC had done an analysis of the legal environment of India.



SELF ASSESSMENT QUESTIONS

6. Which act was passed by the Government of India to safeguard the health of workers in organisations?
7. The components of the external environment analysis are abbreviated as _____.
8. The Government recently de-reserved pickle, chutneys, breads etc. from the list of items reserved for micro and small enterprise sector. This can be called a change in the _____ of an organisation.
9. Assume that an American MNC has recently set up its plants in one of the countries of Africa. The GDP of the country has been decreasing for the past few years. Consequently, the MNC has not been able to produce enough goods to meet the demand, which has led to supply side inflation. This can be called a change in the _____ of an organisation.
10. Ecological environment comprises only living things. (True/False)



ACTIVITY

Research about a domestic organisation that could not expand as it failed to analyse the socio-cultural environment in India. Discuss the measures that the organisation could have taken to establish itself in the market.

4.4 EXTERNAL ENVIRONMENT ANALYSIS

External environment analysis is a process of monitoring an organisation's external environment to identify opportunities and threats affecting the organisation's strategic decisions. The concept of external environment analysis can be better understood through the following concepts:

N O T E S

- **Events:** These are the specific programs and agreements that take place in an organisation's environment. For instance, a bilateral trade agreement between two countries is an event.
- **Trends:** The ways in which the external environment shapes up are called trends. The occurrence of trends can be attributed to some events. For example, due to the event of a trade agreement between two countries, the entry of multinationals is facilitated. The entry of multinationals is a trend that has taken place as a result of the event.
- **Issues:** These are concerns that arise in response to events and trends. For example, due to entry of multinationals, issues of cross-cultural employees or business ethics may raise.
- **Expectations:** These are the demands made by the interested groups (such as customers, governments) for issues, such as need for transparency, corporate governance, and corporate social responsibility.

External environment is created through the interaction of various events, trends, issues and expectations. To develop any business strategy, an organisation needs to have a clear understanding of all the above concepts of the external environment.

4.4.1 APPROACHES TO EXTERNAL ENVIRONMENT ANALYSIS

To perform external environment analysis, organisations need to collect information regarding various components of the external environment. Organisations collect this information by adopting various approaches. Some of these approaches are listed in Figure 4.4:

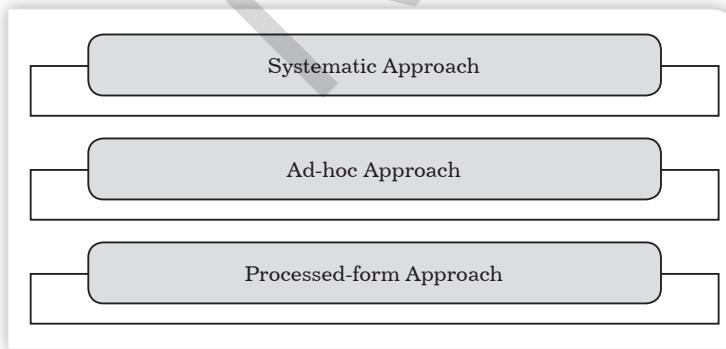


Figure 4.4: Different Approaches to External Environment Analysis

Let us discuss these approaches in detail.

- **Systematic approach:** It is the simplest approach for information collection. This approach lays emphasis on gathering information related to markets, customers and changes in laws and government policies.

N O T E S

- **Ad-hoc approach:** In this approach, special surveys or studies are conducted to collect information on specific environmental issues. This approach is adopted by organisations when a new project is undertaken or a new strategy is established.
- **Processed-form approach:** In this approach, organisations use information in a processed form. In the processed-form approach, an organisation does not add its inputs to the information and uses the information as it is obtained from different sources. The sources may be internal or external to the organisation. These sources include government agencies or private institutions, magazines, etc.

4.4.2 TECHNIQUES OF EXTERNAL ENVIRONMENT ANALYSIS

External environment analysis is performed using various techniques depending on an organisation's requirements. Organisations select techniques that best suit their needs in terms of quality, availability, timeliness and relevance of environmental information. Let's discuss two of the most commonly used environmental analysis techniques.

- **Scenario planning:** Varied stories or scenarios are crafted for analysing the future. These stories help in increasing the knowledge of the business environment. It is also known as scenario analysis or scenario writing. The process of scenario planning involves the following steps:
 1. Identifying people who have skills to plan the long-term goals of the organisation.
 2. Forming groups to predict long-term organisational goals and future changes in the economic, political, social, technological and legal environments.
 3. Preparing a list of all the ideas and then selecting the most suitable one from the list.
 4. Drafting stories for the ideas that were selected. For example, a hypothetical scenario of a new and advanced technology adopted by an organisation's competitors can be formed. In this way, the organisation may come to know how a new technology would affect its business and what steps could be taken as a counter strategy.
 5. Identifying the symptoms or signals or events that may warn an organisation about potential risks or threats in the near future.
 6. Monitoring and measuring scenarios to analyse their effect on business activities.
- **Environmental Threat and Opportunity Profile (ETOP):** This technique was suggested by Glueck to analyse an organisation's environment. Each environmental component is further divided

N O T E S

into sub-factors that affect the organisation. ETOP enables an organisation to identify opportunities and threats, thereby formulating appropriate strategies.

4.4.3 FACTORS AFFECTING EXTERNAL ENVIRONMENT ANALYSIS

As discussed earlier, the process of external environment analysis helps in identifying opportunities and threats that an organisation may face in the future. However, this process of external environmental analysis is affected by a number of factors. The factors are explained as follows:

- **Individual factors:** Personal traits, such as age, education, experience, motivation level and responsibility, of people performing the analysis affect the entire analysis process. For example, if an individual performing the analysis is demotivated, he/she would not have zeal to examine every opportunity or threat minutely.
- **Organisation-related factors:** Organisation-related factors, such as its size, complexity, type of products and services offered, technologies and processes used in production, greatly influence the process of external environment analysis. For instance, an organisation dealing in soft drink beverages has to analyse competitors in the beverages industry to determine potential opportunities and strengths.
- **Environment-related factors:** The environment-related factors include complexity, volatility and diversity of an organisation's environment. Environment-related factors may affect organisations positively or negatively.

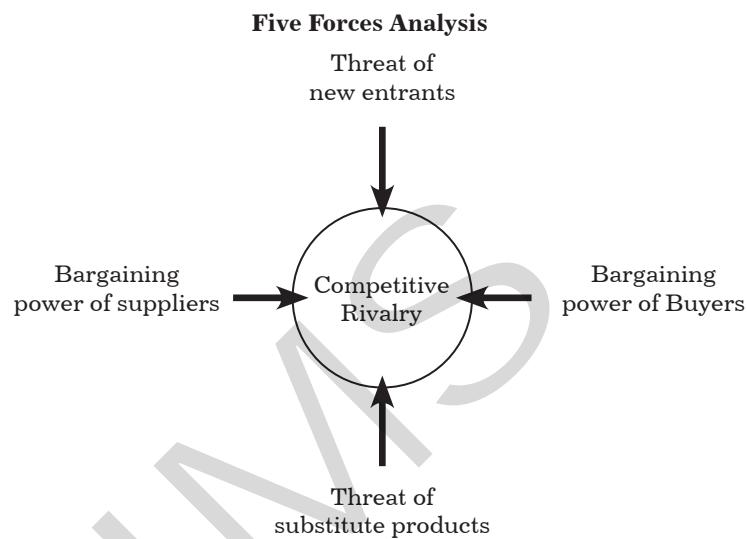
**EXHIBIT****Porter's Model**

An industry can be defined as a set of organisations that deliver similar products or services. In an industry, different organisations compete with one another to gain a bigger market share. Thus, before developing any strategy, organisations must analyse the industry in which they operate.

To perform an industry analysis effectively, most organisations adopt the Porter's analysis model developed by a Harvard University Professor, Michael E. Porter. The model is also known as the Porter's Five Forces Model. In this model, Porter advocated that profitability depends on the level of competition in an industry. Therefore, organisational strategists need to analyse different factors that shape industry competition. Porter also mentions five competitive forces that determine the intensity of competition in an industry. These forces include threat from new entrants, bargaining power of suppliers, bargaining power of buyers,

N O T E S

threat of substitute products and competitive rivalry among existing competitors. In Porter's words, *the collective strength of these forces determines the ultimate profit potential of an industry*. The following figure shows the Porter's Five Forces Model:



Adapted from M.E. Porter, Competitive Strategy, Free Press, 1980.

Figure: Five Forces that Shape Industry Competition

- **Threat from new entrants:** When new entrants enter the market. The competition goes up. The degree of threat from new entrants in an industry depends on the entry barrier of the industry. The lower the entry barrier, the higher is the threat and vice versa. If entry barrier is low, new players would be attracted to enter the industry, and therefore, owing to high competition in the industry, the prices of various organisations in the industry for similar products will lead to price wars. This price war further leads to lowering the profits of organisations.
- **Bargaining power of suppliers:** The bargaining power of suppliers refers to their ability to manipulate the price of products supplied to an organisation. The high bargaining power of suppliers means that they sell their products at premium prices to their client organisations. This leads to the low profit potential of an industry. Generally, suppliers enjoy a high bargaining power when there are few suppliers catering to a large number of organisations in the industry. Suppliers will also have an upper hand if the product or service is unique in nature and no other substitute is available in the market.
- **Bargaining power of buyers:** The bargaining power of buyers refers to the ability of buyers to negotiate the price of products and services offered by an organisation. If the bargaining power of buyers is high, the profitability of the industry is adversely affected.

N O T E S

The buyers, who purchase majority of the products of services offered by an organisation, have higher bargaining power as compared to other buyers of the organisation.

- Threat of substitute products:** Substitute products satisfy the same need of customers as other products. The threats from substitute products play a vital role in determining the profitability of an industry as availability of substitutes limits the profit potential of an industry. For example, if the prices of Pepsi increase, consumers would easily switch to its lesser-priced substitute such as Coca-Cola.
- Competitive rivalry:** The intensity of competition among different organisations in an industry. In the Porter's opinion, there are a number of factors, such as the number of competitors, growth rate of the industry, nature of products or services, product diversity and exit barriers, that determine the intensity of competition within an industry. If the intensity of competition is high, the profitability of an industry will be low.

**SELF ASSESSMENT QUESTIONS**

11. Environment-related factors may affect organisations positively only. (True/False)
12. What is the other name of scenario planning?
13. Define trends.
14. Organisations select techniques that best suit their needs in terms of quality, availability, timeliness and relevance of environmental information. (True/False)

**ACTIVITY**

Conduct the external environment analysis of an organisation of your choice and prepare a list of opportunities (can be exploited by the organisation) and threats (may be faced by the organisation).

4.5 SUMMARY

- Environment can be defined as the sum of all factors existing within or outside an organisation.
- Internal factors have a direct impact on an organisation's processes and are under the control of the organisation.

N O T E S

- The external environment involves factors that exist outside an organisation and cannot be controlled by that organisation.
- Analysing the internal environment helps an organisation to gauge its strengths and weaknesses in order to exploit opportunities and predict possible threats in the external environment.
- External analysis is a process of monitoring an organisation's external environment to identify opportunities and threats affecting the organisation's strategic decisions.
- Scenario planning and ETOP are the important techniques for external environment analysis.
- Individual-level factors, organisation-related factors and environment-related factors affect external environment analysis.



KEY WORDS

- **Adulteration:** The practice of mixing any impure or inferior quality ingredient to the main product.
- **Carbon footprint:** The sum of all greenhouse gases emitted due to activities of an organisation, person or event.
- **Gross Domestic Product (GDP):** The total monetary value of all goods and services produced in a country within a specific time period.
- **Inflation:** An increase in the prices of goods and services in an economy at a specific time period.
- **National income:** It is the sum total of a country's goods and services produced in a year.

4.6 DESCRIPTIVE QUESTIONS

1. Describe the concept of environment of an organisation in detail.
2. What are different components of external environment? Explain any two of them.
3. Explain factors that influence external environment analysis.
4. Discuss factors that affect socio-cultural environment.
5. What are the main approaches to external environment analysis?
6. Discuss different techniques used for external environment analysis.

N O T E S**4.7 ANSWERS AND HINTS****ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q.No.	Answers
Concept of Environment	1.	Internal
	2.	False
	3.	Environment
	4.	To remain competitive in the market
	5.	Yes, opening a waste treatment plant nearby would be a logical solution to this problem.
Components of External Environment	6.	The Factories Act, 1948
	7.	PESTEL
	8.	Political environment.
	9.	Economic environment
	10.	False
External Environment Analysis	11.	False
	12.	Scenario analysis or scenario writing
	13.	The ways in which external environment shapes up are called trends.
	14.	True

HINTS FOR DESCRIPTIVE QUESTIONS

1. An environment can be defined as a sum of all factors existing within or outside an organisation. Refer to Section **4.2 Concept of Environment**.
2. Different components of external environment include political, economic, socio-cultural, technological, ecological and legal environment. Refer to Section **4.3 Components of External Environment**.
3. Individual-level factors, organisation-related factors and environment-related factors influence external environment analysis. Refer to Section **4.4 External Environment Analysis**.

N O T E S

4. Demographics, social customs, family structure etc. are some of the factors affecting socio-cultural environment. Refer to Section **4.3 Components of External Environment**.
5. To perform external environment analysis, different approaches are adopted by organisations, such as systematic approach, ad-hoc approach and process-form approach. Refer to Section **4.4 External Environment Analysis**.
6. External environment analysis can be performed using various techniques, such as scenario planning and ETOP. Refer to Section **4.4 External Environment Analysis**.

4.8 SUGGESTED READINGS FOR REFERENCE

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5

C H A P T E R

INTERNAL ENVIRONMENT AND ORGANISATIONAL ANALYSIS

CONTENTS

5.1	Introduction
5.2	Concept of Internal Environment
5.2.1	Organisational Resources
5.2.2	Organisational Capabilities
5.2.3	Organisational Competencies
	Self Assessment Questions
	Activity
5.3	Organisational Analysis
5.3.1	Techniques for Organisational Analysis
5.3.2	Factors Affecting Organisational Analysis
	Self Assessment Questions
	Activity
5.4	Summary
5.5	Descriptive Questions
5.6	Answers and Hints
5.7	Suggested Readings for Reference

INTRODUCTORY CASELET**INTERNAL COMPETENCIES OF FEDEX CORPORATION**

Founded in 1998 by Federal Express, FedEx Corporation is an American global courier delivery services. FedEx came into being when Federal Express acquired Caliber Incorporation. Before that, FedEx was known as FDX (Federal Express) Corporation. Since its formation, FedEx has strengthened its renowned express delivery service. It has grown into a more diversified company having a portfolio of dissimilar yet interrelated businesses.

FedEx possesses strong competencies, such as good infrastructure, high brand equity and aggressive commitment to innovation and technology. As a result, it has become a market leader in express delivery. These competencies have also helped the company to gain a competitive advantage in the shipping industry.

FedEx is known for its quick and timely delivery of packages. The company has spent around USD 1.5 billion on its network of airplanes, hubs and trucks across the world. The express delivery giant lays emphasis on innovation and technological enhancement. For instance, FedEx was the first organisation to make use of the Internet and wireless solutions in its express delivery operations. These technologies help customers to track the status of their delivered packages.

FedEx strives to build its distinctive competencies by ensuring faster delivery time. It also provides its customers an automated package tracking option, which is the first of its kind. These competencies are achieved because of FedEx's resources and capabilities.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Explain the concept of internal environment
- Discuss organisational analysis

5.1 INTRODUCTION

In the previous chapter, you have studied how the external environment impacts the performance of an organisation. External environment analysis helps an organisation in formulating its vision, mission, goals and objectives. However, an organisation cannot operate successfully by analysing its external environment alone. There are various factors in an organisation's internal environment that have a major impact on the organisation's performance.

Internal environmental encompasses events and factors that take place within an organisation. These factors may include changes in management policies, employee morale, cultural changes and financial issues. However, these internal environmental factors are easier to control as compared to external environmental factors. To control these factors, an organisation needs to perform a thorough analysis of its internal environment.

Analysing internal environment helps an organisation in identifying and assessing its resources, capabilities and competencies to better exploit better opportunities existing in the external environment. Moreover, identifying internal strengths and weaknesses enables an organisation to make effective business decisions. In this chapter, you will learn about the impact of the internal environment on an organisation's performance. You will also learn about organisational analysis and how it is carried out in organisations.

5.2 CONCEPT OF INTERNAL ENVIRONMENT

Internal environment involves conditions, forces or events within an organisation that affect its internal activities and processes. In other words, internal environment encompasses all components that exist within the boundaries of an organisation. Factors that are considered to be the part of an organisation's internal environment are:

- ❑ Mission, vision and objectives
- ❑ Management structure and nature
- ❑ Internal power relationships
- ❑ Human resources
- ❑ Physical assets and facilities

N O T E S

These factors are under the control of an organisation. To formulate an effective business strategy, it is essential for any organisation to analyse its internal environment. Analysing the internal environment provides an organisation insight into its strengths and weaknesses. For this, an organisation needs to examine three main components of its internal environment, which are listed in Figure 5.1:

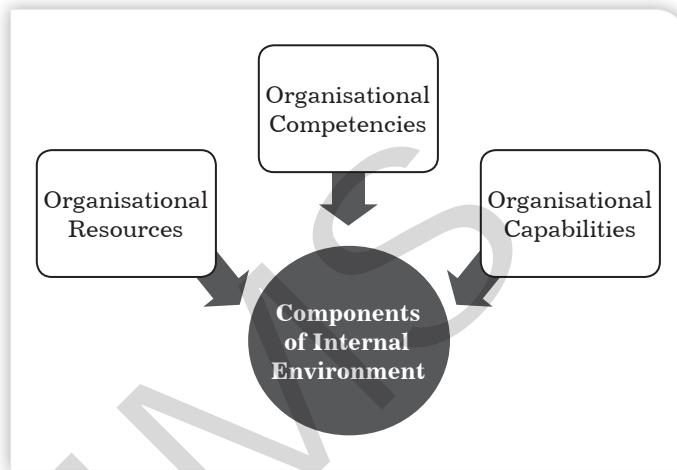


Figure 5.1: Components of Internal Environment

5.2.1 ORGANISATIONAL RESOURCES

Organisational resources are the assets that an organisation possesses to fulfil its goals and objectives. The adequacy of organisational resources acts as a strength, whereas scarcity of resources is a weakness for any organisation. Organisational resources can be broadly divided into two types: tangible and intangible. Tangible resources are listed in Figure 5.2:

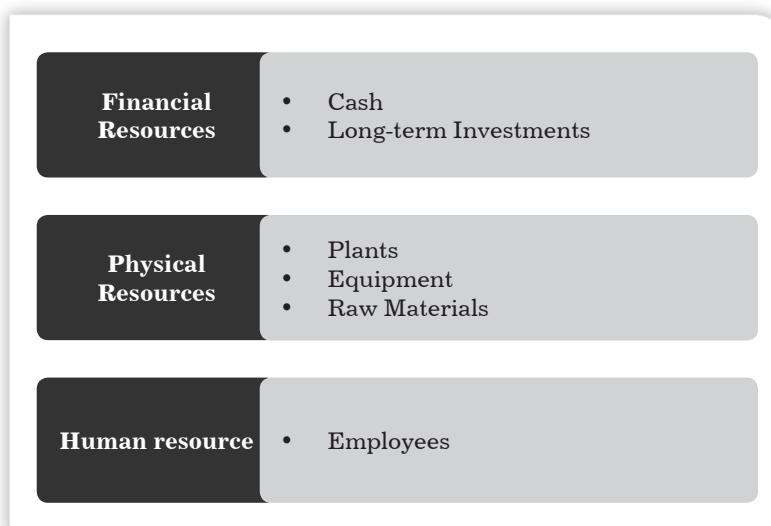


Figure 5.2: Tangible Resources of an Organisation

N O T E S

On the other hand, intangible resources consist of patents, copyrights, and intellectual property rights. Both tangible and intangible resources are of paramount importance to an organisation's success. According to Barney (1991), *an organisation can achieve strategic advantage only if its resources are valuable, costly, non-substitutable and difficult to imitate.* Thus, organisations must focus on making optimal utilisation of its resources to attain competitive advantage.

5.2.2 ORGANISATIONAL CAPABILITIES

Organisational capability is an organisation's ability to use its skills for optimising resources. An organisation can build its capabilities through the skills and knowledge of its employees. Organisational capabilities help an organisation to gain a strategic advantage in terms of profits, shareholder value, market share or reputation. On the contrary, the absence of capabilities leads to losses in the form of financial loss or damage to market share.

Most organisations have capabilities in five major areas, namely, finance, marketing, operations, personnel and information management. Let us discuss these capabilities as follows:

FINANCE CAPABILITY

This capability is related to the accessibility, usage and management of funds. A financially capable organisation provides easy access to financial resources and a high level of creditworthiness. Some of the major factors affecting the financial capability of an organisation are explained as follows:

- **Sources of funds:** If an organisation does not have reliable sources of funds, it cannot carry out its operations well. Some of the factors that can affect the sources of funds are capital structure, availability of working capital, reserves and relationships with lenders.
- **Usage of funds:** The factors that can affect the usage of funds are the types of capital investment, loans and advances, dividend distribution and relationship with shareholders.
- **Management of funds:** The factors that affect the management of funds are financial and budgeting systems, cash, credit and risk management and tax planning.

MARKETING CAPABILITY

The marketing capability is related to the marketing mix of an organisation. A marketing mix encompasses four Ps of marketing: product, price, place and promotion. An organisation having a strong marketing capability offers products and services that distinguish the organisation from its competitors. The factors influencing the marketing capability of an organisation are shown in Table 5.1:

N O T E S**TABLE 5.1: FACTORS INFLUENCING MARKETING CAPABILITY**

Factors	Description
Product-related factors	Design, variety, quality or packaging of products.
Price-related factors	Pricing objectives, discounts and tax on products.
Place-related factors	Distribution, transportation, marketing channels and marketing intermediaries.
Promotion-related factors	Advertising and sales promotions.

OPERATIONS CAPABILITY

Operations involve converting raw materials into finished products as per customers' requirements. Factors that influence the operations capability of an organisation are mentioned in Table 5.2:

TABLE 5.2: FACTORS INFLUENCING OPERATIONS CAPABILITY

Factors	Description
Production system-related factors	Capacity, location, layout and product or service design
Operations and control system factors	Production planning, cost and quality control and maintenance systems and procedures
Research and development factors	Technological innovations and product developments

PERSONNEL CAPABILITY

Personnel capability of an organisation refers to the availability of efficient and skilled human resource within the organisation so that strategies can be implemented successfully. An organisation can attain personnel capability if it has effective training and development programs in place and provides safe working conditions to employees. Factors that influence the personnel capability of an organisation are listed in Table 5.3:

TABLE 5.3: FACTORS INFLUENCING PERSONNEL CAPABILITY

Factors	Description
Personnel system	Human resource planning, compensation, appraisal, procedures and standards.
Organisational and employees' characteristics	Corporate image, capabilities of employers and employees and working conditions for employees.
Industrial relations	Relations between union and management, collective bargaining and employee satisfaction and morale

N O T E S**INFORMATION MANAGEMENT CAPABILITY**

The information management capability of an organisation is related to the smooth flow of information within and outside an organisation. This capability of an organisation is influenced by the following factors:

- **Acquisition and retention of information:** This is affected by sources, quantity, quality, timeliness and security of information.
- **Processing and synthesis of information:** This is done through computer systems and software and database management.
- **Transmission and dissemination of information:** This implies coverage of information in terms of speed, scope, width and depth.
- **Integrative, systematic and supportive factors:** These consist of factors such as availability of IT infrastructure, computer professionals and top management support.

5.2.3 ORGANISATIONAL COMPETENCIES

Another component of the internal environment of an organisation is organisational competencies. These are the strengths or qualities that an organisation possesses. These competencies are developed over a period of time. There are two types of competencies: core competency and distinctive competency.

A core competency refers to the collective learning of an organisation, which is gained by coordinating employees' diverse skills and integrating technologies. It is a unique skill that creates a distinct customer value. According to Prahalad and Hamel, a core competency should fulfil three criteria:

- Provide benefits to consumers.
- Make it difficult for competitors to imitate the competency.
- Make a significant contribution to various markets.

On the other hand, a distinctive competency is a specific ability of an organisation that differentiates its products or services from that of competitors; thereby increasing the market share of the organisation. For instance, Motorola created a distinctive competency by developing the six sigma methodology to produce defect-free mobile phones. Table 5.4 distinguishes between core and distinctive competencies:

TABLE 5.4: DIFFERENCES BETWEEN CORE COMPETENCY AND DISTINCTIVE COMPETENCIES

S. No.	Core Competency	Distinctive Competency
1.	A well-performed internal activity that is central to an organisation's competitiveness and profitability.	A unique competitive activity that helps an organisation to perform better than its rivals.

N O T E S

S. No.	Core Competency	Distinctive Competency
2.	<p>Examples:</p> <ul style="list-style-type: none"> • Sony: Core competence in miniaturisation of products. • McDonald's: Core competence in the fast delivery of products, customer care and cleanliness. • Federal Express: Core competence in logistics management and customer service. 	<p>Examples:</p> <ul style="list-style-type: none"> • Sharp Corporation: Expertise in flat panel display technology. • Intel: Expertise in designing and manufacturing powerful microprocessors for PCs. • Walmart: Expertise in low-cost distribution and use of state-of-the-art retail technology.



SELF ASSESSMENT QUESTIONS

1. The internal environment consists of resources, competencies and capabilities, which also define the strengths and weaknesses of an organisation. (True/False)
2. An organisation can build its _____ through the skills and knowledge of its employees.
3. Tangible resources consist of patents, copyrights, intellectual property rights. (True/False)
4. _____ are the strengths or qualities possessed by an organisation that help it to outshine its competitors in the market.
5. _____ is affected by sources, quantity, quality, timeliness and security of information.
6. What factors can affect the sources of funds?
7. _____ include factors such as distribution, transportation, marketing channels and marketing intermediaries.



ACTIVITY

Take any organisation in the automobile industry. With the help of the Internet, list the important elements of the organisation's internal environment. Analyse how these elements affect the organisation's profitability.

5.3 ORGANISATIONAL ANALYSIS

Organisations need to identify their strengths and weaknesses to develop effective strategies for the attainment of pre-defined goals. This

N O T E S

can be done through organisational analysis that involves evaluating the internal environment (including work processes, procedures and personnel) of an organisation. Organisational analysis helps an organisation in:

- ❑ Monitoring its processes, procedures, resource allocation, and employees' performance
- ❑ Determining its future direction
- ❑ Augmenting its strengths and eliminating its weaknesses
- ❑ Improving its competitive advantage
- ❑ Making better strategic decisions

5.3.1 TECHNIQUES FOR ORGANISATIONAL ANALYSIS

Organisational analysis aims at capitalising strengths, overcoming weaknesses and formulating strategies for achieving a competitive advantage. There are various techniques that are used for analysing the internal environment of an organisation. Some of them are shown in Figure 5.3:

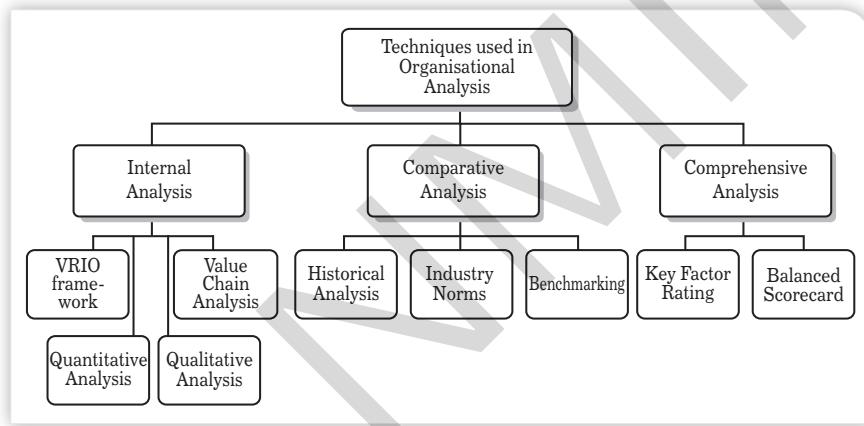


Figure 5.3: Techniques for Organisational Analysis

Let us discuss these techniques in detail.

INTERNAL ANALYSIS

Internal analysis can be defined as a systematic evaluation of key internal features and processes of an organisation. Organisations use three main techniques to perform internal analysis. Let us have a look at these techniques.

VALUE, RARENESS, IMITABILITY, ORGANISATION (VRIO) FRAMEWORK

This is a significant tool for analysing an organisation's internal resources and capabilities. The VRIO framework was introduced by

N O T E S

Barney, J. B. (1991) in his work 'Firm Resources and Sustained Competitive Advantage'. According to him, *resources must be valuable, rare, imperfectly imitable and non-substitutable*. A resource that meets all these four characteristics gives the organisation a competitive advantage. Figure 5.4 depicts the VRIO framework:

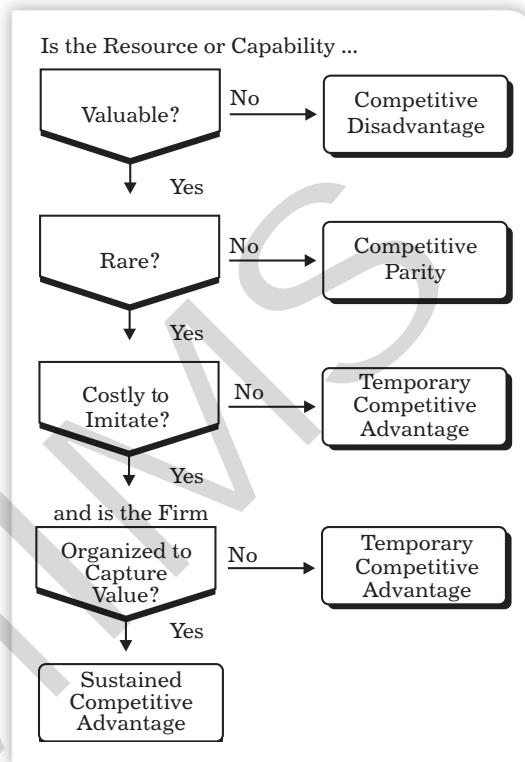


Figure 5.4: VRIO Framework

The VRIO framework involves questions related to the following:

- **Value:** The first question reflects whether a resource provides value or not. Value is created by exploiting opportunities and defending against threats. The resources that fail to meet this condition lead to a competitive disadvantage. It is important to review the value of resources on a periodic basis as external and internal conditions can make resources less valuable.
- **Rareness:** This question reflects whether competitors possess the same resources as the organisation. Rare resources that are valuable provide a competitive advantage. If most organisations have the same resources, no organisation can achieve a superior performance.
- **Imitability:** The resources that are hard to be imitated provide competitive advantage to an organisation. Tangible resources can be easily imitated, but intangible resources are difficult to imitate due to high costs. An organisation with valuable, rare and hard-to-imitate resources can achieve a sustained competitive advantage.

N O T E S

- **Organisation:** The question reflects whether the organisation is structured in the best possible manner so as to utilise resources efficiently. An organisation must have organised management systems, processes, policies, structure and culture to realise the potential of its valuable, rare and expensive-to-imitate resources for gaining a competitive advantage.

VALUE CHAIN ANALYSIS

Introduced by Michael Porter, value chain analysis helps in identifying the activities that provide a competitive advantage to an organisation. The following are the advantages of value chain analysis:

- Identifies activities that build an organisation's value chain
- Assists in identifying activities that can provide value to customers
- Evaluates how value can be increased by minimising costs and maximising profit
- Recognises how value can be improved by innovatively recombining activities

Porter divided business activities into primary and support activities, as shown in Figure 5.5:

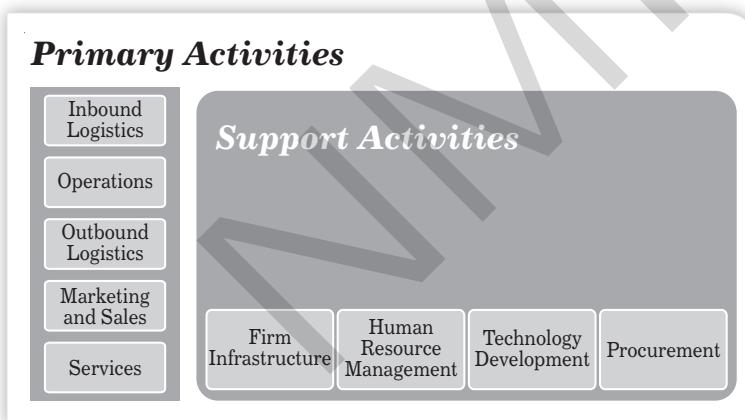


Figure 5.5: Primary and Support Business Activities

Primary activities can be explained as follows:

- **Inbound logistics:** These include all the activities that an organisation uses for receiving, storing and transporting inputs into the production process. Examples of inbound logistics activities are warehousing and inventory control.
- **Operations:** These include all the activities that help in transforming raw materials into finished products. Examples of operations are assembling and packaging.
- **Outbound logistics:** These include activities that an organisation performs for receiving, storing and transporting outputs resulting

N O T E S

from the production process. Examples of outbound logistics activities are physical distribution and warehousing.

- **Marketing and sales:** These include all activities related to marketing and selling products to end customers. Examples of marketing and sales activities are promotion and distribution.
- **Services:** These include all activities performed to maintain and enhance a product's value. Examples of services are repair and maintenance.

Primary activities are supplemented by support activities, which are as follows:

- **Firm infrastructure:** It includes components such as organisational structure, culture and control system. These components help an organisation in performing its primary activities efficiently.
- **Human resource management:** It includes activities for maintaining a pool of efficient human resource. Examples of such activities are recruitment, selection and appraisal of employees.
- **Technology development:** It includes all tasks required for the development and improvement of products and services. Examples of technological development are research and development, process design and equipment design.
- **Procurement:** It includes all activities that an organisation performs for obtaining inputs. Examples of such activities are purchasing fixed assets and raw materials.

QUANTITATIVE ANALYSIS

In quantitative analysis, the strengths and weaknesses of an organisation are assessed with the help of financial analysis. This analysis involves the use of the following techniques:

- **Ratio analysis:** It provides information related to the liquidity and profitability of an organisation.
- **Economic Value Added (EVA) analysis:** It helps to identify the profitability of an organisation in terms of returns on capital over invested capital as the cost of service.
- **Activity-Based Costing (ABC):** It includes identifying activities involved in the value chain and estimating the cost incurred for those activities.

QUALITATIVE ANALYSIS

All the activities performed in an organisation cannot be expressed in terms of money. Qualitative analysis measures the non-financial activities based on subjective judgement and informed opinion. It includes

N O T E S

labour relations, management expertise, industry cycles and the effectiveness of research and development. The methods used under qualitative analysis are intuition, informed opinions, surveys, experimentation and judgement.

COMPARATIVE ANALYSIS

Besides internal analysis, another technique for organisational analysis is comparative analysis. Comparative analysis helps to identify an organisation's strengths, weaknesses and distinctive competency. There are three ways to perform a comparative analysis. Let us have a look at these three ways.

- **Historical Analysis**

In historical analysis, an organisation compares its progress with its past performance to identify its strengths and weaknesses. The areas that show good performance denote strengths, while the areas with bad performance indicate weaknesses of the organisation. However, historical analysis cannot reveal the correct picture of the organisation's performance in terms of competition and industry. Therefore, the organisations should resort to the analysis of industry norms and best practices of competitors.

- **Industry Norms**

Industry norms are business standards accepted by organisations in an industry. Organisations consider these norms to identify their strengths and weaknesses by comparing their strategies and procedures with that of their competitors.

- **Benchmarking**

Benchmarking is a process wherein an organisation compares its processes and performance with that of the leading organisations in the industry. The comparison helps an organisation to identify areas, systems, or processes for improvements. Benchmarking can be of two types: technical benchmarking (wherein the capabilities of products and services are analysed) and competitive benchmarking (in which an organisation's analyses its performance based on customers' feedback).

COMPREHENSIVE ANALYSIS

Another important technique that helps in performing organisational analysis is a comprehensive analysis. Comprehensive analysis provides a complete picture of an organisation's financial and non-financial status. To conduct this kind of analysis, three techniques are used. Let us have a look at these techniques:

N O T E S

Key Factor Rating

It is a process of analysing an organisation's capabilities by considering key factors of its different areas. These key factors are evaluated based on the series of questions to assess the strengths and weaknesses of the organisation. For instance, financial capability factors can be analysed by answering questions related to sources, usage and management of funds.

Balanced Scorecard

It was developed by Robert S. Kaplan and David Norton of Harvard Business School. A balanced scorecard evaluates the performance of an organisation based on four different perspectives: financial perspective, customer perspective, internal process perspective and learning and innovation perspective. Figure 5.6 shows the balanced scorecard method:

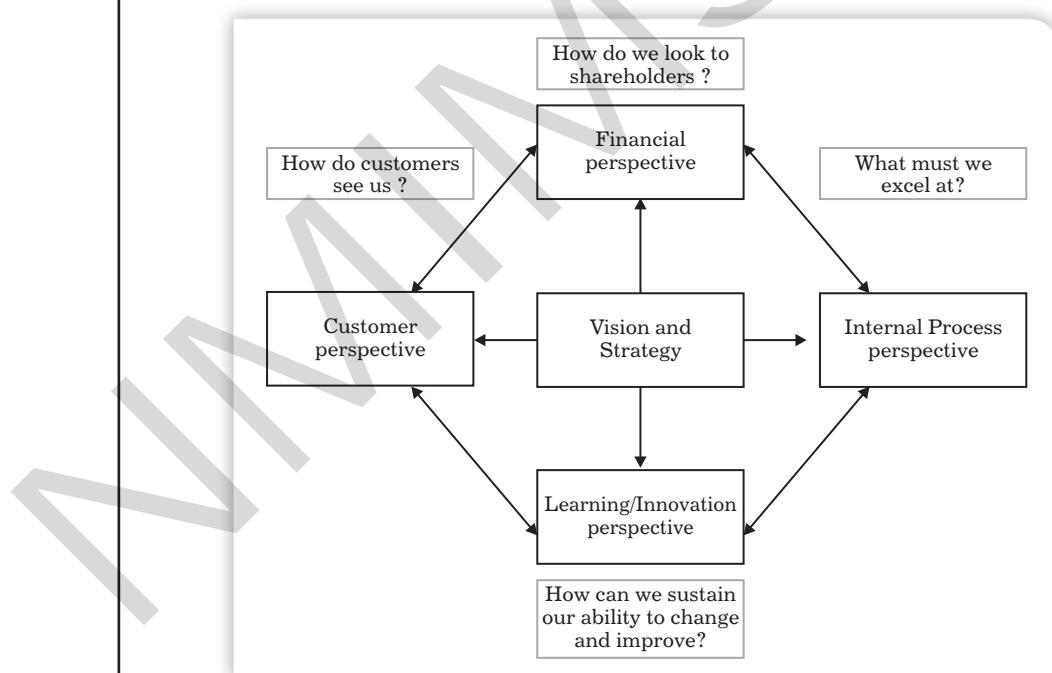


Figure 5.6: Balanced Scorecard Method

Let us discuss these four perspectives as follows:

- Financial perspective:** This considers the financial measures of an organisation, such as earnings, revenues, return on capital and cash flows.
- Customer perspective:** It judges the ability of an organisation in providing quality services or products and achieving customer satisfaction.
- Internal process perspective:** This deals with the evaluation of business processes to fulfil the expectations of customers.

N O T E S

- **Learning and innovation perspective:** It refers to an organisation's ability to survive in the market and adapt itself according to the changing and challenging environment.

5.3.2 FACTORS AFFECTING ORGANISATIONAL ANALYSIS

The analysis of the internal environment helps in bridging gaps between the current and expected organisational performance. By analysing the internal environment, an organisation can determine its strengths and weaknesses in various areas. This further helps the organisation to develop strategies to grab opportunities and predict threats that external environment might pose. However, it is not easy for an organisation to conduct an internal analysis as it is affected by various factors. These factors include:

- **Ability of strategists:** It implies how well a strategist is able to analyse influences and forces affecting an organisation. A strategist having strong analytical skills would be able to assess the environment accurately, which leads to effective decision making.
- **Size of organisation:** It affects the quality of appraisal in an organisation. Large organisations are difficult to analyse as compared to smaller ones.
- **Characteristics of internal environment:** They include the behaviour of individuals and teams in an organisation. If there is no co-ordination between them, the analysis process may suffer. It is easy to analyse organisations with cohesive management.



SELF ASSESSMENT QUESTIONS

8. _____ benchmarking analyse the capabilities of products and services.
9. _____ provides information related to the liquidity and profitability of an organisation.
10. Organisational analysis aims at capitalising strengths, overcoming weaknesses and formulating strategies for achieving a competitive advantage. (True/False)
11. What are the techniques for comparative analysis?
12. In qualitative analysis, the strengths and weaknesses of an organisation are assessed with the help of financial analysis. (True/False)
13. _____ identifies activities that can provide value to customers.
14. Examples of inbound logistics activities are _____.

N O T E S



ACTIVITY

List down some other factors that can affect organisational analysis.

5.4 SUMMARY

- ❑ Internal environment encompasses all components that exist within the boundaries of an organisation. To formulate an effective business strategy, it is essential for any organisation to analyse its internal environment.
- ❑ Analysing the internal environment provides an organisation insight into its strengths and weaknesses.
- ❑ The components of internal environment are organisational resources, organisational capabilities and organisational competencies.
- ❑ Organisational analysis aims at capitalising strengths, overcoming weaknesses and formulating strategies for achieving a competitive advantage.
- ❑ Techniques used in organisational analysis include internal analysis, comparative analysis and comprehensive analysis.
- ❑ The various factors affecting organisational analysis are ability of strategists, size of organisation and characteristics of internal environment.



KEY WORDS

- ❑ **Benchmarking:** It is a process of comparing inputs, processes or outputs of an organisation with other organisations in the industry.
- ❑ **Competitive advantage:** It is a specific advantage of an organisation over its competitors that helps to increase profit margins and retain maximum number of customers.
- ❑ **Core competency:** It is a collective learning of an organisation gained by coordinating diverse skills of employees and integrating technologies.
- ❑ **Value chain:** It is a systematic way of examining an organisation's functional activities.

5.5 DESCRIPTIVE QUESTIONS

1. Explain the concept of internal environment.
2. Describe organisational capabilities as a component of internal environment.

N O T E S

3. Elaborate on the concept of value chain analysis.
4. What are the differences between core competency and distinctive competency?
5. Explain the factors affecting internal analysis of an organisation.
6. Describe the VRIO framework for internal analysis.

5.6 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q.No.	Answers
Concept of Internal Environment	1	True
	2	Capabilities
	3	False
	4	Organisational competencies
	5	Acquisition and retention of information
	6	The factors that can affect the sources of funds are capital structure, availability of working capital, reserves and relationships with lenders.
Organisational Analysis	7	Place-related factors
	8	Technical
	9	Ratio analysis
	10	True
	11	Historical analysis, industry norms and benchmarking
	12	False
	13	Value chain analysis
	14	Warehousing and inventory control

HINTS FOR DESCRIPTIVE QUESTIONS

1. Internal environment involves conditions, forces or events within an organisation that affect its internal activities and processes. Refer to Section 5.2 **Concept of Internal Environment**.
2. Organisational capability is an organisation's ability to use its skills for optimising resources. Refer to Section 5.2 **Concept of Internal Environment**.

N O T E S

3. Value chain analysis helps in identifying the activities that provide a competitive advantage to an organisation. Refer to Section 5.3 **Organisational Analysis**.
4. A core competency refers to the collective learning of an organisation, which is gained by coordinating employees' diverse skills and integrating technologies while a distinctive competency is a specific ability of an organisation that differentiates its products or services from that of competitors; thereby increasing the market share of the organisation. Refer to Section 5.2 **Concept of Internal Environment**.
5. The various factors affecting organisational analysis are ability of strategists, size of organisation and characteristics of internal environment. Refer to Section 5.3 **Organisational Analysis**.
6. The VRIO framework analyses organisation's internal resources and capabilities. Refer to Section 5.3 **Organisational Analysis**.

5.7

SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

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6

C H A P T E R

STRATEGIC MANAGEMENT IN ORGANISATIONS

CONTENTS

6.1	Introduction
6.2	Concept of Strategy
6.2.1	Importance of Strategy
6.2.2	Strategic Business Units
6.2.3	Levels of Strategy
6.2.4	Role of Strategists
6.2.5	Types of Strategies
	Self Assessment Questions
	Activity
6.3	Concept of Strategic Management
6.3.1	Components of Strategic Management
6.3.2	Process of Strategic Management
6.3.3	Schools of Thought in Strategic Management
6.3.4	Strategic Management in the Indian Scenario
	Self Assessment Questions
	Activity
6.4	Role of Strategic Management
6.4.1	Strategic Management in Marketing
6.4.2	Strategic Management in Finance
6.4.3	Strategic Management in Human Resource
	Self Assessment Questions
	Activity
6.5	Concept of Strategic Planning
	Self Assessment Questions
	Activity
6.6	Summary
6.7	Descriptive Questions
6.8	Answers and Hints
6.9	Suggested Readings for Reference

INTRODUCTORY CASELET**CHANGE OF MARKETING STRATEGY BY CADBURY**

Cadbury, a well-known chocolate brand, started its operations in India in 1968. It targeted children with the introduction of its popular product, Cadbury Gems. The product was a success until a few years back when sales started plateauing and falling gradually. Due to competition from many products, including Cadbury's own offerings, Gems was losing its target customers. Brands, such as Kinder Joy were more visible and enjoyed children's patronage. To regain their lost customer base, Cadbury changed its marketing strategy.

The new strategy involved repositioning the brand by targeting it to adults. Thus, the advertisements for Gems changed and focused on adults. The new tagline 'Raho Umarless' (meaning 'be ageless') resonated with the changed marketing strategy. The initial advertisements were a surprise for the audience because a kid's chocolate brand rarely focused on adults. The audience took notice of Gems and the product's visibility in the market increased.

The overall results were not extraordinary but were definitely encouraging, allowing the organisation move towards the new strategy. Taking a cue from one of its major competitors, Kinder Joy, which offers a free toy in each chocolate pack, Gems also started offering a free toy with a special pack of Gems. With this, it targeted children again. The advertisements focused on adults but showed the childlike behaviour of adults fighting for free toys. This allowed the brand to simultaneously reach both target groups and gain visibility and sales in the market.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Explain the concept of strategy
- Describe the concept of strategic management
- Discuss the role of strategic management in distinct functional areas, such as finance and marketing
- Describe the concept of strategic planning

6.1 INTRODUCTION

In the previous chapter, you have studied the concepts of internal environment and organisational analysis. This analysis is performed to formulate effective business strategies. However, the effectiveness of a strategy depends on how well the strategy is managed.

Strategic management is a process of identifying, defining, planning, implementing and evaluating key strategies that organisations can adopt to achieve their pre-defined objectives. In other words, strategic management is a set of decisions and actions that managers take to improve business performance. It enables organisations to plan for predictable and unfeasible contingencies by providing insight into their internal strengths and weaknesses as well as opportunities and threats in the external business environment.

Strategic management is a continuous process that involves evaluating competitors' strategies and comparing them with an organisation's strategies. This helps an organisation to identify the areas of improvement. One of the major roles of strategic management is to integrate different functional areas of an organisation, such as human resource, marketing and production, and ensure that these functional areas harmonise well together.

Strategic management is a systematic process that involves a number of steps, such as establishment of strategic intent, formulation of strategies, implementation of strategies and strategic evaluation and control. In this chapter, you will study about the concept of strategy in detail. Further, you will be familiarised with how strategies are managed in an organisation.

6.2 CONCEPT OF STRATEGY

The word strategy is derived from the Greek word *Strategia*, which means a military general. In the military, most decisions are taken at the top. Therefore, a general is responsible for all the planning, command and execution in the field or during war.

N O T E S

A strategy is a systematic and elaborate plan to achieve specific goals. It serves as a road map to a desired destination. In the context of an organisation, a strategy refers to a particular way to achieve the organisation's target. Thus, actions, standards, plans and policies form part of the strategy. The concept of strategy was introduced in the 1960s by Igor Ansoff, who is known as the father of strategic management. He compared product development strategies and horizontal and vertical strategies, using a grid called the strategy grid. His research efforts paved the way for the inclusion of strategic planning in management activities.

Over the years, a strategy has been defined by many authors in different ways. Some of these definitions are given as follows:

According to Alfred D. Chandler, *strategy is the determination of the long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resource necessary for carrying out these goals.*

According to Michael Porter, *competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.*

Henry Mintzberg, in his book '*The Rise and Fall of Strategic Planning*', writes people use 'strategy' in several different ways. A strategy is:

- A plan, a 'how', a means of getting from here to there.
- A pattern in actions over time; for example, a company that regularly markets very expensive products is using a 'high end' strategy.
- A position; that is, it reflects decisions to offer particular products or services in particular markets.
- Perspective, that is, vision and direction.

Although definitions may differ, there is wide agreement on the purpose and objectives of a strategy. The main purpose of a strategy is to provide a direction to an organisation. Apart from this, the other objectives of a strategy are to:

- Provide direction and stability to an organisation.
- Determine long and short-term goals.
- Help in prioritising goals and objectives.
- Facilitate the execution of goals.
- Make optimum utilisation of resources.
- Facilitate the decision-making process.

6.2.1 IMPORTANCE OF STRATEGY

Formulating effective strategies is critical to the success of an organisation. The importance of an effective strategy is summed up in the following points:

N O T E S

- A strategy provides direction to a business.
- It serves as a platform to set goals and objectives and create plans.
- It enables an organisation to keep abreast of the changing environment.
- It helps in problem solving and resource optimisation.
- An effective strategy provides the basis for measuring organisational performance.
- It aligns the personal goals of employees with organisational goals; thereby achieving maximum employee satisfaction.

6.2.2 STRATEGIC BUSINESS UNITS

Strategies are applied at multiple levels in an organisation. When organisations expand, it gets difficult to handle operations at all levels. Moreover, the management may not be able to address all the problems that require immediate attention. To address these issues, Strategic Business Units (SBUs) are created.

An SBU serves as an independent entity with separate, specialised subsystems for different products or processes, regions or area of work. According to Sharplin, *SBU is any part of a business organisation that is treated separately for strategic management purposes.*

Although SBUs have decision-making powers, the decisions should be in accordance with the policies and strategies of the organisation.

SBUs have their own profits, expenditure, competitors and structure. They are responsible for their budgeting, new product launch, recruitment and price setting. SBUs can be divided into two levels as shown in Figure 6.1.

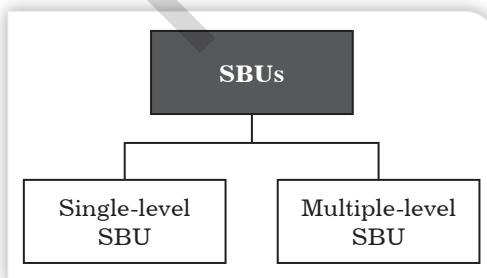


Figure 6.1: Types of SBUs

Let us look at the types of SBUs in detail:

- **Single-level SBU:** This is a single business unit that deals with a single product or one area. In a single-level SBU, a manager develops a strategy to control the factors that affect the organisation. Here, managers at the middle level shoulder responsibilities to take decisions at the corporate level.

N O T E S

- **Multiple-level SBU:** This is a business unit that is divided according to geographical areas or products. All the divisions work independently under separate managers and follow the strategies formulated by the top management. In case of multiple-level SBUs, corporate strategies perform the following functions:
 - ◆ Establish strategic objectives.
 - ◆ Determine whether the current businesses are able to achieve these objectives.
 - ◆ Determine the remaining objectives that are unfulfilled.
 - ◆ Decide the steps to achieve the remaining objectives.

6.2.3 LEVELS OF STRATEGY

In an organisation, a strategy can be formulated and implemented at three different levels. Figure 6.2 shows these three levels of strategy:

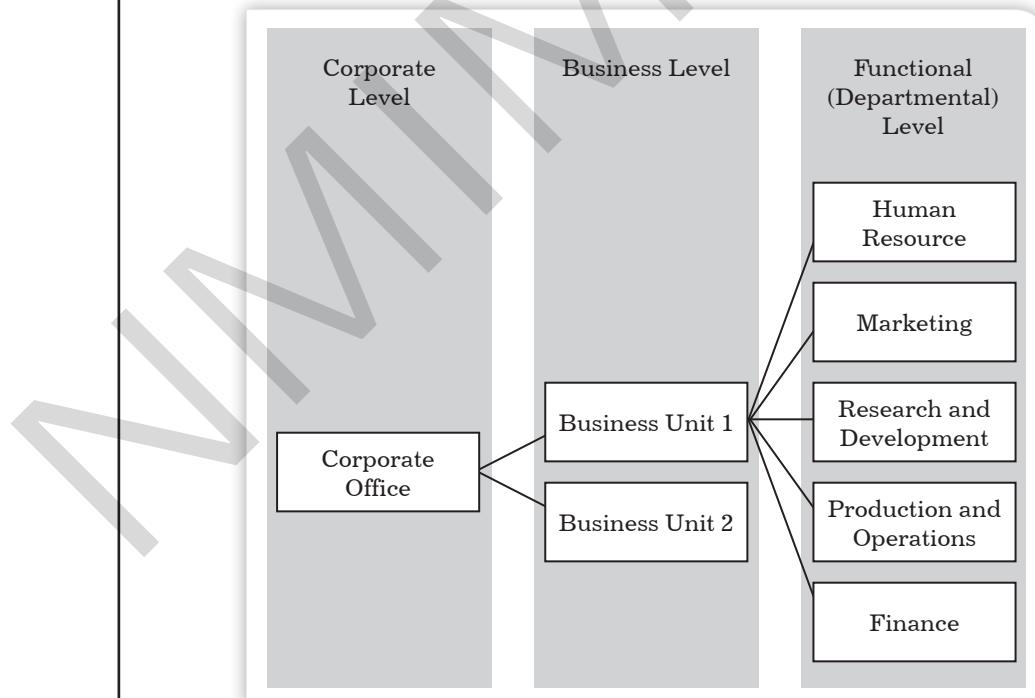


Figure 6.2: Three Levels of Strategy

Let us look at the three levels of strategy in detail:

- **Corporate level:** Strategies at this level are formulated by the top management of an organisation, that is the Board of Directors (BODs) and the Chief Executive Officer (CEO). These strategies are futuristic, innovative and pervasive in nature, and include major decisions, such as mergers, takeovers, liquidations and diversification.

N O T E S

- **Business level:** Strategies at this level are designed by business heads. These strategies are specific and action-oriented, and focus on the optimum allocation of resources to the functional areas of business.
- **Functional level:** Strategies at this level are designed by functional managers for carrying out day-to-day activities of an organisation. Functional-level strategies ensure the development and coordination of resources at different business levels, such that business objectives are achieved effectively. A functional strategy is divided into different operational-level strategies. For example, a marketing function is divided into sales, distribution and promotion.

Dimensions, such as impact, flexibility and level of decision making, vary at each level. For example, flexibility in taking decisions is high at the corporate level, whereas it is medium and low at the business and functional level, respectively. Thus, strategists develop different strategies at different levels of organisations. Let us discuss the role of strategists in the subsequent section.

6.2.4 ROLE OF STRATEGISTS

A strategist is someone who is an expert at creating strategies and planning actions and policies. According to Whittington, *there are three fundamental issues regarding strategists, ‘who they are’, ‘how they get there’ and ‘what are the skills they need’*. A strategist:

- Envisions the direction of an organisation and ensures the success of the organisation by developing effective strategies.
- Evaluates opportunities and threats in the external environment and identifies internal strengths and weaknesses of the organisation.
- Focuses on critical issues in an organisation and takes actions accordingly.
- Identifies the root cause of the problem and then solves it.
- Strives to find a new area of strategic analysis and decision making.
- Makes efficient allocation of organisational resources.
- Assists an organisation in meeting challenges posed by the environment.
- Works as a team and thinks of new initiatives to strengthen the organisation’s position in the market.
- Generates a list of alternatives available for each decision and considers the viewpoint of every member of the organisation in the final decision.

N O T E S

- Arranges meetings with clients or customers in order to find out future requirements and subsequently translates the learning gained from meetings into strategic objectives of the organisation.

6.2.5 TYPES OF STRATEGIES

An organisation can use a number of strategies to achieve its desired place in the market. These strategies can be primarily grouped under three categories as shown in Figure 6.3:

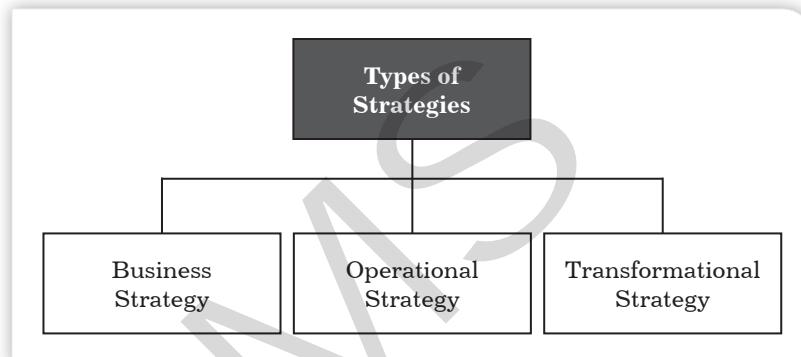


Figure 6.3: Types of Strategies

Let us look at the three types of strategies in detail:

- **Business strategy:** This strategy is formulated by the top management. It is mainly concerned with decisions regarding the development of new products and new market entry. The other objectives of a business strategy include attracting new customers and retaining existing ones, and finding new ways to deal with competitors in the market. A business strategy can be implemented effectively if it is communicated well to all the levels of the hierarchy.
- **Operational strategy:** This strategy is formulated to translate a business strategy into a consistent and actionable implementation plan. An operational strategy is about deciding which capabilities, technologies or processes are to be created or enhanced to achieve maximum productivity. It is formulated and implemented by senior-level managers or functional heads.
- **Transformational strategy:** This strategy is not popular as it requires the transformation of an entire business or organisation in terms of people, processes and technology. Few organisations willingly adopt this path.



SELF ASSESSMENT QUESTIONS

1. What can be defined as a systematic and elaborate plan to achieve specific objectives?
2. A strategy serves as a platform to set goals, objectives and plans. (True/False)

N O T E S

3. What is an SBU?
4. A strategist focuses on critical issues in an organisation and takes actions accordingly. (True/False)

**ACTIVITY**

Visit any organisation and make a list of strategies implemented there.

6.3 CONCEPT OF STRATEGIC MANAGEMENT

Strategic management is a process of defining, implementing and assessing the decisions taken by the management towards attaining its goals and objectives. The main objective of strategic management is to integrate different functions, such as marketing, finance, production and operations, research and development and information management to help organisations achieve success. Let us look at some of the definitions of strategic management:

According to James M. Higgins, *strategic management is the process of managing the pursuit of the organisational mission while managing the relationship of the organisation to its environment.*

According to Lester A. Digman, *strategic management is a continuous process that involves attempts to match or fit the organisation to its changing environment in the most advantageous way possible.*

During the 1920s, organisations were more concerned about daily operations rather than future planning. As the competition increased over the years, there was a need to prepare budgets. For this, organisations adopted various tools, such as capital budgeting. However, these tools failed to anticipate the future accurately. Thus, the concept of future planning, also known as strategic planning, was introduced in organisations. With the passage of time, further developments led to the transformation of strategic planning into strategic management.

Strategic management is an on-going process that helps an organisation in assessing and controlling its business in the industry and environment in which it operates. The main purpose of adopting strategic management is described below:

- To facilitate innovative thinking about the future goals of the organisation.
- To develop the vision and mission of the organisation.
- To create the guiding principles and strategic goals of the organisation.

N O T E S

- To transform inputs of the organisation into outputs through the optimal allocation of resources.
- To improve organisational performance and processes to deliver quality products and services.
- To gain an edge over competitors in the market.

6.3.1 COMPONENTS OF STRATEGIC MANAGEMENT

The success of an organisation depends largely on an effective strategic management process. This encompasses the components that lay the foundation for the strategic development process of an organisation. The components of strategic management are detailed below:

- **Vision:** The vision statement of an organisation is a statement that describes the long-term view of the organisation. The vision focuses on what an organisation is trying to become in the long run. It provides long-term direction to an organisation.
- **Mission:** The mission statement of an organisation describes the scope and purpose of a business. Therefore, it serves as a guideline for formulating strategies. It also describes the organisation's product, market, values and priorities.
- **Objectives:** The objectives of an organisation refer to the results that an organisation seeks to achieve in a specific time period. An organisation has two types of objectives: long-term objectives and short-term objectives. Although both relate to the same area of business, short-term objectives are more specific and are based on long-term objectives. Achievement of long-term objectives is dependent on the achievement of short-term objectives.
- **Policies:** The policies of an organisation refer to the guidelines given to managers and employees for guiding their decisions and actions while implementing the organisation's strategy. Policies balance the organisation's processes with its strategies.
- **Business environment:** An organisation's business environment consists of both internal and external forces that affect the organisation's activities. External forces include social, legal, economic, political, technological and ethical factors that affect the organisation's business strategies. On the other hand, internal forces include factors like employees' strength, policies, procedures and technology.

6.3.2 PROCESS OF STRATEGIC MANAGEMENT

To define and manage different strategies of an organisation, a set of sequential interconnected activities are carried out. This is known as the strategic management process. The process involves four stages, as displayed in Figure 6.4:

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Figure 6.4: Stages of the Strategic Management Process

Let us look at the stages of the strategic management process:

- **Establishment of strategic intent:** During this stage, the basic foundation for strategic management is laid down. Strategic intent defines the course of action that an organisation intends to take in the future. The strategic intent of an organisation should be communicated to employees so that they work toward the accomplishment of goals and objectives. It is reflected in the vision, mission, objectives and business definition of an organisation.
- **Formulation of strategies:** During this stage, strategies are developed after considering various internal and external factors. Before finalising any strategy, strategists have to analyse the organisation's environment. This analysis involves examining both internal (strengths and weaknesses) and external (opportunities and threats) environments of an organisation. While formulating strategies, strategists develop all possible alternatives and select the most suitable strategy. This process is called strategic analysis and choice. Strategies that are developed should be in accordance with the future goals of the organisation.
- **Implementation of strategies:** Once strategies are formulated, they are put into action. For this, management needs to develop various programmes, budgets and procedures. The middle and lower level managers of the organisation implement the strategies

N O T E S

that are formulated, while the top management reviews the implementation process.

- **Strategic evaluation and control:** During this stage, the performance of the implemented strategies is compared with the desired results. In case of any deviations, corrective actions are taken by the organisation. Moreover, at this stage, feedback is prepared that states the revised decisions of the organisation and can be used for future references.

6.3.3 SCHOOLS OF THOUGHT IN STRATEGIC MANAGEMENT

The concept of strategic management is still evolving. Over the years, various schools of thought have emerged with respect to this concept. Figure 6.5 shows 10 schools of thought on strategy formation under three groups:

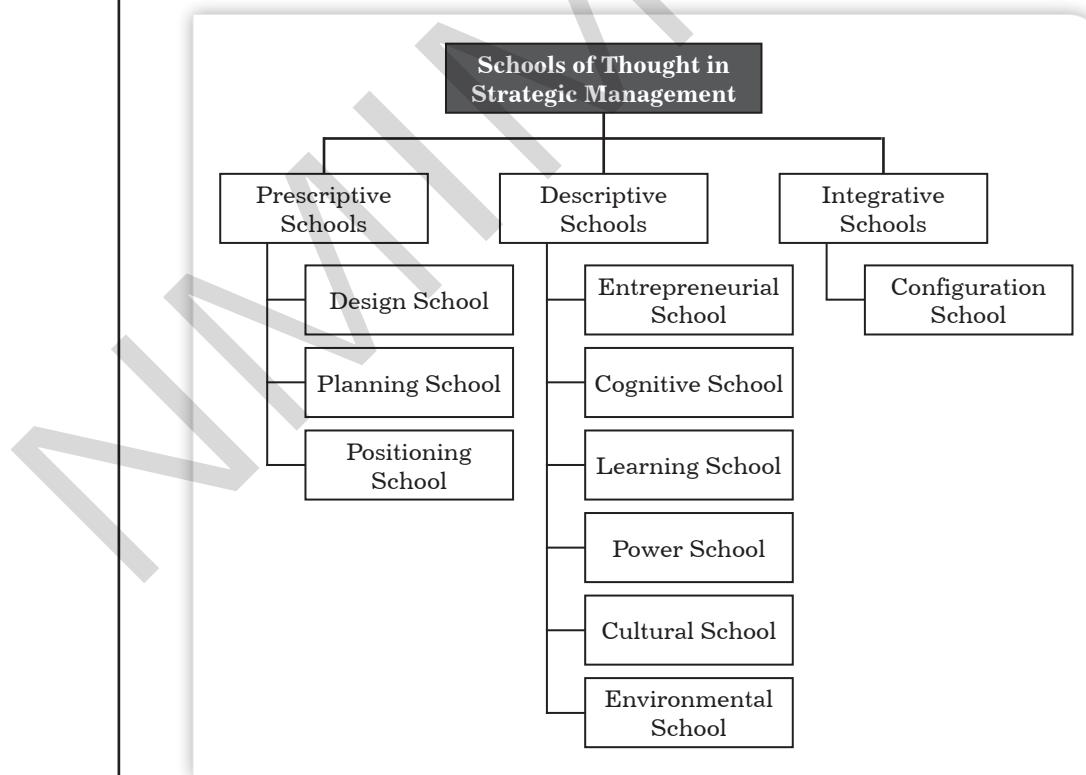


Figure 6.5: Schools of Thought in Strategic Management

These schools of thought of strategic management are explained as follows:

PREScriptive SCHOOLS

- **Design school:** This school proposed strategic management as a process of attaining fit between the internal capabilities and external possibilities of an organisation. This school lays emphasis

N O T E S

on appraising the internal and external situations. It treats strategy formulation as a conscious, simple and informal process. According to this school, the responsibility for strategy formulation should be taken by the Chief Executive Officer and the design process is said to be complete when all the strategies are formulated well. The major drawbacks of this school are listed as follows:

- ◆ Ignores the process of emergence of a strategy
 - ◆ Overlooks the influence of culture in the organisation
 - ◆ Lays overemphasis on the role of CEO
- **Planning school:** A planning school treats strategy formation as a formal process where a strategy is divided into sub-strategies and programs. Strategic planners play a great role in strategy formation. Ansoff is a major contributor to the planning school. The planning process has the following stages:
1. Setting objectives
 2. Conducting external and internal audits
 3. Evaluating the strategy
 4. Operationalising the strategy
 5. Scheduling the strategy
- **Positioning school:** It considers strategy formation as an analytical, systematic and deliberate process. Analysts play a lead role in strategy formation. Michael Porter is the main contributor of this school and has developed value chain analysis and generic strategies. In addition, the development of this school is related to the Boston Consulting Group matrix.

DESCRIPTIVE SCHOOLS

- **Entrepreneurial school:** This school gives importance to the role of entrepreneurs and treats strategy formation as a visionary process. This process involves experience, intuition, judgement and insight of an entrepreneur. A strategy exists in the form of vision in the minds of the entrepreneur.
- **Cognitive school:** This school includes the thinking process of strategists. It focuses on the analysis of how an individual perceives and processes information related to an organisation. As per this school, a strategy is considered to be an emerging concept in the minds of individuals. This school also emphasises the development of creative ideas. Therefore, thinkers or philosophers play a lead role in the strategy formation process.
- **Learning school:** The learning school considers strategy formation as an emergent and informal process. The learner plays a significant role and incorporates the lessons learned into the actions

N O T E S

of the strategy. The learning school helps in dealing with complex situations in the organisation. This school does not require a leader if the learner is available.

- **Power school:** The power school treats strategy formation as a process of negotiation. This school was developed between the 1970s and the 1980s and considers strategy as a political and cooperative process. As per this school, individuals having power play a significant role in the organisation. At micro level, individuals influence strategies through interplay, bargaining skills, direct confrontation; whereas at the macro level, the organisation plays a role of controlling strategies by cooperating with the organisation.
- **Cultural school:** It focuses on a collective, ideological, constrained and deliberated perspective for the process of strategy formation in an organisation. This school reflects the culture of an organisation and involves the shared beliefs of all individuals in an organisation. Thus, a strategy is formed through social interaction within the organisation.
- **Environmental school:** This school recognises the environment as an important factor in the strategy formation process. The changes in the environment affect the strategy of an organisation to a great extent, thus strategy formation is considered to be a reactive process. The main features of this school are given as follows:
 - ◆ Environment plays a lead role in decision making.
 - ◆ Leadership helps to identify environmental changes and adapt to those changes.

INTEGRATIVE SCHOOLS

- **Configuration school:** This school identifies strategy formation as a transformation process that involves changing one type of decision-making structure of an organisation into another. The stability of a strategy is interrupted by the transformation process. According to this school, a process of transformation in an organisation follows a particular pattern that adopts some characteristics for a particular period and then transforms into another pattern with different characteristics. This gives various sets of strategies in different periods.

6.3.4 STRATEGIC MANAGEMENT IN THE INDIAN SCENARIO

In India, economic reforms of 1991 made strategic management of paramount importance in organisations. Before that, there was limited competition in markets; thus, strategic management had less relevance to business organisations. The abolition of public sector monopoly increased business opportunities for Indian organisations. This necessitated effective strategic management in organisations.

N O T E S

Strategic management evolved in Indian organisations through different stages, which are as follows:

- **Pre-liberalisation stage:** Under this stage, strategic management was followed as per the government rules. Following are the features of strategic management under this stage:
 - ◆ Connecting an organisation's objectives with the national planning framework
 - ◆ Weaker technologies were followed
 - ◆ Secretive strategic management process was followed by the top management
- **Transition stage:** This is the decade of the 1990s. Following are the features of strategic management under this stage:
 - ◆ Formulation of growth strategies laying emphasis on acquisitions and cross-border trading
 - ◆ Formation of rationalisation and improvement strategies
- **Post liberalisation stage:** This is the decade of 2000 onwards. Following are the features of strategic management under this stage:
 - ◆ Development of technologies
 - ◆ Synergy between entrepreneurial and professional skills
 - ◆ Growth of internationalisation strategies
 - ◆ Decentralisation of organisations

The application of strategic management in Indian organisations has been largely affected by liberalisation, globalisation and privatisation. Organisations formulated strategies for establishing a fit with the changing environment.

**SELF ASSESSMENT QUESTIONS**

5. Strategic management is a process of _____, implementing, evaluating and controlling the decisions that enable an organisation to achieve its long-term objectives.
6. Vision is not a component of strategic management. (True/False)
7. How many steps are involved in the process of strategic management?
8. Name the three schools of thought under prescriptive schools.

**ACTIVITY**

Visit an organisation and discuss the steps of their policy formulation.

N O T E S**6.4 ROLE OF STRATEGIC MANAGEMENT**

Different functions in an organisation are performed by applying different strategies. The role of strategic management is crucial in the functioning of an organisation at all levels. Departments such as marketing, finance and human resource are especially of interest to the organisation as far as implementation of strategies is concerned. Let us discuss this in the subsequent sections.

6.4.1 STRATEGIC MANAGEMENT IN MARKETING

Strategic management in marketing focuses on 3Cs: Customers, Corporation and Competition. Marketing is important for organisational growth because it helps in generating and increasing revenue, developing the customer base and creating the organisation's image in the market. Marketers develop strategies related to new market entry, product development and marketing mix. The role of strategic management in marketing is outlined here:

- ❑ Deciding which new products need to be developed and sold in the market
- ❑ Deciding if any of the existing products need expansion
- ❑ Enhancing customer loyalty by retaining existing customers
- ❑ Increasing customer base
- ❑ Expanding the channels of distribution
- ❑ Increasing the sales of the organisation through market penetration
- ❑ Understanding customers' needs and competitors' strategies
- ❑ Adapting to the changing environment

Thus, marketing strategies help in identifying and delivering value to customers and developing long-term relationships with them. This helps in achieving the long-term goals of an organisation.

6.4.2 STRATEGIC MANAGEMENT IN FINANCE

Organisations aim to achieve maximum returns on invested funds and gain financial success through effective strategies. A strategic financial thinker makes plans and policies to manage funds. Plans and policies are related to the decisions regarding financial investments and borrowings and reserves and surplus. Financial strategies relate to the following:

- ❑ Allocating the least cost combinations of capital resources
- ❑ Taking investment decisions, which maximise the net present value and shareholder wealth

N O T E S

- ❑ Identifying scarce financial resources and balancing them effectively
- ❑ Raising funds for the organisation through the issue of shares
- ❑ Conducting cash, credit and risk management

Thus, financial strategies aim to optimise the utilisation of financial resources. Successful implementation of financial strategies in an organisation leads to effective management of funds.

6.4.3 STRATEGIC MANAGEMENT IN HUMAN RESOURCE

To achieve business strategies, it is important for the human resource department and top management to work together. Organisations focus on human resource management for acquiring, developing and retaining skilled employees to maintain a high-quality workforce. The strategic management policies for human resource relate to the following:

- ❑ Maintaining a pool of efficient workforce by retaining talented people.
- ❑ Recruiting new staff with the skills and abilities that the organisation will need in the future.
- ❑ Reducing staff either by termination or attrition, regrouping tasks to create well-designed jobs and reorganising work units to be more efficient.
- ❑ Providing newly recruited staff with training to adjust to their roles and providing current staff with development opportunities to prepare them for future jobs in the organisation.
- ❑ Using external individuals or organisations to complete certain tasks. This is particularly helpful for accomplishing specialised tasks for which the organisation does not have competent skills.
- ❑ Enabling employee participation for the achievement of the organisation's objectives.
- ❑ Ensuring special motivational programmes for employees.
- ❑ Establishing performance targets for employees.
- ❑ Measuring the performance related to targets.
- ❑ Providing appraisal systems, training and development to employees.

Strategic thinking in the human resource department leads to increased productivity in the organisation, which further helps in gaining a competitive advantage.

N O T E S



SELF ASSESSMENT QUESTIONS

9. Strategic management in marketing focuses on 3Cs: customers, corporation and cooperation. (True/False)
10. A strategic financial thinker makes plans and policies to manage the funds of the organisation. (True/False)
11. Apart from developing a high-quality workforce, human resource strategic management policies also involve talented people.
12. Ensuring special motivational programmes for employees cannot be covered under strategic management in human resource. (True/False)



ACTIVITY

Visit a manager of any bank and learn how strategic management can be effective in funds management. List down the important points of funds management in banks.

6.5 CONCEPT OF STRATEGIC PLANNING

Strategic planning, also called corporate planning, is a systematic process that is used to predict a desired future and translate organisational vision into broadly defined goals. The process involves developing a plan that mentions ways to achieve the defined goals.

According to Peter Drucker, *corporate planning is a continuous process of making entrepreneurial decisions systematically and with the best possible knowledge of their futurity, organising systematically the efforts needed to carry out these decisions and measuring the results against expectations through organised systematic feedback.*

According to Hussey, *corporate long range planning is not a technique; it is a complete way of running a business. Corporate planning is a way of keeping the company's eyes open.*

Strategic planning helps in visualising the future of an organisation by observing various aspects of a business continuously and figuring out the processes, resources and plans that would best work together. The features of strategic planning are listed below:

- ❑ Deals with the future decisions of an organisation
- ❑ Formulates the organisation's purpose
- ❑ Aligns long-term plans with short-term plans
- ❑ Assists in developing strategic intent and action plans of an organisation

N O T E S

- Identifies new areas of investment for the organisation
- Ensures the rational allocation of resources
- Develops a forward thinking approach as it encourages forward planning in an organisation

There is no definite model for strategic planning. Figure 6.6 shows the basic steps involved in strategic planning:

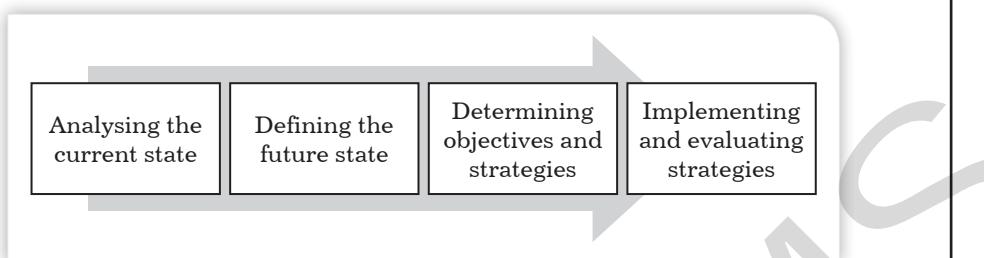


Figure 6.6: Steps for Strategic Planning

Let us look at the steps for strategic planning.

1. **Analysing the current state:** In this step, an organisation's external and internal environments are analysed using SWOT analysis. The analysis involves examining the organisation's strengths, weaknesses, opportunities and threats. Also, the organisation's competitors, suppliers, buyers or customers are analysed to assess the current situation.
2. **Defining the future state:** In this step, organisational vision and mission are developed to describe the organisation's future course of action, such as where it wants to be, its essential values and what it wants to do.
3. **Determining objectives and strategies:** In this step, the organisation needs to decide its objectives and strategies to achieve its vision and mission. These strategies should be designed for each level of the organisation.
4. **Implementing and evaluating strategies:** The final step is to put the plan into action and check its performance. Implementation in large organisations, such as governmental agencies or large corporations is done by organisational members other than the ones who created the plan. Different parts of the plan are generally distributed to various parts of the organisation.



SELF ASSESSMENT QUESTIONS

13. What can be defined as a systematic process to predict a desired future and translate organisational vision into goals?
14. Which step of the strategic management lays emphasis on deciding objectives and strategies to achieve organisational vision and mission?

N O T E S



ACTIVITY

Using the Internet, find out how organisations follow the strategic planning process.

6.6 SUMMARY

- ❑ A strategy is a systematic and elaborate plan to achieve specific goals. It serves as a road map to a desired destination.
- ❑ The main purpose of a strategy is to provide a direction to an organisation and determine long and short-term goals.
- ❑ An SBU serves as an independent entity with separate, specialised subsystems for different products or processes, regions or areas of work. It has its own profits, expenditure, competitors and structure. It can be divided into two types: single-level SBU and multi-level SBU.
- ❑ Strategic management is an on-going process that helps an organisation in assessing and controlling its business in the industry and environment in which it operates.
- ❑ The components of strategic management are vision, mission, objectives, policies and business environment.
- ❑ Different functions in an organisation are performed by applying different strategies. The role of strategic management is crucial in the functioning of an organisation at all levels.
- ❑ Strategic planning is a systematic process that is used to predict a desired future and translate organisational vision into broadly defined goals.
- ❑ The process of strategic planning includes analysing the current state, defining the future state, determining objectives and strategies and implementing and evaluating strategies.



KEY WORDS

- ❑ **Strategic Business Unit (SBU):** An independent entity with a separate, specialised subsystem for different products or processes.
- ❑ **Strategic planning:** It is a systematic process of predicting a desired future and translating organisational vision into broadly defined goals and a sequence of steps to achieve them.
- ❑ **Strategy:** It is a systematic and elaborate plan to achieve some specific goals.
- ❑ **Strategy management:** It is a process of formulating, implementing, evaluating and controlling the decisions that enable an organisation to achieve its long-term objectives.

N O T E S**6.7 DESCRIPTIVE QUESTIONS**

1. Explain the concept of strategy.
2. What is the importance of strategy in a business?
3. Explain strategic management.
4. Describe the process of strategic management.
5. Explain the role of strategic management in the different departments of an organisation.
6. What is meant by the term 'strategic planning'? Explain.

6.8 ANSWERS AND HINTS**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q.No.	Answers
Concept of Strategy	1.	Strategy
	2.	True
	3.	An SBU is a part of a business organisation but serves as an independent entity with separate, specialised subsystems for different products or processes, regions or area of work.
	4.	True
Concept of Strategic Management	5.	Formulating
	6.	False
	7.	Four
	8.	Design school, planning school and positioning school
Role of Strategic Management	9.	False
	10.	True
	11.	Retaining
	12.	False
Concept of Strategic Planning	13.	Strategic management
	14.	Determination of objectives and strategies

N O T E S

HINTS FOR DESCRIPTIVE QUESTIONS

1. A strategy is a plan for achieving specific goals. In the context of organisations, a strategy refers to defining and following a particular path to achieve targets. Refer to Section **6.2 Concept of Strategy**.
2. A strategy furnishes a platform for an organisation to achieve a competitive edge. Refer to Section **6.2 Concept of Strategy**.
3. Strategic management is a process of formulating, implementing, evaluating and controlling the decisions that enable an organisation to achieve its long-term objectives. Refer to Section **6.3 Concept of Strategic Management**.
4. The process of strategic management involves a number of steps, such as establishment of strategic intent, formulation of strategies, implementation of strategies and strategic evaluation and control. Refer to Section **6.3 Concept of Strategic Management**.
5. Strategic management plays an important role in developing and implementing the strategies of different departments of an organisation. Refer to Section **6.4 Role of Strategic Management**.
6. Strategic planning is a comprehensive planning process that involves the formulation of long-term goals by the top management of an organisation. Refer to Section **6.5 Concept of Strategic Planning**.

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NUMINOS

7

C H A P T E R

ORGANISATIONAL DIVERSITY

CONTENTS

7.1	Introduction
7.2	Concept of Organisational Diversity
7.2.1	Factors Responsible for Organisational Diversity
7.2.2	Benefits of Organisational Diversity at Different Levels Self Assessment Questions Activity
7.3	Barriers in Creating and Managing Organisational Diversity Self Assessment Questions Activity
7.4	Creating and Managing Organisational Diversity Effectively Self Assessment Questions Activity
7.5	Summary
7.6	Descriptive Questions
7.7	Answers and Hints
7.8	Suggested Readings for Reference

INTRODUCTORY CASELET

ORGANISATIONAL DIVERSITY AT AMERICAN EXPRESS

American Express (AmEx), established in 1850 by Henry Wells, William Fargo, and John Butterfield, is a multinational financial services corporation in the US. Its products include credit card, charge card, and traveler's cheques for businesses. AmEx was started as an express mail business in New York. The primary reason of establishing AmEx was the unreliability of the US postal system. AmEx provided fast and reliable services, even in the areas where the postal system had no reach. AmEx introduced the money order service in 1882 and American Express Travellers' Cheque in 1891. These services helped AmEx gain popularity and expand to the different parts of the world. By the end of the 1990s, AmEx established its offices in Denmark, Italy, Netherlands, Germany and Belgium.

Recently, AmEx operates in more than 90 countries including India. It is known for its commitment to maintain and encourage organisational diversity. It has taken conscious steps to promote and encourage diversity among its workforce. AmEx also endeavours to create a corporate culture where diversity is valued and encouraged.

In the 1990s, when the world was witnessing liberalisation, privatisation and globalisation, AmEx recruited a large number of women and minorities to take advantage of all the available human capital. In 2005, AmEx was mentioned in the '30 Best Companies for Diversity' list by Black Enterprise (a magazine that emphasises the issues of African-American people). Black Enterprise made this list after an extensive survey of more than 1000 American organisations. Various mainstream magazines also mentioned AmEx as an organisation that encourages diversity. Two such magazines are Hispanic Business and Working Mother. In 2006, AmEx was included in the Fortune's '100 Best Companies to Work for' list.

AmEx believes that diversity is an important way of gaining a competitive advantage. The recruitment of employees from diverse backgrounds in the workforce of AmEx has helped the organisation to understand the markets in which it operates. AmEx has encouraged the employment of women, minorities, senior employees, homosexuals, and many more.

Although AmEx has always taken initiatives to promote diversity in its workforce, it has also been criticised for indulging in discrimination. One such incident took place in 1999 when a gender discrimination lawsuit was filed against AmEx by many female advisors at American Express Financial Advisors (AEFA). They

INTRODUCTORY CASELET

N O T E S

alleged that the unit managers preferred white males for assignments, mentoring programs, promotions and compensation.

AmEx strives to create a diverse employee base that is as diverse as its customers. In 2013, Am Ex also announced the appointment of Chief Diversity Officer, Valerie Grillo. She is responsible for ensuring that American Express remains an employer of choice and enables innovation by creating a diversified environment. According to Ed Gilligan, President, American Express, *the role of Chief Diversity Officer is to shape how we continue to attract, develop, and retain diverse talent – ultimately creating an environment in which all people have a voice and can succeed.*

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Recognise the importance of organisational diversity
- List the barriers to create and manage organisational diversity
- Discuss how organisations manage organisational diversity

7.1 INTRODUCTION

The previous chapter discussed the importance of strategic management in organisations. The success of strategies depends on various factors, such as employees' performance, optimal utilisation of scarce resources and understanding of market conditions. Apart from that, effective management of organisational diversity is another factor that contributes to the success of organisational strategies. This chapter explains how organisations can manage workplace diversity.

Organisational diversity refers to a concept according to which employees are hired without taking into consideration their age, gender, race, and culture. Earlier, organisational diversity was considered to be a means of providing equal employment opportunities to people belonging to various strata of a society, such as minority groups and women. However, it is now regarded as a tool to create an organisational environment that values individual differences and creates opportunities for individuals to explore their creativity and innovativeness. An organisation requires the commitment of top management and employees to create an environment that supports diversity.

Managing organisational diversity is a challenging task for any organisation. Individuals with different values, beliefs and cultural backgrounds have varied views and opinions, which may result in conflicts with their co-workers. Thus, it is important that an organisation takes into consideration the needs of its diverse workforce while drafting human resource policies. This would help the organisation to minimise conflicts and thus maximise productivity. This chapter discusses the concept of organisational diversity in detail.

7.2 CONCEPT OF ORGANISATIONAL DIVERSITY

Organisational diversity is the practice of hiring people solely on the basis of their talent, skills and qualifications irrespective of their caste, creed, social status, colour, age and sex. In other words, diversity can be defined as equality of opportunity among all employees in an organisation without any bias.

N O T E S

According to Queens Borough Community College, *the concept of diversity encompasses acceptance and respect. It means understanding that each individual is unique, and recognising our individual differences. These can be along the dimensions of race, ethnicity, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs, or other ideologies.*

A diverse employee population can help an organisation to generate different perspectives to a problem and ways to attract a diverse set of consumer base. Thus, the main focus of organisational diversity in the present age is to bring out the best of each individual working in an organisation. Therefore, organisations must encourage diversity to nurture and develop the potential and skills of their employees.

**EXHIBIT****List of Companies Hiring People from Specific Origins**

Diversity Inc. has conducted a survey of different companies promoting workforce diversity in different areas. The details of the survey are given below.

Ranking	Company	Reason for Inclusion
1	Deloitte	<ul style="list-style-type: none"> Involvement of Asian-Americans in the workforce and management demographics is highest in the industry.
2	Starwood Hotels & Resorts Worldwide	<ul style="list-style-type: none"> Strong representation of Asian-Americans in top management.
3	Johnson & Johnson	<ul style="list-style-type: none"> Involvement of Asian-Americans in the workforce and management demographics is in double digits. Active employee-resource group for Asian-Americans.
4	IBM Corp.	<ul style="list-style-type: none"> Involvement of Asian-Americans in the workforce and management demographics is increasing rapidly. Cultural discrimination is avoided with the help of a global mentoring and talent development programme.
5	PricewaterhouseCoopers	<ul style="list-style-type: none"> The promotion rate of Asians is high. Targets are set without any discrimination.
6	Kaiser Permanente	<ul style="list-style-type: none"> Strong representation of Asian-Americans in top management (14.3% in board of directors and 1/3rd in management).
7	Abbott	<ul style="list-style-type: none"> Strong cross-cultural mentoring programme. Active employee-resource groups for Asian-Americans.

N O T E S

8	American Express	High promotion rate of Asian-Americans in management. Cutting-edge talent development.
9	Procter & Gamble	Involvement of Asian employees in the board of directors (9%). Presence of Asian-American representatives at every level of management.
10	Wells Fargo & Co.	Provision of finance for Asian and Pacific Islander Scholarship Fund.

7.2.1 FACTORS RESPONSIBLE FOR ORGANISATIONAL DIVERSITY

In an organisation, there are several factors responsible for the existence of organisational diversity. These factors are shown in Figure 7.1:

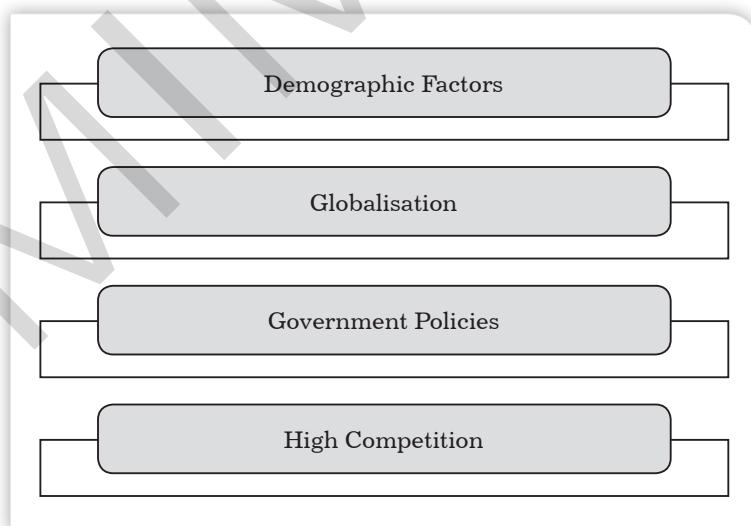


Figure 7.1: Factors Leading to Organisational Diversity

Let us briefly discuss each of the factors that lead to organisational diversity:

- ❑ **Demographic factors:** There are several demographic factors that are responsible for diversity within an organisation. These include race, age, income level, educational level, colour and gender of employees. Organisations depict diversity by selecting individuals on the basis of their skills irrespective of their caste, colour, age, religion or gender.
- ❑ **Globalisation:** Globalisation has encouraged organisations to have a diversified workforce as it provides an opportunity to expand business in other countries. When an organisation starts its op-

N O T E S

erations beyond its national boundaries, it needs to hire the local workforce to understand the needs of the local marketplace. For example, if an Indian organisation plans to expand in the US market, it would need to employ US employees to carry out a smooth functioning and better understand the needs of customers. With the rise of globalisation, organisations need to deal with the resulting cultural diversity within their workforce.

- **Government policies:** Discrimination on the basis of age, gender, religion, race and caste results in inequality in a society. Thus, it is the responsibility of the government of a country to oppose such type of discrimination. To get rid of this problem, governments in many countries have formulated several policies.



EXHIBIT

Some Country-Specific Government Policies

The following is a list of some country-specific government policies:

- Brazilian universities provide reservation in admission for racial minorities (blacks and native Brazilians), the poor and people with disabilities.
- Under the Canadian Employment Equity Act, organisations provide preferential treatment to women, people with disabilities, aboriginal people and minorities.
- According to Affirmative Act of the US, organisations should not discriminate against any employee or applicant on the basis of race, creed, colour or national origin.
- The Standardisation Policy of Sri Lankan universities is also an example of Affirmative Act. This policy is basically meant for students with poor educational backgrounds.
- In Japan, there are entrance examinations for admissions in universities and government jobs without any discrimination on the basis of sex, ethnicity or social backgrounds.
- According to the preferential policies of China, some of the top positions in the country are reserved for ethnic minorities and women.
- According to German Law, every citizen has equal rights without any discrimination on the basis of sex, race or social background.

- **High competition:** Every organisation strives for a workforce that gives new and fresh inputs to innovate and change business processes. This in turn helps the organisation to gain an edge over its competitors.

N O T E S

7.2.2 BENEFITS OF ORGANISATIONAL DIVERSITY AT DIFFERENT LEVELS

According to Claudia Cadena, director of Strategic Human Capital Management at Sapura Kencana Petroleum Berhad, at times we overlook the need for diversity given the pressures that a limited pool of resources puts in organisations. However, if we give in to this pressure, we will ultimately suffer the consequences of having a workforce composed of individuals that can only see things from the same perspective and are unable to contribute different points of view or alternatives due to their limited and similar background, exposure and experience.

Thus, the success and competitiveness of an organisation depend on its ability to embrace diversity. A diverse workforce can help to bring a variety of ideas to solve business problems. The advantages of organisational diversity can be experienced at all levels of an organisation, such as individual level, group level, organisational level and society level. The benefits of diversity at different levels are as follows:

- **Benefits at individual level:** Organisational diversity promotes fairness by providing equal employment opportunities to people belonging to different castes, creed, colour and gender. When employees are treated equally, they put in more efforts to showcase their commitment and dedication towards their responsibilities. Therefore, an organisation with a diverse workforce should ensure that the needs of every type of employee are taken care of.

For example, individuals who prefer eating only vegetarian food would not feel comfortable eating in a place where non-vegetarian food is cooked using the same utensils. Therefore, the management of the restaurant needs to ensure that the office canteens use separate utensils for cooking vegetarian and non-vegetarian food.

- **Benefits at group level:** Organisational diversity not only enhances the performance of individuals but also has a positive impact on the performance of groups in an organisation. Different members of a group have different sets of ideas and viewpoints, which helps an organisation to understand a problem from different perspectives. Therefore, it is important for an organisation to manage work groups in such a manner that their diversity can be used constructively.
- **Benefits at organisational level:** When diversity at workplace leads to better performance of individuals and teams, it has a positive impact on the overall performance of the organisation. Diversity is not only restricted to the lower levels of an organisation but is also important at higher levels. According to research on Fortune 500 companies, organisations that have women and minorities at the top positions perform better than their counterparts.

N O T E S

- **Benefits at society level:** There are many social benefits that result from bringing diversity in an organisation. Diversity in organisations helps in promoting equality in a society. If an organisation discriminates among employees, it may have a negative impact on the society as a whole. As a result, the organisation may face legal actions. For example, Coca Cola had to bear the penalty of \$192.5 million for racial discrimination and Ford Motors has paid \$10.5 million for age discrimination. Also, Microsoft received Liberty Award for its leadership in workplace diversity.



SELF ASSESSMENT QUESTIONS

1. _____ can be defined as equality of opportunity among all employees in an organisation without any bias.
2. Globalisation has discouraged organisations to have a diversified workforce as it does not provide an opportunity to expand business in other countries. (True/False)
3. Every organisation strives for a workforce that gives new and fresh inputs to _____ and _____ business processes.
4. Government policies can be a major instrument in eradicating any type of social evil existing in a society. (True/False)
5. High competition in the marketplace has discouraged organisations to become culturally diverse. (True/False)
6. A diversified workforce does not result in the personal growth of individuals. (True/False)



ACTIVITY

Analyse how diversity leads to benefits for an organisation.

7.3 BARRIERS IN CREATING AND MANAGING ORGANISATIONAL DIVERSITY

Managing organisational diversity is a continuous process of exploring unique talents of each individual in a diverse workforce. It helps to create an environment where individuals readily accept each other's differences and maximise their potential. However, creating and managing organisational diversity is not an easy task for any organisation. This is because there are a number of barriers that an organisation faces in creating and managing organisational diversity. Some of these barriers are listed in Figure 7.2:

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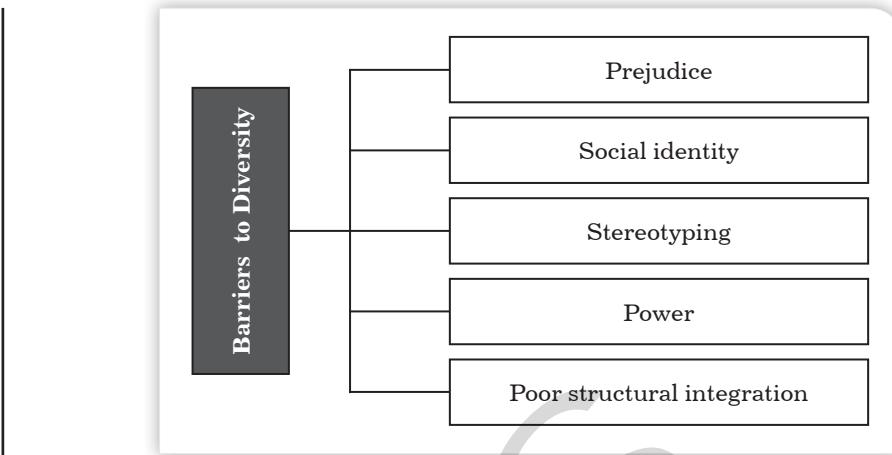


Figure 7.2: Barriers to Diversity

Let us now discuss these barriers in detail.

- **Prejudice:** It is a feeling (favourable or unfavourable) that people have towards others. Such feeling leads to discrimination on the basis of race, gender, age and culture. Prejudice often involves unfair behaviour towards a culture or individual. It further results in discrimination and inequality in a society. Examples of prejudice are paying less to women than men and giving easy tasks to disabled employees even when they are more competitive.
- **Social identity:** Every individual belongs to a certain social group, which makes his/her social identity. This specific group has emotional significance for its group members. Individuals can face the following problems if their social identity is different from majority:
 - ◆ **Identification of a person in a group:** Sometimes social identity becomes the main identity of an individual. This makes the individual more conscious of himself/herself. For example, women in a male-dominated organisation may become conscious of the fact that they belong to a different group as compared to the women in a mixed-gender organisation.
 - ◆ **Adoption of the majority's behaviour:** At times, minorities have to adopt the behaviour of the majority in order to be accepted in a group. For example, an Indian working in a US organisation may begin to adopt western culture to mix with his/her colleagues easily.
 - ◆ **Negative perception:** Many a time people develop negative perception about individuals belonging to minorities. This may result in the ill-treatment of minorities. For example, people belonging to the high class may have a negative perception about the people belonging to backward classes. As a result, high-class people may misbehave or look down upon the people from backward classes.

N O T E S

- **Stereotyping:** In stereotyping, people develop a certain mind-set for individuals belonging to a particular group having unique characteristics and traits. They do not respect the individuality of people in the group and assume that every person has the same values and culture in the group. For example, stereotypes may have a perception that all villagers are poor but studies show many villagers have land worth crores.
- **Power:** The authority that individuals enjoy in a group is referred to as power. It can be related to the position or knowledge/experience of an employee. In an organisation, there is never an equal distribution of power, which often results in discrimination. People owing more power in an organisation always try to influence the decision-making process. They try to suppress other individuals and make it difficult for them to speak freely in the decision-making process. The main aim of diversity is to get different viewpoints but power discrimination can defeat the whole purpose of diversity.
- **Poor structural integration:** If an organisation has poor structural integration, it may result in poor implementation of workplace diversity initiatives. An organisation is said to be multicultural and diverse only if it has people from different groups at all levels in various departments. For example, if a government norm states that there should be 50% of men and 50% of women in an organisation. This does not mean that the organisation should keep the 50% of women in the operations department only. These 50% of women should be employed in different departments, such as marketing, human resource, operations and finance, as well as at every level, including the lower level, middle level and top level.



SELF ASSESSMENT QUESTIONS

7. Management of organisational diversity is a _____ process.
8. _____ is a feeling (favourable or unfavourable) that people have towards others.
 - a. Animosity
 - b. Power
 - c. Authority
 - d. Prejudice
9. In an organisation, there is never an equal distribution of power, which leads to discrimination. (True/False)
10. In _____, people develop a certain mind-set for individuals belonging to a particular group having unique characteristics and traits.

N O T E S



ACTIVITY

Research on the Internet and find information on how the barriers to organisational diversity can be managed.

7.4 CREATING AND MANAGING ORGANISATIONAL DIVERSITY EFFECTIVELY

With globalisation and tough competition, organisations are compelled to create and manage organisational diversity effectively. The measures that need to be adopted to efficiently manage diversity are shown in Figure 7.3:

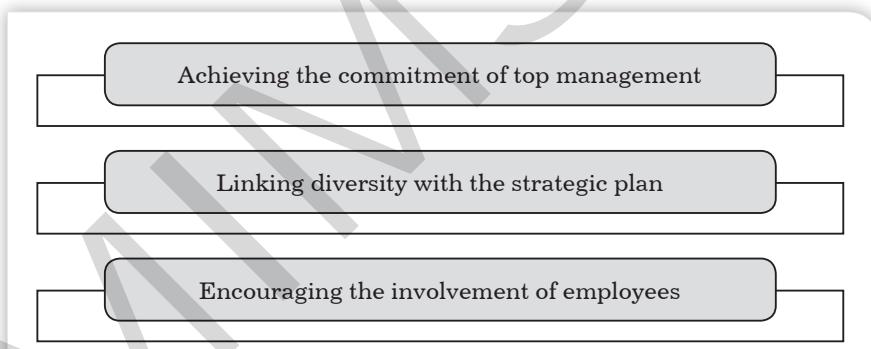


Figure 7.3: Measures to Create and Manage Diversity

Let us discuss these ways in detail.

- **Achieving the commitment of top management:** The top management in any organisation must be committed and dedicated to encourage and support diversity. Organisational leaders should ensure that they support diversity by taking initiatives and making strategies to create a healthy work environment for all employees. Examples of some initiatives are as follows:
 - ◆ Communicating through multiple channels, such as policy statements, formal newsletters and training programmes
 - ◆ Holding discussions to promote diversity
 - ◆ Sponsoring employee councils devoted to encourage cross-cultural communication
- **Linking diversity with the strategic plan:** Organisational diversity should be integrated with various strategic plans and goals. However, while doing so, an organisation should elaborate on how diversity would contribute to organisational growth. Organisations can adopt the following ways to bring diversity through strategic plans:

N O T E S

- ◆ Enlarge the customer base and market share of the organisation
 - ◆ Increase efforts to achieve external awards for diversity
 - ◆ Increase the satisfaction level of employees coming from different backgrounds
 - ◆ Make efforts to maintain a friendly and congenial work environment
- **Encouraging the involvement of employees:** When employees are encouraged to participate in diversity programs and take initiatives, it helps in reducing their suspicion and uneasiness regarding the changes to be introduced in the system. Organisations can involve their employees in diversity programs by:
- ◆ Conducting surveys about diversity programs to determine the satisfaction level of employees
 - ◆ Studying the diversity of an organisational culture while implementing a diversity program
 - ◆ Encouraging informal feedback about the diversity program

Organisations can also involve their employees in diversity programs with the help of affinity groups. These groups share common interests and act as a medium of interaction between managers and employees, such as the Ford-employees African American Ancestry Network (FAAN).



SELF ASSESSMENT QUESTIONS

11. The _____ in any organisation must be committed and dedicated to encourage and support diversity.
12. Organisations can enlarge the customer base and market share to bring diversity. (True/False)
13. Sponsoring employee councils devoted to encourage cross-cultural communication is one of the initiatives that can be taken by organisational leaders to support diversity. (True/False)
14. Organisations can also involve their employees in diversity programs with the help of _____.



ACTIVITY

Using the Internet, find out how global organisations manage employee diversity in their workplaces.

N O T E S

7.5 SUMMARY

- ❑ Organisational diversity is the practice of hiring people solely on the basis of their talent, skills and qualifications irrespective of their caste, creed, social status, colour, age and sex.
- ❑ A diverse employee population can help an organisation to generate different perspectives to a problem and ways to attract a diverse set of consumer base. Thus, the main focus of organisational diversity in the present age is to bring out the best of each individual working in an organisation.
- ❑ In an organisation, there are several factors responsible for the existence of organisational diversity, such as demographic factors, globalisation, government policies and high competition.
- ❑ A diverse workforce can help to bring a variety of ideas to solve business problems. The advantages of organisational diversity can be experienced at all levels of an organisation, such as individual level, group level, organisational level and society level.
- ❑ Managing organisational diversity is a continuous process of exploring unique talents of each individual in a diverse workforce. It helps to create an environment where individuals readily accept each other's differences and maximise their potential.
- ❑ Prejudice is a feeling (favourable or unfavourable) that people have towards others. Such feeling leads to discrimination on the basis of race, gender, age and culture.
- ❑ In stereotyping, people develop a certain mind-set for individuals belonging to a particular group having unique characteristics and traits. They do not respect the individuality of people in the group and assume that every person has the same values and culture in the group.
- ❑ The authority that individuals enjoy in a group is referred to as power. It can be related to the position or knowledge/experience of an employee. In an organisation, there is never an equal distribution of power, which often results in discrimination.
- ❑ With globalisation and tough competition, organisations are compelled to create and manage organisational diversity effectively.



KEY WORDS

- ❑ **Communication:** It is the flow of information in an organisation.
- ❑ **Demographic factors:** These are factors, such as race, age, colour and gender of people in a society or an organisation.
- ❑ **Power:** It is the authority provided by a group to its members in an organisation.
- ❑ **Social identity:** It is an individual's perception about himself/herself based on his/her association with a social group.

N O T E S**7.6 DESCRIPTIVE QUESTIONS**

1. Explain the concept of organisational diversity. How does it benefit organisations?
2. Discuss the factors that are responsible for the existence of organisational diversity.
3. What are the benefits of organisational diversity? Explain.
4. Briefly explain how social identity can be a barrier to diversity.
5. Write a short note on power and stereotyping.
6. Discuss different ways to create and manage organisational diversity.

7.7 ANSWERS AND HINTS**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q.No.	Answers
Concept of Organisational Diversity	1.	Diversity
	2.	False
	3.	Innovate and change
	4.	True
	5.	False
	6.	False
Barriers in Creating and Managing Organisational Diversity	7.	Continuous
	8.	d. Prejudice
	9.	True
	10.	Stereotyping
Creating and Managing Organisational Diversity Effectively	11.	Top Management
	12.	True
	13.	True
	14.	Affinity groups

HINTS FOR DESCRIPTIVE QUESTIONS

1. Organisational diversity is the practice of hiring people solely on the basis of their talent, skills and qualifications irrespective

N O T E S

- of their caste, creed, social status, colour, age and sex. Refer to **Section 7.2 Concept of Organisational Diversity**.
2. Several factors are responsible for the existence of organisational diversity, such as demographic factors, globalisation, high competition and government policies. Refer to **Section 7.2 Concept of Organisational Diversity**.
 3. The advantages of organisational diversity can be experienced at all levels of an organisation, such as individual level, group level, organisational level and society level. Refer to **Section 7.2 Concept of Organisational Diversity**.
 4. Every individual belongs to a certain social group, which makes his/her social identity. Individuals can face various problems if their social identity is different from majority. Refer to **Section 7.3 Barriers in Creating and Managing Organisational Diversity**
 5. The authority that individuals enjoy in a group is referred to as power. On the other hand, in stereotyping, people develop a certain mind-set for individuals belonging to a particular group having unique characteristics and traits. Refer to **Section 7.3 Barriers in Creating and Managing Organisational Diversity**.
 6. To create and manage diversity in the workplace effectively, organisations can adopt various measures, such as achieving the commitment of top management, linking diversity with the strategic plan and encouraging the involvement of employees. Refer to **Section 7.4 Creating and Managing Organisational Diversity Effectively**.

7.8

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NUMINOS

8

C H A P T E R

POWER, POLITICS AND AUTHORITY IN AN ORGANISATION

CONTENTS

8.1	Introduction
8.2	Concept of Power
8.2.1	Aspects of Power
8.2.2	Types of Power
	Self Assessment Questions
	Activity
8.3	Concept of Organisational Politics
8.3.1	Reasons for Political Behaviour
8.3.2	Political Strategies
8.3.3	Managing Political Behaviour
	Self Assessment Questions
	Activity
8.4	Concept of Authority
8.4.1	Delegation of Authority
8.4.2	Centralisation and Decentralisation of Authority
8.4.3	Effectiveness of Delegation
8.4.4	Benefits and Limitations of Delegation
	Self Assessment Questions
	Activity
8.5	Summary
8.6	Descriptive Questions
8.7	Answers and Hints
8.8	Suggested Readings for Reference

INTRODUCTORY CASELET**INAPPROPRIATE USAGE OF POWER AT XYZ**

XYZ was a manufacturer of plastic products. The company was making losses till the 1990s. Mr Sushil took over this organisation as the CEO in 1990s with an aim to increase the company's position in the market. He was considered as a turnaround artist for improving processes in organisations. Sushil's efforts helped the company to increase the value of shareholder equity by INR 2 crores. However, Sushil was not considered to be a good boss. Employees described him as impatient towards goals. He humiliated employees in front of their peers for not achieving goals. Mr. Sushil earned notoriety within a short span of time. The meetings he held lasted from 4 pm till midnight. The main problem was that he only dictated and dominated. No good words for motivating employees were given by Sushil to his subordinates. He never asked for suggestions for making plans.

As per Sushil, *Yes, I yell at people and I am not ashamed of this. What I want is the results and nothing else. If you hate me, better go somewhere else.*

In the case, we can see that the power tactic used by the CEO is very dominating. This tactic made employees negative towards his boss. His presence made employees feel intimidated and demotivated in spite the organisational goals were met on time.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Explain the concept of power
- Discuss the concept of organisational politics
- Describe the concept of authority

8.1 INTRODUCTION

In the previous chapter, you have studied the concept of organisational diversity. The chapter also discussed about creating and managing organisational diversity effectively. This chapter will focus on power, politics and authority in an organisation.

There are several rules and regulations that govern the actions of people associated with an organisation. Such rules and regulations are formulated by people who have maximum control over the resources and functions of the organisation. Power is the ability to influence people's behaviour to get the work done and control the course of events. People in power can also control access to information and all physical facilities available in an organisation. Politics can be referred to as a process or a practice in which certain individuals exercise power in an organisation. In an organisation, both power and politics are influential elements that directly affect various organisational practices. Managers use these elements to ensure that employees perform the entitled tasks efficiently and effectively.

Authority means the right that is given to managers to direct subordinates. It helps managers to take decisions regarding the accomplishment of organisational objectives. Authority and power are distinct but are interrelated concepts. Power can reinforce authority, and authority is one of the major sources of power. For example, in an organisation, managers have an authority to make changes in product design. Power, on the other hand, is the ownership of authority or control that directs the activities of others. A person may hold power either from strong personality or expert knowledge. For example, doctors, lawyers, engineers, and programmers, get power from their professional knowledge and expertise. In this way, power can be legitimate or may come from a higher authority.

In this chapter, you will study the concept of power. Further, the chapter will focus on the concept of organisational politics. Towards the end of the chapter, you will study the concept of authority.

8.2 CONCEPT OF POWER

Power is the ability an individual to influence the behaviour of others. In the context of an organisation, it comprises influences, mechanisms and processes, which ensure that employees act in a pre-determined

N O T E S

manner. Power lies in the personal character, position, social and financial status and physical strength of an entity or individual. It can be comprehended by two perspectives: narrow perspective and broader perspective. As per the narrow perspective, power is limited to the strong personality of a person. However, the broader perspective emphasises the degree of influence or authority that a person could use to direct the actions of others. Power can be estimated from the fact that how many people are inspired or dominated by an individual. Power mean different to different people.

According to Mahatma Gandhi, *power is of two kinds. One is obtained by the fear of punishment and the other by act of love. Power based on love is a thousand times more effective and permanent than the one derived from fear of punishment.*

According to Max Weber, *power is the ability to control others, events, or resources; to make happen what one wants to happen in spite of obstacles, resistance, or opposition.*

According to Steven Lukes, *power can be seen as various forms of constraints on human actions, but also as that which makes action possible, although in a limited scope.*

In an organisation, usually, individuals, who hold top positions, such as the Chief Executive Officer (CEO), Chairman, Managing Director (MD), and Vice President (VP), have a power to influence the activities of others. All significant decisions in the organisation are taken by these individuals.

8.2.1 ASPECTS OF POWER

Power brings numerous challenges and responsibilities for individuals who possess it. Few people are able to utilise power efficiently and for the right purposes. Power must involve the welfare of others, else it leads to dissatisfaction and conflicts among people. Individuals working in an organisation must use their power for the growth of the organisation and the interest of their peers and subordinates. According to the psychologist, David McClelland, *power can be classified into two aspects, positive and negative.* Figure 8.1 depicts the aspects of power:

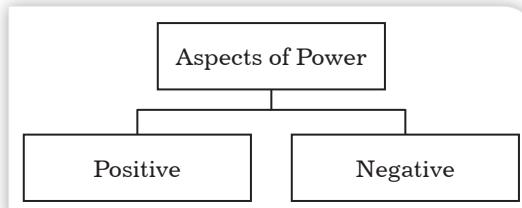


Figure 8.1: Aspects of Power

The **positive aspect** of power affects an organisation positively as such power is driven by unanimity, welfare of people, feeling of inclusion

N O T E S

and acknowledgement. The positive aspect of power inspires managers to help and support subordinates. This in turn increases the satisfaction level, productivity, self-esteem and efficiency of employees and develops a sense of belongingness among them.

On the other hand, the **negative aspect** of power impacts an organisation negatively as this power is governed by authority and dominance. The negative aspect of power results in the selective participation of employees or subordinates, and decisions are made and imposed on others by managers or top management. This aspect of power allows managers to misuse their rights and resources, such as human and financial resources and assets. Therefore, it leads to dissatisfaction, inefficiency, conflicts, non-productivity, instability and lack of trust among employees, which is not in the interest of the organisation.

8.2.2 TYPES OF POWER

In 1959, two psychologists, **John French and Bertram Raven**, identified five major types of power. These powers are displayed in Figure 8.2:

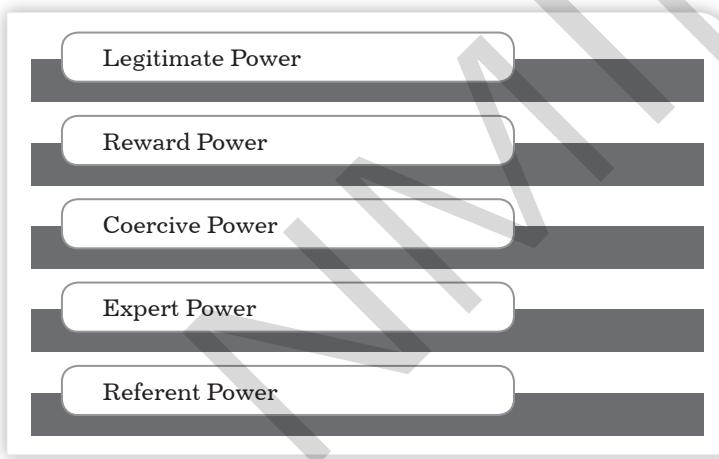


Figure 8.2: Types of Power

In an organisation, any of these types of power may be used at any level based on the situation and need. Let us discuss more about these various types of powers.

- **Legitimate power:** It refers to the power that is inherent in the position and authority of an individual. This type of power can be taken away any time by higher authorities or the management in any organisation. The scope of this power is decided on the basis of the job description and position of an individual. In an organisation, CEOs, VPs, chairman and directors enjoy legitimate power.
- **Reward power:** This type of power can be considered as the power of rewarding individuals in an organisation. This power allows

N O T E S

managers to encourage employees by offering them the requisite amount of incentives, hikes, awards, promotions and recognition.

- **Coercive power:** It refers to the power that is authoritative in nature. It shows autocracy and is driven by force, pressure, punishment and threats. Coercive power is negative in nature. The employees and subordinates under a manager who uses coercive power seldom trust or respect the manager. This leads to the non-productivity and low motivation level of subordinates. Thus, such power is not considered to be good for the growth of an organisation.
- **Expert power:** It refers to the power that comes from one's expertise, knowledge, intelligence and skills. The individuals with superior knowledge and skills are said to have expert power.
- **Referent power:** It refers to the most significant type of power as it comes naturally. Generally, people with a high level of intelligence, charm, integrity, generosity, altruism, exceptional skills and other positive qualities, have this power. This type of power compels others to get inspired by them. It makes an individual famous and earns respect from the family, society, organisation and world. This type of power is recognised and appreciated by others. People who possess this power have a large number of followers because of their deeds and charismatic personality. Therefore, this type of power has the potential to attract people and influence them positively.



SELF ASSESSMENT QUESTIONS

1. _____ refers to the power that is inherent in the position and authority of an individual.
2. _____ can be considered as the power of rewarding individuals in an organisation.
3. The people who possess referent power have a large number of followers because of their deeds and charismatic personality. (True/False)



ACTIVITY

Using the Internet, make a report on how CEOs of big multinational organisations use their power for the betterment of the organisations.

8.3

CONCEPT OF ORGANISATIONAL POLITICS

Organisational politics can be described as activities in which an individual engages but are not included in the job profile of the individual.

N O T E S

Individuals engage in organisational politics to gain some advantages over other individuals or their competitors.

Jeffrey Pfeffer has defined organisational politics as, *those activities engaged in by people in order to acquire, enhance and employ power and other resources to achieve preferred outcomes in organisational setting characterised by disagreement or uncertainty about choices.*

According to Farrell and Peterson, *politics in an organisation refers to those activities that are not required as part of one's formal role in the organisation, but that influence, or attempt to influence, the distribution of advantages and disadvantages within the organisation.*

Kacmar and Carlson define organisational politics as *social influence attempts directed at those who can provide rewards that will help promote or protect the self-interests of the actor.*

All organisations are affected by organisational politics to some extent. Politics prevails in all organisations at every level. It is encouraged by the temptation for power and attention. The reason behind politics is conflicts and competition among individuals. When individuals in an organisation attempt to negatively influence others to achieve their personal goals and be more powerful, it leads to organisational politics.

Some of the features of organisational politics are explained as follows:

- ❑ Organisational politics is not a part of an individual's job requirements or profile. Therefore, it has no professional base.
- ❑ Organisational politics serves only individuals who are involved in it and not the organisation.
- ❑ People in an organisation engage in organisational politics deliberately to accomplish their personal goals. Every action that they take is aimed at self-promotion and not in the interest of the organisation.

8.3.1 REASONS FOR POLITICAL BEHAVIOUR

Politics is a part of every organisation; however, its intensity depends on individuals working in the organisation. Organisational politics is non-essential, unofficial and informal and is not used for good cause. People often indulge into politics because of their personal interests and negative intentions, such as temptation to enhance power, attain targets and grab attention. Figure 8.3 depicts the potential reasons for political behaviour in an organisation:

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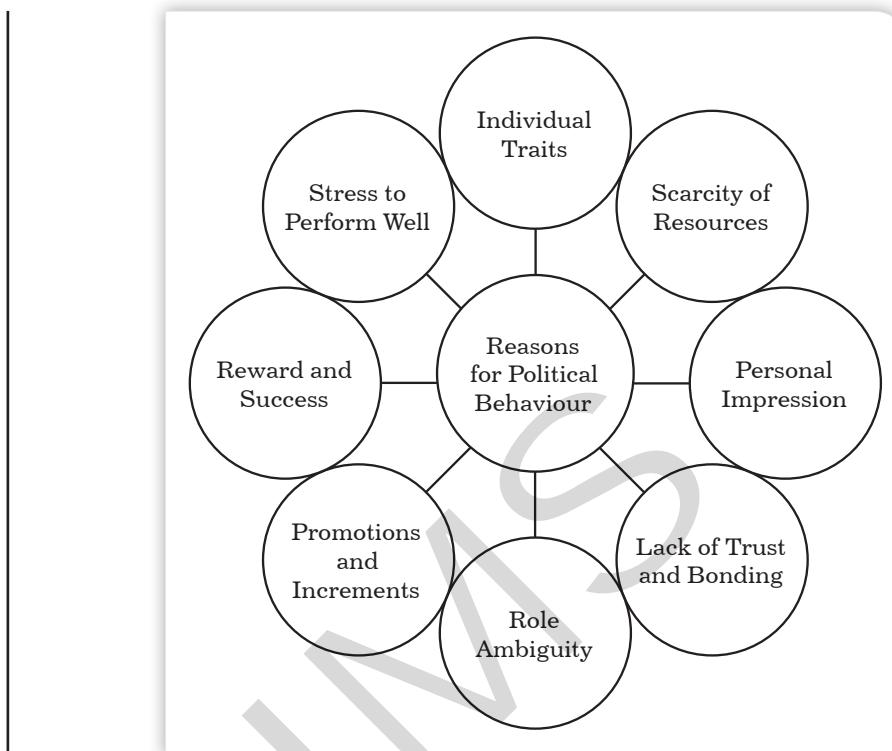


Figure 8.3: Reasons for Political Behaviour

Let us discuss the reasons for political behaviour in various organisations:

- **Individual traits:** It refers to the intrinsic traits of individuals that compel them to get involved in politics. Such traits include greediness, selfishness, dishonesty, callousness, etc.
- **Scarcity of resources:** Organisations usually have limited resources that need to be allocated optimally. There might be the chances that individuals and groups within an organisation may disagree about the allocation of resources. In such a case, they may try to gain resources for their interest, which may give rise to organisational politics.
- **Personal impression:** It implies that individuals sometimes engage in politics as they want to make an impression on their seniors or managers. Therefore, they try to grab the attention of seniors and impress them through politics.
- **Lack of trust and bonding:** These are also the major reasons for employees to get involved in politics. In an organisation, there exist different groups. A lack of trust and bonding between individuals belonging to different groups encourage politics.
- **Role ambiguity:** It specifies that individuals in an organisation get involved in politics because of a lack of clarity about their roles in the organisation. Thus, the role of each individual should be defined clearly; otherwise it may lead to political inclination.

N O T E S

- **Promotions and increments:** Sometimes people working in an organisation want quick promotions and bigger increments. Therefore, individuals in an organisation compete for getting promotions and increments, which also leads to political behaviour.
- **Reward and success:** Reward and success are achieved through performance. However, sometimes employees may use some manipulative political techniques, such as lying, cheating, denial, rationalisation, diversion and evasion to get rewards for their ordinary performances.
- **Stress to perform well:** It refers to the pressure prevailing among individuals in an organisation to perform well. There is a pressure among the individuals for excelling and outperforming each other and this leads to an inclination towards politics.

8.3.2 POLITICAL STRATEGIES

When individuals are involved in political behaviour or organisational politics, they tend to follow certain strategies. However, different strategies are adopted by different individuals. According to **Andrew J. DuBrin**, there are certain strategies that are a part of organisational politics. Let us look at these.

- **Establishing alliances:** It refers to maintaining relationships with influential people in an organisation. Employees try to be a part of an association that comprises powerful people.
- **Divide and rule:** It refers to the strategy of dividing groups or alliances for weakening their powers. People, such as managers and team leaders or union leaders, use such kind of politics to secure their position and influence their teams.
- **Manipulation of information:** Employees or groups within an organisation sometimes hide or manipulate various types of information (personal or professional) for their own interests. Office gossip is one such form of informal communication where authentic information about the personal affairs of others is manipulated to degrade the person.
- **Avoidance:** It implies that individuals involved in politics know the art of escaping a situation wherein they might be blamed.
- **Awareness about resources:** It indicates that individuals involved in politics do not miss the chance of getting an access to the available resources by flattering their seniors. This may be due to the fact that sometimes the resources are limited.
- **Exhibition of achievements:** It implies that employees flaunt their performances or achievements to seniors in order to get rewarded and appreciated. Some individuals make a quick show of their tasks to please the seniors or managers. It also implies that

N O T E S

individuals who indulge in politics tend to create a rapport and positive image in front of the seniors.

- **Persuasion:** It suggests that individuals with good convincing power are more inclined to engage in politics, as it helps them in achieving their personal goals.
- **Attack and blame others:** It is one of the most common strategies followed and adopted by individuals in organisations. People attack and criticise even those who are close to them in the organisation and blame others.

8.3.3 MANAGING POLITICAL BEHAVIOUR

Nowadays organisational politics has become more of a practice and tends to be present in all organisations. Political behaviour of employees may obstruct the growth of the organisation. Therefore, it is crucial to take appropriate measures for the successful and smooth functioning of the organisation. The task of managing political behaviour in organisations is considered to be quite difficult. The measures for managing political behaviour are explained as follows:

- **Clear job descriptions and role definition:** It suggests that every individual in an organisation must be clear about their Key Responsibility Areas (KRAs) and roles. The job roles of all individuals should be defined precisely and concisely. Any confusion about the job role leads to active participation in politics. Everybody tries to shift their work pressure on others if the job role is ambiguous.
- **Open communication:** It implies that there must be open communication in an organisation, which means managers must talk to each individual member of their team and listen and understand their problems and vice versa.
- **Set examples:** It implies that managers can avoid the situation of politics by setting an example of not indulging in any kind of political behaviour themselves.
- **Demonstrate ethical practices:** It implies that managers and top management may demonstrate and exhibit fair ethical practices to deliver a clear message to all the employees in the organisation.
- **Promote team spirit:** It indicates that organisations should promote team spirit so that employees can understand one another in a better way. It leads to cooperation and better understanding between employees; thereby reducing politics.
- **Allocate resources and rewards wisely:** It implies that resources and rewards should be allocated wisely and justly. The resources should be allocated as per the situation and employees' requirements, while rewards should be given purely on the basis of employees' performance. Fair allocation of resources and rewards minimises political behaviour in an organisation.

N O T E S**SELF ASSESSMENT QUESTIONS**

4. Lack of trust and bonding among employees is one of the reasons for getting involved in politics. (True /False)
5. Which of the following is not a political strategy?
 - a. Divide and rule
 - b. Establishing alliances
 - c. Open communication
 - d. Avoidance

**ACTIVITY**

Form a group of students and discuss how you would manage political behaviour if you were a manager in an organisation? Make a list of all the points that are generated during the discussion.

8.4 CONCEPT OF AUTHORITY

Authority refers to the power or privilege that allows an individual to enjoy the rights of making decisions and taking actions in an organisation. In other words, authority is the legitimate right or power given to an individual for directing others and making decisions.

It is given to individuals for the smooth functioning of an organisation. An authority may include the power to hire and fire individuals, promote and demote, make investments on behalf of the organisation and assign tasks to individuals.

Authority involves giving orders and commands to employees at the lower levels of hierarchy. Thus, it flows from top to bottom in an organisation. Therefore, an individual at the bottom of the hierarchy cannot give orders to an individual at the higher level. For example, a finance manager cannot order Vice President (Finance) or Chief Financial Officer (CFO).

Authority can be of three types as shown in Table 8.1:

TABLE 8.1: TYPES OF AUTHORITY

Types of Authority	Description
Line authority	<ul style="list-style-type: none"> • Authority wherein commands are given by superiors to the subordinates for getting things done. • Managers have a right to control and monitor the performance of the subordinates who report to them.

N O T E S

Staff authority	<ul style="list-style-type: none"> • Authority given to an individual for their skills and expertise in their area.
Functional authority	<ul style="list-style-type: none"> • Authority in which managers get the rights pertaining to their functional areas, processes and practices. • It allows an individual to perform their operational roles. • For example, a finance manager may get the authority to allocate funds.

8.4.1 DELEGATION OF AUTHORITY

Delegation of authority refers to the allocation of power, authority and rights to others in an organisation with an aim to maintain a smooth work flow. In other words, delegation of authority can be defined as a process of dividing and allocating tasks and responsibilities to subordinates in order to accomplish the desirable results. The top level management cannot perform all the tasks in the organisation. Thus, it delegates authority to lower-level employees for attaining goals. In this way, the delegation of authority facilitates fast decision making in an organisation, lessen the dependency on specific individuals and avoid delays.

Many leaders or managers delegate authorities to their subordinates to expedite the work flow. Delegation is an art because managers need to be very meticulous and prudent while delegating authority to their subordinates. It not only accelerates the process and work flows but also empowers subordinates. In addition, it helps subordinates to be more skilful, competent and capable of handling complex situations in the organisation.

Delegating authorities implies having faith in the team or subordinates to enable them to take independent decisions. Authority should always be delegated on the basis of skills and competencies of the subordinates.

8.4.2 CENTRALISATION AND DECENTRALISATION OF AUTHORITY

In an organisation, authority can be centralised or decentralised. Centralisation refers to the concentration of authority and decision making power at top management. Centralised command is not considered good as the decision making power remains with a few people. The centralisation of authority is not a collective approach, and is not acceptable in the modern era.

Despite its obvious disadvantages, the centralisation of authority still has a few advantages, which are as follows:

N O T E S

- ❑ Reduces misunderstanding and coordination about directives.
- ❑ Results in uniformity of processes and decisions across an organisation.
- ❑ Defines the roles and responsibilities of individuals working in an organisation.
- ❑ Results in tight financial control.

The disadvantages of the centralisation of authority are listed as follows:

- ❑ Encourages the culture of autocracy in the organisation.
- ❑ Results in delays of processes, and thus, affects the work flow negatively.
- ❑ Demotivates managers and employees as they are not given authority and decision-making powers.
- ❑ Leads to dependence on few individuals or managers at the top level.
- ❑ Prevents managers from exhibiting their skills and talents.

On the other hand, in decentralisation, the authority of decision making is given to subordinates so that they can make independent decisions. In decentralisation, authority of decision making is distributed among employees working at lower levels in an organisation. However, top management has the control of all strategic issues.

According to Louis A. Allen, *Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points.*

According to Newman, Summer and Wairen, *Decentralisation is simply a matter of dividing up the managerial work and assigning specific duties to the various executive skills.*

Decentralisation motivates subordinates, inspires them to perform well, enhances their skills and efficiency and allows them to make independent decisions.

Decentralisation of authority has the following advantages:

- ❑ Reduces the workload and pressure on managers.
- ❑ Enhances employee motivation, morale, skills, efficiency and satisfaction.
- ❑ Results in fast decision making and prompt actions.
- ❑ Facilitates effective communication across the organisation.
- ❑ Allows organisational and individual growth.
- ❑ Promotes team spirit and harmony.

N O T E S

Some disadvantages of the decentralisation of authority are given as follows:

- Loss of control of the top management on organisational processes
- Lack of coordination and standardisation of processes and policies
- Increase in expenses and costs

8.4.3 EFFECTIVENESS OF DELEGATION

Delegation of authority is an efficient way of achieving success in today's world. It helps in ensuring the timely completion of tasks and avoiding delays. Successful managers always delegate authority. Sometimes, the delegation of authority is misunderstood by employees as they may think that a manager is fleeing from responsibilities. However, the fact is that the responsibility is different from authority. Managers who delegate their tasks and processes to their subordinates will always remain responsible for the same. It is a way of ensuring the completion of tasks on time, avoiding delays and expediting the processes.

Table 8.2 shows the requisites for the effective delegation of authority:

**TABLE 8.2: REQUISITES FOR EFFECTIVE
DELEGATION OF AUTHORITY**

Requisite	Description
Identification and selection of tasks	<ul style="list-style-type: none"> • It includes identifying and selecting the tasks that managers can assign to their subordinates. • Managers must identify the tasks they handover to their subordinates.
Identification and selection of subordinates	<ul style="list-style-type: none"> • It involves identification and selection of subordinates who are skilful, efficient, competent, and trustworthy. • Managers need to be very careful while delegating their tasks as the tasks require responsibility.
Trust and relationship	<ul style="list-style-type: none"> • There must be trust and understanding between managers and their subordinates to ensure the effectiveness of delegation. • Managers assign duties only to subordinates with whom they share a healthy relationship.
Degree of liberty	<ul style="list-style-type: none"> • It is the level of freedom given to individuals. • It suggests that managers must provide subordinates a freedom of making independent decisions. • It not only boosts the morale of subordinates but also speeds up decision making.

N O T E S

Level of communication	<ul style="list-style-type: none"> A smooth and free flow of communication between managers and their subordinates also affects the effectiveness of delegation.
Individual commitment	<ul style="list-style-type: none"> Individual commitment of subordinates also results in effective delegation. Managers should motivate their subordinates each time they assign them any task. Managers should also make them aware of their individual capacity.

8.4.4 BENEFITS AND LIMITATIONS OF DELEGATION

There are numerous benefits associated with the delegation of authority. Some of the benefits are given as follows:

- Leads to higher efficiency
- Boosts the morale of employees
- Allows individuals to make independent decisions
- Invokes a sense of responsibility among employees
- Leads to effective distribution of workload
- Accelerates work flows and processes and evades delays
- Helps in effective utilisation of resources
- Facilitates effective decision making

Some limitations of delegation are listed below:

- Leads to failure if the task is not well defined or employees are not trained properly
- Results in the misuse of power by employees
- Leads to confusions and delays if subordinates are not given a liberty to make independent decisions.
- Results in the avoidance of work and responsibility as the manager may delegate the core work responsibilities to subordinates, which in the ideal scenario need to be carried out by the manager himself

**SELF ASSESSMENT QUESTIONS**

6. In _____, the authority of decision making is given to subordinates.
7. Centralisation refers to the concentration of authority and power at all levels of management in the organisation. (True/False)

N O T E S**ACTIVITY**

Form a group of students and discuss whether centralisation is better than decentralisation to manage the flow of authority and power or vice versa, in today's modern era.

8.5 SUMMARY

- ❑ Power is the ability of an individual to influence the behaviour of others.
- ❑ In the context of an organisation, power comprises influences, mechanisms and processes, which ensure that employees act in a pre-determined manner.
- ❑ In 1959, two psychologists, John French and Bertram Raven, identified five major types of power, which include:
 - ◆ Legitimate power
 - ◆ Reward power
 - ◆ Coercive power
 - ◆ Expert power
 - ◆ Referent power
- ❑ Organisational politics can be described as activities in which an individual engages but are not included in the job profile of the individual.
- ❑ The potential reasons for political behaviour in an organisation include:
 - ◆ Individual traits
 - ◆ Scarcity of resources
 - ◆ Personal impression
 - ◆ Lack of trust and bonding
 - ◆ Role ambiguity
 - ◆ Promotions and increments
 - ◆ Reward and success
 - ◆ Stress to perform well
- ❑ According to Andrew J. DuBrin, there are certain strategies that are a part of organisational politics. Such strategies include:
 - ◆ Establishing alliances
 - ◆ Divide and rule
 - ◆ Manipulation of information
 - ◆ Avoidance

N O T E S

- ◆ Awareness about resources
 - ◆ Exhibition of achievements
 - ◆ Persuasion
 - ◆ Attack and blame others
- The measures for managing political behaviour include:
- ◆ Clear job descriptions and role definition
 - ◆ Open communication
 - ◆ Set examples
 - ◆ Demonstrate ethical practices
 - ◆ Promote team spirit
 - ◆ Allocate resources and rewards wisely
- Authority refers to the power or privilege that allows an individual to enjoy the rights of making decisions and taking actions in an organisation.
- Delegation of authority refers to the allocation of power, authority and rights to others in an organisation with an aim to maintain a smooth work flow.
- In an organisation, authority can be centralised or decentralised.
- Centralisation refers to the concentration of authority and decision making power at top management.
- In decentralisation, the authority of decision making is given to subordinates so that they can make independent decisions.



KEY WORDS

- **Authority:** It refers to special rights or privileges used in making decisions and getting tasks done.
- **Centralisation:** It refers to the concentration of authority and power with the top management of an organisation.
- **Decentralisation:** It refers to the delegation of power and authority to individuals at all levels in an organisational hierarchy.
- **Delegation:** It refers to the distribution of power to subordinates in an organisation.
- **KRAs:** It refers to key responsibility areas.
- **Political behaviour:** It refers to behaviour which is encouraged by unethical and unprofessional practices of individuals in an organisation.
- **Power:** It is an ability that influences the behaviour and work events of others.

N O T E S**8.6 DESCRIPTIVE QUESTIONS**

1. Explain the concept of power.
2. Discuss the impact of organisational politics.
3. Explain the concept of authority.

8.7 ANSWERS AND HINTS**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q. No.	Answers
Concept of Power	1.	Legitimate power
	2.	Reward power
	3.	True
Concept of Organisational Politics	4.	True
	5.	c. Open communication
Concept of Authority	6.	Decentralisation
	7.	False

HINTS FOR DESCRIPTIVE QUESTIONS

1. The rationality behind power is always understood with the ability to influence, empower and inspire individuals. Refer to Section **8.2 Concept of Power**.
2. Organisational politics can be described as activities in which an individual engages but are not included in the job profile of the individual. Refer to Section **8.3 Concept of Organisational Politics**.
3. Authority refers to the special rights or privileges used in making decisions and getting tasks done. Refer to Section **8.4 Concept of Authority**.

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NUMINOS

9

C H A P T E R

MANAGING ORGANISATIONAL CONFLICT

CONTENTS

9.1	Introduction
9.2	Concept of Conflict
9.2.1	Classification of Conflict
9.2.2	Sources of Conflict
9.2.3	Levels of Conflict
	Self Assessment Questions
	Activity
9.3	Conflict Process
	Self Assessment Questions
	Activity
9.4	Outcomes of Conflict
	Self Assessment Questions
	Activity
9.5	Global Implications of Conflict
	Self Assessment Questions
	Activity
9.6	Conflict Management
	Self Assessment Questions
	Activity
9.7	Negotiation—An Approach to Conflict Resolution
9.7.1	Negotiation Process
9.7.2	Negotiation Strategies
9.7.3	Other Approaches to Conflict Resolution
	Self Assessment Questions
	Activity
9.8	Summary
9.9	Descriptive Questions
9.10	Answers and Hints
9.11	Suggested Readings for Reference

INTRODUCTORY CASELET**CONFLICT IN M.B. FINANCIALS LTD.**

Jack Gomez was a project manager of a twelve-member project team in a metal fabricating plant in New Mexico. He was promoted to the post of a project manager because of his education and experience. After a month into his role of a project manager, Jack realised the need for a few more team members for completing the on-going projects. The existing team members had to work overtime to complete the accumulated work but they failed to manage and control tasks efficiently as most of them were not very qualified and less experienced.

Jack felt the need of a supervisor to oversee their multiple on-going projects and share increased work responsibilities. He conveyed the same to the production manager who suggested that Sujit, a young Indian executive in production, would be suitable for the role. Jack was also impressed by Sujit's working skills and efficiency. He approached Sujit's team leader to get permission for shifting Sujit to his department. Jack discussed the projects with Sujit who was keen to join Jack's team. Next day, when Jack reached his office, he was confronted by Daniel, who had been working at the plant since its opening around 24 years ago. Daniel said, "*I have heard that Sujit would be joining us as supervisor. I've never worked under a coloured person and I never will.*"

Jack had not expected this conflict. He was aware of the capabilities of Sujit and therefore, had appointed him as the supervisor for the betterment of the team. However, he did not want to lose his team members due to this conflict.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Define the concept of conflict
- Discuss the process of conflict
- Describe the outcomes of conflict
- Explain the global implications of conflict
- Discuss conflict management
- Outline negotiation as an approach to conflict resolution

9.1 INTRODUCTION

The previous chapter discussed the role of power, politics and authority in an organisation, which affect its functioning to a great extent. Although it is the responsibility of management to manage power, politics and authority, differences may arise due to various reasons. This may give rise to conflicts in an organisation. Let us now discuss the reasons behind conflicts in detail and the methods used to manage them.

A conflict can be defined as the actual and perceived disagreement in the needs, values and interests of individuals or groups. It is a natural and unavoidable phenomenon that may occur in any facet of life. In an organisation, conflicts occur because of differences of opinions, attitudes and perceptions of individuals. A conflict may occur at any level of an organisation such as between managers and subordinates or different departmental heads.

Conflicts have an adverse impact on an organisation and the productivity of employees. Therefore, it is crucial for an organisation to minimise these conflicts and their impact through various conflict management techniques. An organisation can resolve conflicts by managing and controlling the behaviour of employees. Apart from this, facilitating an effective communication system in an organisation helps in managing conflicts to a large extent. Negotiation, arbitration and mediation are also used as tools to resolve conflicts within an organisation. This chapter discusses the concept, process and outcome of conflicts in detail. In addition, it discusses various conflict resolution techniques.

9.2 CONCEPT OF CONFLICT

The word, conflict is derived from a Latin word, configere, which means to attack together. A conflict results from disagreement between the actual and perceived needs, values and interests of people. In the context of an organisation, conflict is negative and detrimental. According to Robbins, *conflict is a process that begins when one party perceives that another party has negatively affected, or is about to negatively affect something that the first party cares about.*

N O T E S

Pondy defines conflict as *the condition of objective incompatibility between values and goals; as the behaviour of deliberately interfering with another's goal achievement; and as emotionally in terms of hostility.*

The various reason's of conflicts are:

- ❑ Conflicts occur when two or more individuals pursue incompatible goals.
- ❑ Conflicts occur when there is a mismatch between the actual and the expected role.
- ❑ Conflicts arise when individual or departmental goals clash with the goals of another individual or department.

An organisation can minimise the negative effects of conflicts and maximise the positive effects through conflict management.

9.2.1 CLASSIFICATION OF CONFLICTS

Organisational conflicts can be classified into two categories: functional and dysfunctional. These two categories of conflicts are discussed as follows:

- ❑ **Functional Conflict:** This type of conflict supports organisational goals and improves the performance of organisations; thus, they are favourable for organisations. For example, Ram and Rajneesh, working in the same team, are asked to provide a solution to a problem by their manager. The solution would then be communicated to the client. This leads to intense competition between both employees to outperform each other. A week later, they present their ideas to the manager, who further presented the solution to the client. The client accepts both the ideas. The organisation benefitted from the functional conflict as it was able to present two different solutions, both of which were accepted by the client.

A functional conflict, also known as a positive conflict, can bring the following benefits for an organisation:

- ◆ **Facilitates analytical thinking:** When there is no conflict, employees may lack creativity and feel lethargic. Conflicts provide a platform to employees to analyse problems and prepare solutions on their own. In this way, conflicts enable employees to think analytically.
- ◆ **Bring satisfaction among employees:** Due to conflicts, employees may express their views openly; thereby achieving psychological satisfaction. This in turn reduces stress among employees.
- ◆ **Helps in getting high quality decisions:** In conflicts, members express their opposing views that sometimes lead to high quality decisions.

N O T E S

- **Dysfunctional Conflict:** Also called negative conflict, a dysfunctional conflict obstructs employees' performance, thereby hindering organisational performance. Dysfunctional conflicts occur due to the unwillingness of people to work for common goals and objectives. For example, in an organisation, Jack is from the marketing department and Brown is from the finance department. Jack uses innovative promotional techniques to sell products and improve sales targets. On the other hand, Brown declines to approve the financial budget for these promotional techniques, saying that the marketing team had failed to give details of the funds used. This creates a conflict between the marketing and finance department. Because of the conflict, work suffers and the organisation faces major losses. Let us discuss the outcomes of dysfunctional conflicts.
 - ◆ **Tension among employees:** Dysfunctional conflicts cause tension among employees, resulting in anxiety and frustration among teams.
 - ◆ **Distrust:** Dysfunctional conflicts result in an environment of distrust in an organisation. The employees tend to develop negative feelings towards each other.
 - ◆ **Diversion from organisational goals:** Dysfunctional conflicts distract employees from achieving organisational goals as they turn into personal conflicts. In this case, personal victory becomes more important than the organisation's victory.

9.2.2 SOURCES OF CONFLICTS

Numerous sources could give rise to organisational conflicts. Some commonly observed sources of conflicts are:

- **Poor communication:** Lack of communication leads to misunderstanding between employees. Rumours and gossips can also be a part of poor communication. For example, rumours of an employee being dismissed might cause insecurity or resentment among employees towards the management.
- **Difference in values:** An organisation consists of different people with varied values. In such a situation, the values of one individual may interfere with the values of another, and this may lead to conflicts. For example, the sales manager may focus on exaggerating the features of a product in order to persuade a customer to buy it, whereas his/her team members may just state the facts to sell a product. The difference in approach in selling the product can be due to the different values being followed by them and can result in conflicts.
- **Unrealistic expectations:** These may be unrealistic expectations of managers from employees which could demotivate employees and create conflicts. For example, a manager may ask an employee to complete a task in one day that could take five days. Such

N O T E S

unfair expectations could cause burnout and resentment among employees.

- **Employee behaviour:** The behaviour of an employee may be a cause of conflict. Negative feedback from a superior may either demoralise an employee or could be motivation to work smarter. For example, A and B working in the same team, get feedback from their manager on their productivity. According to the feedback, A is a better worker than B. In such a situation, B may take the feedback negatively and his behaviour may change. He may start resenting his job and instructions from the management, affecting his performance adversely. His negative attitude could cause him to lose his job.

9.2.3 LEVELS OF CONFLICT

A conflict may arise at any level in an organisation. Figure 9.1 represents three main levels of conflicts in an organisation:

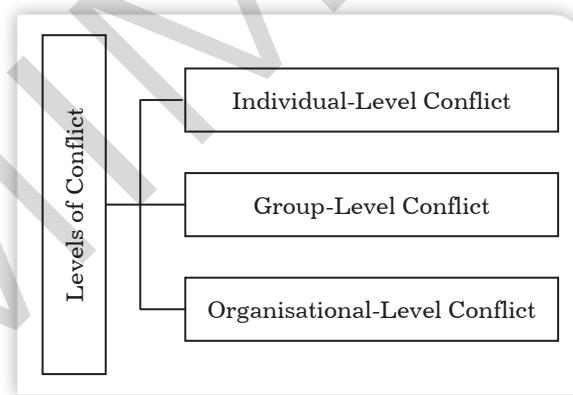


Figure 9.1: Levels of Conflict

Let us have a look at these levels of conflicts.

- **Individual-level conflict:** It is a conflict that takes place between individuals due to differences in opinions, attitudes, values and working styles of individuals. Such conflict could lead to tension and frustration among individuals. There are two types of conflicts happen at the individual level, which are as follows:
 - ◆ **Intra-individual conflict:** This conflict arises within an individual and is psychological in nature. Stress and frustration are the primary causes of intra-individual conflicts. For example, an employee may behave inappropriately with his/her peers due to stress in his/her personal life. However, it may lead to conflicts between him/her and the peers.
 - ◆ **Inter-individual conflict:** This conflict takes place between two individuals. If an employee observes inequity in terms of

N O T E S

salary compared to other colleagues at the same designation in the organisation, it could result in conflict.

- **Group-level conflict:** Conflicts that could happen between groups or departments within an organisation are known as group-level conflicts. The reasons for group-level conflicts include the nature of a group and different perceptions of the members in the group. Group-level conflicts can be categorised into two types, which are:
 - ◆ **Intra-group conflict:** It occurs within a single group. For instance, a conflict escalates in a group when its members start having different ideas about performing a particular task in a project.
 - ◆ **Inter-group conflict:** A conflict that happens between groups. For instance, the marketing and finance departments in an organisation lock horns owing to difference in their opinions about how a product should be positioned in the market.
- **Organisational-level conflict:** Conflicts that occur at the level of the organisation are termed as organisational-level conflicts. These are of two types.
 - ◆ **Intra-organisational conflict:** This is a conflict that occurs within an organisation. Intra-organisational level conflicts can be of two types.
 - ✓ **Horizontal conflict:** This type of conflict may occur between two functional groups at the same hierarchical level. The reasons for such conflicts could be shared resources, interdependency and goal incompatibility. For example, resources such as printers are usually used by different departments at the same time leading to a long queue of documents to be printed. This may result in delay in operations. Consequently, a conflict may arise between departments for the access to resources.
 - ✓ **Vertical conflict:** A conflict between different hierarchical levels, such as between a superior and subordinates. A vertical conflict could occur due to inadequate or ineffective communication and distorted perceptions. For example, if a superior delegates certain responsibilities to subordinates without clear instructions, they may face problems in completing their tasks. As a result, a conflict may arise between subordinates and the superior.
 - ◆ **Inter-organisational conflict:** A conflict that takes place between two or more organisations. Organisations that compete for marketing same products could indulge in unethical practices and unhealthy competition to expand their customer base and stay profitable. For example, telecommunication companies usually agree on comparable market tariffs for customers. However, any suspicious pricing strategy by one of them could lead to a bitter price war.

N O T E S



SELF ASSESSMENT QUESTIONS

1. A conflict results from _____ between the actual and perceived needs, values and interests of people.
2. A dysfunctional conflict supports organisational goals and improves the performance of organisations. (True/False)
3. Which of the following is not a source of conflicts?
 - a. Effective communication
 - b. Difference in values
 - c. Unrealistic expectations
 - d. Employee behaviour
4. The reasons for group-level conflicts include the nature of a group and different perceptions of the members in the group. (True/False)



ACTIVITY

Find some real-life examples of organisations where conflicts affected their performance.

9.3 CONFLICT PROCESS

Positive and negative conflicts give rise to opportunities and threats in an organisation respectively. According to Robbins, there are five stages that trigger a conflict.

These stages are shown in Figure 9.2:

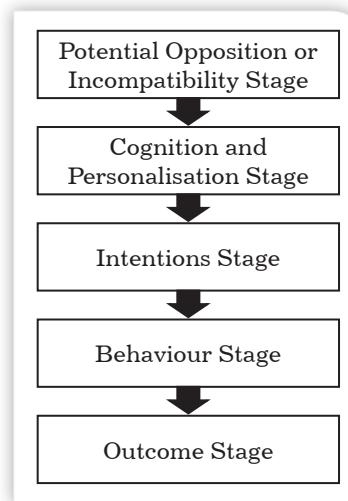


Figure 9.2: Process of Conflict

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Let us have a look at these stages.

- **Potential opposition or incompatibility stage:** At this stage, a conflict can be triggered due to various reasons, such as lack of communication or personal variables (like individual values, perceptions and attitudes).
- **Cognition and personalisation stage:** At this stage, the possible outcomes and consequences of a conflict is determined by the parties involved. As per these outcomes, there are two types of conflicts, which are as follows:
 - ◆ **Perceived conflict:** The awareness by one or more parties of the existence of conditions may trigger conflicts. Such conflicts could occur due to miscommunication between the concerned parties.
 - ◆ **Felt conflict:** A conflict that is felt due to emotional differences between two or more parties. These emotional differences arise because of tension, anxiety, hostility or frustration among parties.
- **Intentions stage:** This is a stage where individuals take decisions to act in a given way. At this stage, intentions intervene between the individual's perceptions and emotions and compel him/her to behave in a certain manner.
- **Behaviour stage:** At this stage, a conflict becomes visible. The actions, reactions, remarks and statements made by the conflicting parties come out into the open. The scope of escalation or resolution of the conflict depends on the situation. For example, if a manager feels that the conflict is dysfunctional, the management can resort to conflict management techniques to address the situation.
- **Outcome stage:** The outcomes of a conflict can be functional and dysfunctional. When the conflict is functional, the group performance is improved. On the other hand, dysfunctional conflicts have an adverse impact on group performance.



SELF ASSESSMENT QUESTIONS

5. At which stage, the possible outcomes and consequences of a conflict is determined by the parties involved?
 - a. Potential opposition or incompatibility stage
 - b. Cognition and personalisation stage
 - c. Intentions stage
 - d. Behaviour stage
6. A conflict that is felt due to emotional differences between two or more parties is termed as felt conflict. (True/False)

N O T E S**ACTIVITY**

Use the Internet to research on different types of conflicts that IT firms face. Prepare a report on conflict resolution strategies that IT firms use in case of major conflicts.

9.4 OUTCOMES OF CONFLICT

Though it is commonly perceived that a conflict produces negative results, there are situations in which the conflict could generate positive outcomes. The positive results of a conflict are explained below:

- ❑ Leads to innovation and new direction
- ❑ Draws attention towards the areas that require improvement.
- ❑ Motivates individuals and groups to perform better
- ❑ Creates a competitive or challenging work environment for employees

On the contrary, the negative outcomes of conflict are as follows:

- ❑ Produces unproductive outcomes when problems are not handled in the desired or expected manner
- ❑ Creates an environment of distrust and suspicion among individuals
- ❑ Creates misunderstanding among individuals
- ❑ Distorts the perception of individuals, thereby creating barriers in the functioning of an organisation
- ❑ Distracts the attention of individuals from the basic objectives of the organisation
- ❑ Creates tension among individuals that further leads to an unpleasant environment in the organisation

**SELF ASSESSMENT QUESTIONS**

7. Conflicts create a competitive or challenging work environment for employees. (True/False)
8. Creation of tension among individuals that further leads to an unpleasant environment in the organisation is a _____ outcome of conflicts.

**ACTIVITY**

Search for an organisation that has successfully managed conflicts and prepare a report on it.

N O T E S

9.5 GLOBAL IMPLICATIONS OF CONFLICT

Suppose a US-based organisation has a branch in Delhi, India. Owing to the requirement of an urgent project, an employee from the United States is required to work in the India office for some time. Here, the possibility of a conflict could arise if the views of the American employee clash with the views of the Indian employees. In such a case, cross-cultural training and a sensitisation of India's cultural nuances could help in conflict resolution.

With the spread of globalisation, organisations operating in different countries face conflicts as their workforce belong to different cultural backgrounds and has varied values and perceptions. Such organisational diversity gives rise to cross-cultural issues that could trigger different kinds of conflicts.

Fostering cultural diversity can help organisations in achieving a competitive edge at the global level. Reportedly, Multinational Corporations (MNCs) such as PepsiCo, IBM and Citibank have grown in recent years due to cultural diversity in their workforce.



SELF ASSESSMENT QUESTIONS

9. Fostering cultural diversity can help organisations in achieving a competitive edge at the global level. (True/False)



ACTIVITY

Using the Internet, search few examples of global organisations that have not been able to tackle conflicts successfully.

9.6 CONFLICT MANAGEMENT

Conflict is a major organisational phenomenon that needs to be managed effectively. If a conflict enhances the performance of employees, it must be encouraged. On the other hand, if a conflict hampers the performance of employees, it should be controlled. Conflict management is an approach of recognising and resolving conflicts among individuals so that genuine co-operation becomes possible. In other words, conflict management is a technique of resolving conflicts to avoid obstacles at work. In organisations, conflicts are managed using various methods. Some of these methods are listed in Figure 9.3:

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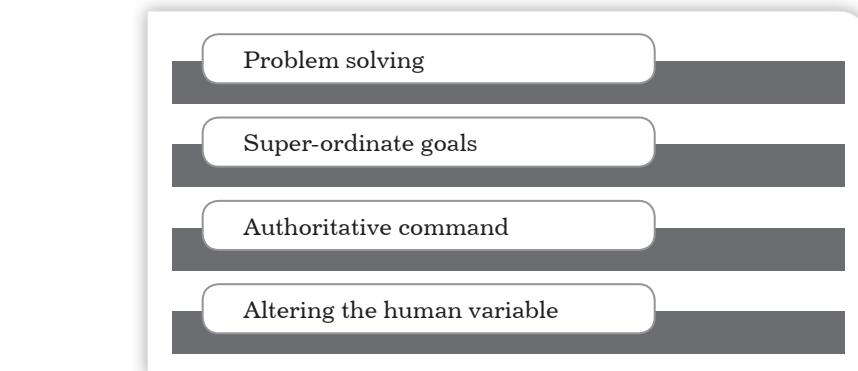


Figure 9.3: Techniques of Conflict Resolution

Let us discuss these techniques in detail.

- **Problem solving:** This is an approach to conflict resolution where individuals or groups involved in a conflict meet face-to-face to resolve contentious issues through a discussion.
- **Super-ordinate goals:** These are the shared goals between two or more parties and are based on mutual trust. Such goals help conflicting parties to overcome their individual differences and focus on shared goals.
- **Authoritative command:** In this technique, seniors use their authority to resolve conflicts by encouraging their subordinates to forget their differences and concentrate on the tasks assigned to them.
- **Altering the human variable:** It involves training employees to change their behaviour or attitude. This makes employees understand their role-specific competencies and obligations to finish their tasks without causing friction or conflicts.



SELF ASSESSMENT QUESTIONS

10. _____ is an approach of recognising and resolving conflicts among individuals so that genuine co-operation becomes possible.
11. Name the conflict management technique in which seniors use their authority to resolve conflicts by encouraging their subordinates to forget their differences and concentrate on the tasks assigned to them.



ACTIVITY

List down other techniques that can be used for resolving conflicts by an organisation.

N O T E S

9.7 NEGOTIATION—AN APPROACH TO CONFLICT RESOLUTION

Negotiation is a method of settling conflicts wherein parties involved strive to arrive at a mutually beneficial outcome. According to Robbins, *negotiation is a process in which two or more parties exchange goods or services and attempt to agree on the exchange rate for them.* It is a compromising approach that focuses on changing the behaviour of the parties involved in a conflict to reach an agreement. Lewicki and Litterer have outlined three characteristics of negotiation. These are as follows:

- ❑ Identification of the conflict of interests between parties
- ❑ No pre-determined set of rules and procedures to resolve the conflict
- ❑ Reach on an agreement

Organisations follow certain principles to perform negotiation. These are listed as follows:

- ❑ Separate people from the problem
- ❑ Focus on interests rather than positions
- ❑ Generate alternatives before deciding what to do
- ❑ Decide criteria to arrive at a decision.

Let us now study the process of negotiation in the subsequent section.

9.7.1 NEGOTIATION PROCESS

While negotiating, the parties involved strive to achieve mutually agreeable outcomes that would benefit both. Figure 9.4 represents the process of negotiation, which consists of five stages:

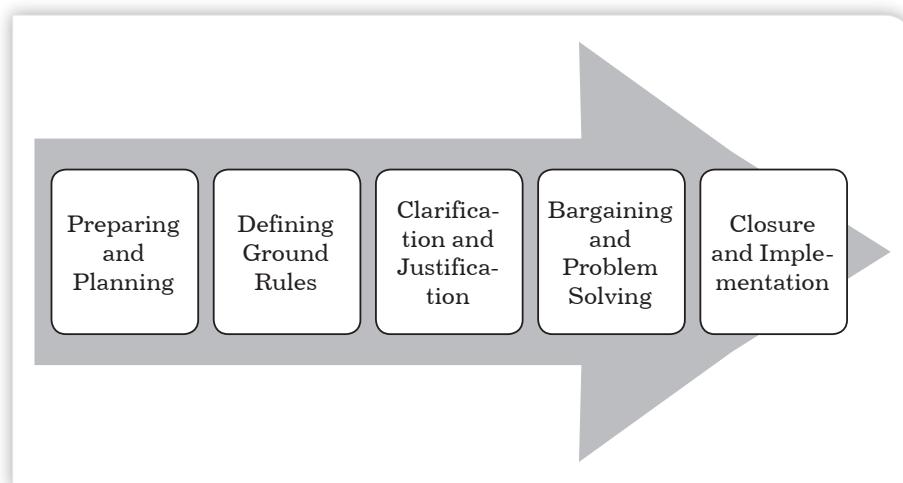


Figure 9.4: Negotiation Process

N O T E S

The five stages in the process of negotiation are:

1. **Preparing and planning:** This stage ensures that all the required information for the negotiation is available. This information can be related to the parties involved and the nature of the conflict to be resolved.
2. **Defining ground rules:** Rules of the negotiation process are defined. For example, certain questions are considered like who will start the negotiation? Where will the negotiation take place?
3. **Clarification and justification:** At this stage, parties clarify and justify their demands. Both the parties discuss their perspectives about the issue and justify the reasons for putting across their demands.
4. **Bargaining and problem solving:** Both the parties reach a consensus to resolve issues. To reach a consensus, both parties may have to make concessions on their stand.
5. **Closure and implementation:** The process of negotiation is closed as both parties reach a conclusion. Further, contracts are formalised and procedures to implement and monitor decisions are made through negotiations.

9.7.2 NEGOTIATION STRATEGIES

To negotiate successfully, an organisation needs to have a clear understanding of the other party's interests. For this, organisations use various strategies. The common strategies are:

- Distributive negotiation:** In this strategy, each party aims to gain the maximum benefits from the process of negotiation. This situation is known as '*I win and you lose and fixed pie strategy*'. Each party tries to put its foot forward to grab the bigger chunk of the available resources.
- Integrative negotiation:** In this strategy, both the parties try to collaborate in order to maximise their mutual benefit. The parties treat each other as friends. In this type of negotiation strategy, both the parties believe in reaching a win-win situation. It follows a compromising approach.



EXHIBIT

Difference between Distributive Negotiation and Integrative Negotiation

S. No.	Distributive Negotiation	Integrative Negotiation
1.	It ends up in a win-lose situation.	It ends up in a win-win situation.
2.	It is competitive in nature.	It is collaborative in nature.

N O T E S

S. No.	Distributive Negotiation	Integrative Negotiation
3.	It increases the conflict. .	It works as a conflict management tool.
4.	Each negotiator focuses on meeting personal needs.	Each negotiator focuses on meeting mutual interests.

9.7.3 OTHER APPROACHES TO CONFLICT RESOLUTION

In addition to negotiation, organisations use several other approaches to conflict resolution. The most popular approach is third-party intervention in which a non-biased party is involved in resolving a conflict. The third party can be an individual, a consultant or an organisation. The different types of third-party intervention are explained as follows:

- **Arbitration:** In arbitration, a third party having authority to dictate an agreement is selected to act as an arbitrator and intervene in a negotiation. The decision of the arbitrator is binding for both the parties. Arbitration is preferred when the parties are not interested in making long-term relationships. It is often preferred for resolving disputes in international contracts because parties from different countries prefer to resolve disputes mutually rather than going for court procedures.

The important features of arbitration are:

- ◆ The arbitrator has special expertise or knowledge about the conflict.
- ◆ Arbitration is a confidential process as information is not disclosed to outsiders.
- ◆ It is a formal process just like a trial in a court.

- **Mediation:** It involves a third party called a mediator or a dispute-resolution practitioner, who facilitates the resolution of disputes between the conflicting parties. This practitioner convinces the conflicting parties to reach an amicable solution by adopting reasoning and persuasion or suggesting feasible solutions. The parties are not bound to abide by the decision taken in this process. This method is adopted when:

- ◆ Direct negotiations have failed, leading to the intensification of disputes
- ◆ Direct negotiations are complex and difficult
- ◆ Multiple parties are involved, leading to confusion
- ◆ Parties are willing to engage in a free and open discussion

N O T E S

The criteria for selecting a mediator depend on the following attributes:

- ◆ Personal attributes, such as intelligence, optimism and flexibility
- ◆ Qualification including knowledge about the subject
- ◆ Experience in resolving disputes
- ◆ Fees that the mediator will charge

**SELF ASSESSMENT QUESTIONS**

12. _____ is a method of settling conflicts wherein parties involved strive to arrive at a mutually beneficial outcome.
13. In _____ strategy, each party aims to gain the maximum benefits from the process of negotiation.
14. In arbitration, the parties are not bound to abide by the decision taken in this process. (True/False)

**ACTIVITY**

Using the Internet, find information on the steps that can be taken by an arbitrator to manage conflicts.

9.8 SUMMARY

- A conflict results from disagreement between the actual and perceived needs, values and interests of people.
- Organisational conflicts can be classified into two categories: functional and dysfunctional.
- Functional of conflict supports organisational goals and improves the performance of organisations; thus, they are favourable for organisations.
- Dysfunctional Conflict, also called negative conflict, a dysfunctional conflict obstructs employees' performance, thereby hindering organisational performance.
- Positive and negative conflicts give rise to opportunities and threats in an organisation respectively. According to Robbins, there are five stages that trigger a conflict: potential opposition or incompatibility stage, cognition and personalisation stage, intentions stage, behaviour stage and outcome stage.

N O T E S

- ❑ Though it is commonly perceived that a conflict produces negative results, there are situations in which the conflict could generate positive outcomes.
- ❑ With the spread of globalisation, organisations operating in different countries face conflicts as their workforce belong to different cultural backgrounds and have varied values and perceptions. Such organisational diversity gives rise to cross-cultural issues that could trigger different kinds of conflicts.
- ❑ Conflict management is an approach of recognising and resolving conflicts among individuals so that genuine co-operation becomes possible.
- ❑ Negotiation is a method of settling conflicts wherein parties involved strive to arrive at a mutually beneficial outcome.
- ❑ In arbitration, a third party having authority to dictate an agreement is selected to act as an arbitrator and intervene in a negotiation. The decision of the arbitrator is binding for both the parties.
- ❑ Mediation involves a third party called a mediator or a dispute-resolution practitioner, who facilitates the resolution of disputes between the conflicting parties.



KEY WORDS

- ❑ **Dysfunctional conflict:** This is a type of conflict that deteriorates the performance of people in an organisation.
- ❑ **Functional conflict:** This is a type of conflict that enhances the performance of people in an organisation.
- ❑ **Mediation:** It is a process of settling a dispute by involving an independent person between two opposing parties.
- ❑ **Negotiation:** It is a conflict resolution process that involves discussions between conflicting parties to settle an issue of mutual concern.

9.9 DESCRIPTIVE QUESTIONS

1. Discuss the concept of conflict.
2. Explain the process of conflict.
3. Describe the various outcomes of conflict.
4. Explain the global implications of conflict.
5. Explain conflict management. Discuss its techniques.
6. Discuss negotiation as an approach to conflict resolution.

N O T E S

9.10 ANSWERS AND HINTS**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q. No.	Answers
Concept of Conflict	1.	Disagreement
	2.	False
	3.	a. Effective Communication
	4.	True
Conflict Process	5.	b. Cognition and Personalisation Stage
	6.	False
Outcomes of Conflict	7.	True
	8.	Negative
Global Implications of Conflict	9.	True
Conflict Management	10.	Conflict Management
	11.	Authoritative Command
Negotiation—An Approach to Conflict Resolution	12.	Negotiation
	13.	Distributive Negotiation
	14.	False

HINTS FOR DESCRIPTIVE QUESTIONS

1. A conflict results from disagreement between the actual and perceived needs, values and interests of people. Refer to Section **9.2 Concept of Conflict**.
2. The process of conflict includes potential opposition or incompatibility stage, cognition and personalisation stage, intentions stage, behaviour stage and outcome stage. Refer to Section **9.3 Conflict Process**.
3. The outcomes of a conflict can be positive or negative. For instance, the positive result of conflicts can be the creation of a friendly work environment for employees. Refer to Section **9.4 Outcomes of Conflict**.
4. With the spread of globalisation, organisations operating in different countries face conflicts as their workforce belong to different cultural backgrounds and have varied values and perceptions. Refer to Section **9.5 Global Implications of Conflict**.

N O T E S

5. Conflict management is an approach of recognising and resolving conflicts among individuals so that genuine co-operation becomes possible. Refer to Section **9.6 Conflict Management**.
6. Negotiation is a method of settling conflicts wherein parties involved strive to arrive at a mutually beneficial outcome. Refer to Section **9.7 Negotiation—An Approach to Conflict Resolution**.

9.11 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

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NUMINOS

10

C H A P T E R

MANAGING ORGANISATIONAL CULTURE

CONTENTS

10.1	Introduction
10.2	Introduction to Organisational Culture
10.2.1	Formation and Sustenance of Organisational Culture
10.2.2	Types of Organisational Culture
	Self Assessment Questions
	Activity
10.3	Functions of Organisational Culture
	Self Assessment Questions
	Activity
10.4	Cognitive Levels of Organisational Culture
	Self Assessment Questions
	Activity
10.5	Analysing Organisational Culture
	Self Assessment Questions
	Activity
10.6	Managing Cultural Diversity
	Self Assessment Questions
	Activity
10.7	Summary
10.8	Descriptive Questions
10.9	Answers and Hints
10.10	Suggested Readings for Reference

INTRODUCTORY CASELET

GOOGLE'S ORGANISATIONAL CULTURE

Google, unarguably the top provider of Internet-related services and products in the world, serves as a great example of how an open and flexible organisational culture can foster innovation and improvement. Founded in 1998 by two Stanford University Ph.D. students Sergey Brin and Larry Page, Google has attained a dominant position in the market in a short span of time. Google's mission statement reflects its dedication to end-user needs; "To organise the world's information and to make it universally accessible and useful."

When most organisations were busy marketing their websites, Google got rid of all distractions on its search page and offered users a blank page with only the organisation's logo and a search box. Google reported consolidated revenue worth \$15.42 billion for the quarter ended March 31, 2014, which was an increase of 19 per cent compared to the first quarter of 2013.

One of the factors for Google's success is its satisfied workforce. Google follows a unique work culture that motivates and retains the best talents in the field. Google was ranked number one as the "Best Places to Work For" by Fortune magazine in 2007 and number four in 2010. Google's employees are provided access to facilities such as child care, medical assistance, gyms and shower facilities.

It has provisions for four months of paternal leave along with several other benefits for families with a new born. In case of the death of an employee at the workplace, Google offers a number of beneficial plans to his/her family members to secure their future. In addition, Google encourages its employees for new ideas and innovations. It follows a unique 70:20:10 model under which employees are allowed to devote 70% of their time to the core projects of the organisation, 20% to related projects and the remaining 10% on any project of their interest. This approach allows employees to focus not only on the core areas of business but also in the areas where they can innovate and excel.

Top executives periodically meet employees to seek their ideas. Therefore, the highly flexible, dynamic and learning environment in Google fosters improvements in the work culture. This explains the enviable reputation and success of the company in today's competitive era. Moreover, Google's organisational culture encourages employees to take risk and innovate. Such perks create a place where employees feel valued and realise that they are associated with a workplace that appreciates them.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Define organisational culture
- List the functions of organisational culture
- Identify the cognitive levels of organisational culture
- Recognise the need for analysing organisational culture
- Identify ways to manage cultural diversity

10.1 INTRODUCTION

In the previous chapter, you have studied about various conflicts that arise among people in an organisation. These conflicts have an adverse impact on the performance of an organisation. Conflicts can be managed if an organisation has a strong organisational culture.

Organisational culture can be defined as a pattern of shared values, beliefs, attitudes, behaviours and assumptions of people in an organisation. A strong culture plays an important role in shaping organisational performance by motivating people to perform efficiently. In today's competitive scenario, the concept of organisational culture has gained more importance as all practices at workplace revolve around culture.

The contemporary organisational culture encourages employees at all levels to participate in decision making. In addition, it promotes employees from diversified backgrounds and experiences in order to increase the potential of teams. Thus, organisational culture serves as a basis for employee motivation and workplace effectiveness. In this chapter, you will study about the significance of organisational culture.

10.2 INTRODUCTION TO ORGANISATIONAL CULTURE

Culture is a set of shared beliefs, values, rituals, norms and traditions of a society. In the context of an organisation, culture can be defined as the pattern of shared values, beliefs, assumptions and habits of people working in an organisation. Organisational culture creates a working environment in an organisation and forms the basis for interaction between all the elements of the organisation. These elements can be employees, different departments, processes or functions. The culture of each organisation is unique and distinct. It guides the behaviour of the organisation's employees by defining the standards of acceptable behaviour.

N O T E S

According to Edgar Schein, *organisational culture is a pattern of basic assumptions invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.*

The Dutch professor, Geert Hofstede, concluded the following points related to organisational culture:

- Culture is holistic and cannot be restricted to individuals rather it encompasses a large group of individuals.*
- Culture is historically related and is passed through the traditions and customs of different generations.*
- Culture is stable and cannot be changed easily because it is difficult to change the ideas, values and traditions of people.*
- Culture is a social phenomenon and is shared by various groups of people. Different groups have different cultures and culture cannot be dictated by people.*
- Culture is qualitative not quantitative because it can be implied but not expressly defined.*
- Anthropological words like myth, ritual, symbols, etc. are generally used to characterise the culture.*
- Culture refers to ways of thinking, values and ideas of people rather than the concrete, objective and visible part of an organisation.*

The characteristics of organisational culture are as follows:

- Culture is shared by people of various groups.
- Culture is holistic and cannot be restricted to a single individual. Instead, it encompasses a large group of individuals.
- Culture is stable and cannot be changed easily because it is difficult to change the ideas, values and traditions of people.
- Culture refers to the thinking, values and ideas of people rather than the concrete, objective and visible part of an organisation.

Let us now see how organisational culture is formed and sustained.

10.2.1 FORMATION AND SUSTENANCE OF ORGANISATIONAL CULTURE

Organisational culture is not formed in a day. The formation of organisational culture is built gradually and is influenced by several factors. The factors are listed in Figure 10.1:

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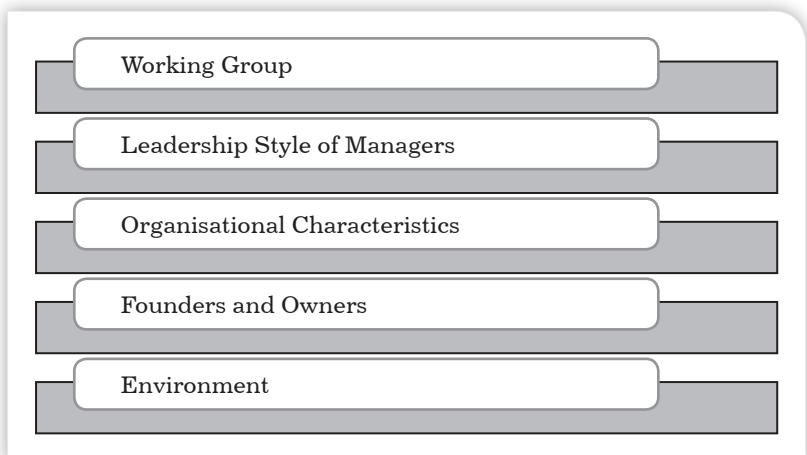


Figure 10.1: Factors Affecting Organisational Culture

Let us discuss these factors in detail.

- **Working group:** As culture is dominated by a set of shared values, it is represented by groups rather than individuals. The formation of a working group may be based on personal characteristics (personality, experience, training, attitudes) or situational variables (tasks to be performed, available space, way of granting awards). Every working group has its own set of convictions, attitudes and behaviours that intertwine to form organisational culture.
- **Leadership style of managers:** The attitudes and leadership styles of managers have a considerable impact on the culture of an organisation. If managers connect well with people and have a positive attitude, it will have a favourable impact on the organisation's culture.
- **Organisational characteristics:** Culture differs across organisations based on various factors such as work specialisation, chain of command, span of control, departmentalisation and centralisation and decentralisation of authority. For example, in a centralised culture, decision-making authority is in the hands of top management, while in a decentralised culture, employees are encouraged to participate in decision making.
- **Founders and owners:** The founders of an organisation play a major role in shaping its philosophy and determining core values. They can influence the behaviour of people working for them, which ultimately impacts the organisation's culture.
- **Environment:** The internal and external environment of an organisation can influence organisational culture positively or negatively. For example, incentives and subsidies encourage entrepreneurs to indulge in growth activities. Therefore, an organisation must be aware of both of its environment to sustain its leadership in the market and maintain an edge over its competitors. Organisations that fail to understand their environment often lag behind.

N O T E S

After organisational culture is formed, it must be sustained through the constant efforts of people within an organisation. According to **Robbins**, the sustenance of organisational culture depends on the following factors:

- **Founders' philosophy:** As discussed earlier, the founders of an organisation have a major impact on the organisation's culture. The initiatives and approach adopted by the founders of an organisation impact the way employees behave and adopt organisational values and beliefs.
- **Employee selection criteria:** For sustaining organisational culture, the management should employ people who can easily adapt to the culture within the organisation. With experience, managers become aware of the qualities and behaviour that are acceptable and in line with the organisation's culture.
- **Top management:** Top management's decisions and actions play a significant role in sustaining organisational culture and values. A major change in the organisation's philosophy may alter employee behaviour and attitudes, thereby affecting organisational culture. Such change may be related to new policies or code of conduct.

THE JOHARI WINDOW MODEL

An important factor that helps in developing trust and sustaining an organisation's culture is how well employees understand their co-workers. In 1955, two American psychologists, Joseph Luft (1916–2014) and Harrington Ingham (1914–1995) introduced a technique to improve self-awareness and interpersonal relationships between individuals within a group. This is known as Johari Window, calling it 'JoHari' after their first names, Joe and Harry.

The Johari Window theory represents an individual as a window consisting of four quadrants. Each of these quadrants represents personal information about an individual, such as feelings and motivation, with respect to whether the information is known or unknown by the person and whether the information is known or unknown by their co-workers. Figure 10.2 represents the Johari Window model:

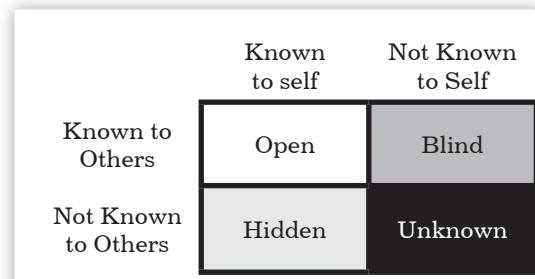


Figure 10.2: Four Quadrants of Johari Window

N O T E S

The information represented by the four quadrants about each individual are detailed below:

- ❑ **Open area:** This quadrant represents information that is known to an individual. Such type of information includes educational qualifications, experience and hobbies. The objective of a team should be to increase the ‘open area’ for every individual. This is because when this area is developed, people are most effective and productive. The open area is the space where good communication and cooperation occur. Interpersonal interaction in this area is free from mistrust, confusion, conflicts and misunderstanding.
- ❑ **Blind area or blind spot:** This quadrant represents information that is unknown to an individual but which others know. It can either be simple information or grave problems, such as feelings of insufficiency, ineffectiveness, unworthiness and elimination. An individual may not know these feelings but others might know about these by observing the facial expressions, body language and tone of the individual. Managers and peers should aim to reduce a person’s blind area, thereby increasing their open area by giving constructive feedback and encouraging disclosure. A work culture with non-judgmental feedback reduces fear and encourages openness.
- ❑ **Hidden or avoided area:** This quadrant represents information that is known only to the individual and not to the others. In other words, it includes all the hidden information or feelings that individuals know about them, but do not disclose to others. Such hidden areas may include sensitivity, worries, secret plans, manipulative intentions or anything that a person identifies but does not reveal to others. Such hidden information and feelings of a person should be moved to the open area through disclosure. By disclosing inner feelings and emotions, individuals can reduce the hidden area and increase the open area. This would enable a better understanding, cooperation, trust and teamwork. It would also reduce confusion, misunderstanding and miscommunication, all of which undermine team effectiveness.
- ❑ **Unknown area or dark area:** This quadrant represents the information that is not known to individuals and others. For example, an individual or others may not know about their phobia until they encounter such a situation. There are various ways through which this information can be uncovered. It could be prompted through self-discovery, observation by team members or through mutual discovery. Counselling could also help in uncovering unknown information related to an individual. This increases the open area, thereby maintaining a culture that is free from misunderstandings and confusions.

N O T E S

Figure 10.3 shows the working of the Johari model:

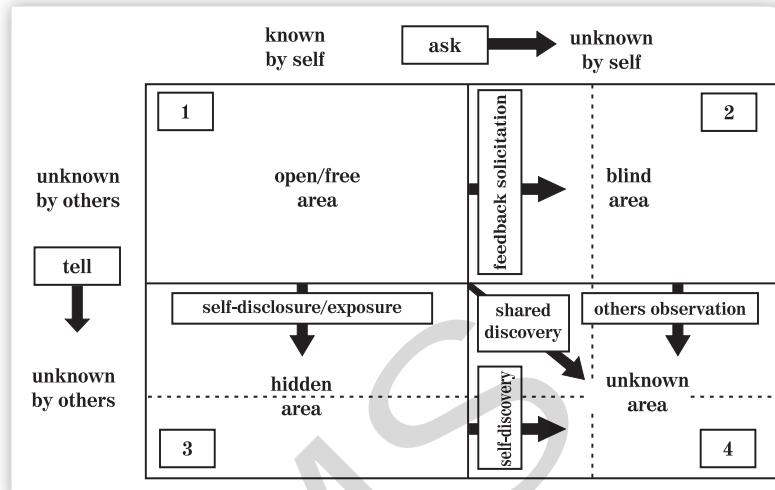


Figure 10.3: Working of Johari Window Model

Source: © Alan Chapman 2003, www.businessballs.com

10.2.2 TYPES OF ORGANISATIONAL CULTURE

Different organisations have different cultures based on their values, beliefs and philosophies. Figure 10.4 displays the different types of organisational culture:

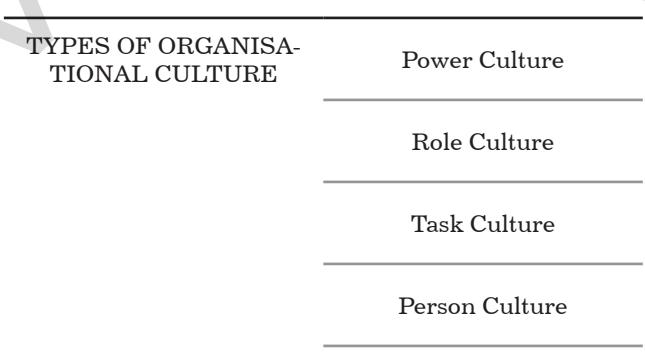


Figure 10.4: Types of Organisational Culture

Let us look at the types of organisational culture in detail:

- **Power culture:** In any organisation, there is a need to use power in order to exercise control and influence behaviour. According to Harrison and Stokes, *power culture is an organisational culture that is based on inequality of access to resources*. In a power culture, there is a single source of power and employees are linked to that centre.

Power culture could be regarded as being rule-oriented because it focuses on authority and the division of work. The top management acts as the formal authority and has the power to control

N O T E S

and influence organisational activities. According to Harrison, in a power culture, *a dominant head sits in the centre surrounded by intimates and subordinates who are the dependants.*

- **Role culture:** A role culture focuses on job description and specialisation. This implies that work is controlled by procedures and rules and not by the person responsible for that work. This culture is characterised by formalisation and centralisation of modes of operation. Brown stated that *the strength of a role culture lies in its functions or specialities (finance, purchasing, production and so forth) which can be thought of as a series of pillars which are co-ordinated and controlled by a small group of senior executives.*
- **Task culture:** This culture focuses on teamwork to accomplish a given task. Teams are formed on the basis of expertise of individuals in solving particular problems. This type of culture has several advantages. Team members are motivated as they are empowered to take decisions within the team; thereby inculcating a sense of achievement among team members. Organisations following task culture promote creativity and the problem-solving skills of individuals.
- **Person culture:** Organisations following a person culture focus on individuals working within the organisation. They use expertise and knowledge base of their workforce. The person culture is followed in organisations that offer employees an opportunity to develop their career and skills. It is commonly found in legal and accountancy firms, which use the special skills of their staff. Such organisations require their staff to consistently work towards knowledge and skills development.



SELF ASSESSMENT QUESTIONS

1. _____ creates a working environment in an organisation and forms the basis for interaction between all the elements of the organisation.
2. Culture is holistic and cannot be restricted to a single individual. Instead, it encompasses a large group of individuals. (True/False)
3. There is little scope for diversity and impersonal behaviour in a large-scale organisation having a lot of employees belonging to different cultural backgrounds. (True/False)
4. _____ is a technique for developing awareness and better interpersonal relationships within an organisation.
5. Which culture could be regarded as being rule-oriented because it focuses on authority and the division of work?
6. The formation of project teams for the completion of a specific task is an example of _____
 - a. Power culture
 - b. Role culture
 - c. Task culture
 - d. Person culture

N O T E S



ACTIVITY

List some common approaches followed by organisations to sustain existing organisational culture.

10.3

FUNCTIONS OF ORGANISATIONAL CULTURE

Organisational culture offers employees a sense of identity and increases their commitment to the organisation. Culture also reinforces the values of the organisation and shapes employees' behaviour. Figure 10.5 lists different functions of an organisational culture:

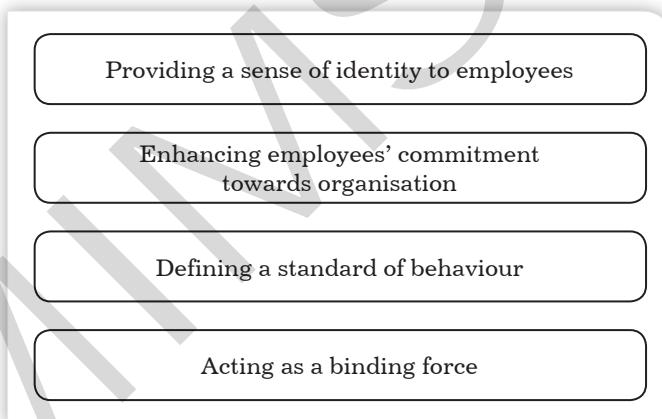


Figure 10.5: Functions of Organisational Culture

Let us look at the functions of an organisational culture in some detail:

- **Providing a sense of identity to employees:** An organisational culture is based on a unique collection of norms that give employees a sense of belongingness. Employees of an organisation are identified by their workplace and prevailing organisational culture, which subsequently becomes their social identity.
- **Enhancing employees' commitment towards the organisation:** When employees relate to values, beliefs and philosophies of an organisation, their commitment towards the organisation increases.
- **Defining a standard of behaviour:** Various norms, processes, procedures, rules and regulations define the acceptable and unacceptable behaviour of employees. Thus, organisational culture defines the standard behaviour of its employees.
- **Acting as a binding force:** An organisational culture acts as a bond between employees and the organisation through shared values and common objectives. Thus, it acts as a force that joins the two with one set of goals and purpose.

N O T E S



SELF ASSESSMENT QUESTIONS

7. Organisational culture is based on a unique collection of norms that offer employees a sense of belongingness. (True/False)
8. Various norms, processes, procedures, rules and regulations define the acceptable and unacceptable behaviour of employees. (True/False)



ACTIVITY

Discuss and prepare a report on different organisational cultures followed by Indian organisations.

10.4 COGNITIVE LEVELS OF ORGANISATIONAL CULTURE

In an organisation, culture is established at different levels. To understand organisational culture in a better way, it is very important to interpret various assumptions and practices, which are deeply embedded in organisational culture. Edward Schein defined organisational culture as *a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems*. As per Schein, culture is manifested at three levels of an organisation. These three levels are shown in Figure 10.6:

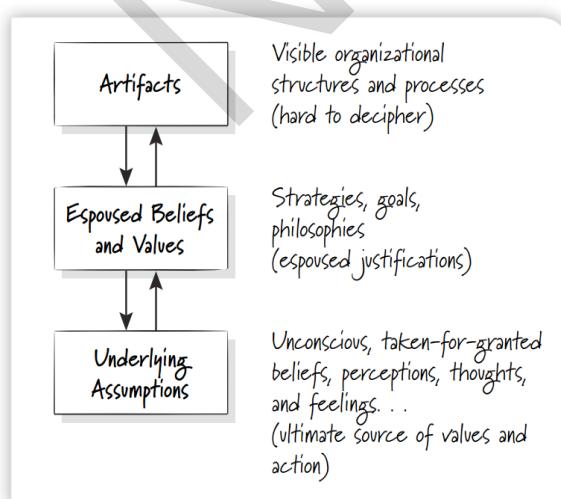


Figure 10.6: Cognitive Levels of Organisational Culture

© E. H. Schein, http://www.un>tag-smd.ac.id/files/Perpustakaan_Digital_2/ORGANIZATION-AL%20CULTURE%20Organizational%20Culture%20and%20Leadership,%203rd%20Edition.pdf

N O T E S

Let us discuss these levels in detail.

- **Cultural artifacts:** These are visible elements and processes, such as company logos, structure, dress code, infrastructure, rewards and punishment mechanism, decision making processes, conflict management, and promotions and demotions. Cultural artifacts include those elements that an individual notices when he/she enters the organisation. In other words, artifacts include all the elements that one sees, hears, and feels while encountering with an unfamiliar culture. Artifacts affect an individual's work life directly.
- **Espoused values:** These are consciously developed management practices and values that are reflected in organisational goals, objectives and policies. In other words, espoused values express those ideas or principles that are delivered through organisational policies. While artifacts provide the answer for a question: what is going on in the organisation?; espoused values answer, why and what an individual is doing in the organisation? Artifacts help to identify how espoused values seem to be implied for each artifact. For example, if employees identify the workplace as too formal (artifact), they can be asked reasons for the same to generate the espoused value.

Espoused values bring cultural value statements, such as, "We value problem solving more than formal authority" or "We think that there should be open communication channels" or "We don't believe in traditional approach of bosses having more rights than their subordinates".

There may be a disagreement on espoused values due to different sub-cultures having dissimilar values. However, if the espoused values are consistent with the underlying assumptions, these values can be helpful in bringing employees together. Identifying espoused values helps in preparing a list of values that enable individuals to identify the basic underlying assumptions.

- **Basic underlying assumptions:** These are basic shared values within a specific corporate culture. Basic underlying assumptions help to analyse whether the identified espoused values explain all cultural artifacts or there are some conflicts or hidden assumptions that are still to be articulated. It is important to identify such underlying or tacit assumptions as they may obstruct espoused values. For example, some group members at Apple Computers in 1991 noted that, in spite of spending a lot of time in planning activities, their plans get affected by urgencies taking place abruptly.

They placed planning on their espoused values list. The group members were surprised to see that in spite of making planning an espoused value, they have been unsuccessful in implementing most of the plans they have made. The group members found that they practiced a deeper tacit assumption which was, "Only the present matters." This was

N O T E S

the reason affecting the overall planning made by them. They used to make plans but work on the basis of daily priorities. This approach was affecting their original plans.

Tacit assumptions provide new insight into the culture, which make sense of aspects that were previously not so clear. However, many a time, these assumptions create conflicts with espoused values. For example, an insurance company figured out an important espoused value, "Become more creative and innovative and take more risks as and when the market place environment changes." However, the organisation found that there was little innovation taking place as the employees had two tacit assumptions:

1. People put in their best efforts when they are provided by clear rules and guidelines to cover and face all situations.
2. People prefer immediate feedback and do not adhere to rules until there is strict punishment for violating rules.

The organisation found that these above stated assumptions were controlling and driving the behaviour of employees far more than the much needed espoused values of innovation and risk taking. It is important to understand these basic underlying assumptions as they are the core elements in forming an actual organisational culture. If the tacit assumptions are in accordance with espoused values, they help in generating desired results. However, if tacit assumptions conflict with espoused values, they may create hindrances in cultural growth; therefore, needed to be resolved.

**SELF ASSESSMENT QUESTIONS**

9. Rewards and punishment mechanisms define the espoused values of an organisation. (True/False)
10. _____ denote to those cultural elements that are easy to observe but are difficult to decipher.

**ACTIVITY**

Give examples of artifacts, values and assumptions within organisations that shape an organisation's culture.

10.5**ANALYSING ORGANISATIONAL CULTURE**

The assessment of the three cognitive levels of organisational culture helps an organisation to analyse and compare its existing culture with the desirable one. If managers analyse the organisation's existing culture correctly and evaluate it against the desired attributes needed

N O T E S

to achieve goals, productivity and employee performance can be enhanced. However, to be able to clearly analyse organisational culture, managers must have:

- A clear understanding of organisational goals.
- Knowledge of actions required to achieve goals.
- Clarity regarding the organisation's existing ideologies and values.

For evaluating an organisation's existing culture, managers must seek to answer the following questions:

- Does the achievement of organisational goals depend on any existing acceptable beliefs and behaviours of employees?
- Are organisational members facing uncertainties in the external environment and internal work procedures?

Figure 10.7 lists parameters based on which organisational culture can be analysed:

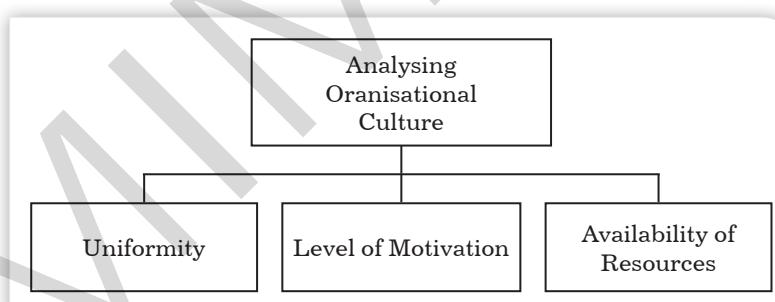


Figure 10.7: Parameters to Analyse Organisational Culture

Let us now discuss these parameters in detail.

- Uniformity:** All the employees of an organisation have to work in harmony to achieve common goals. A strong culture creates uniformity, loyalty and commitment among employees. Any deviation or ambiguity in ideologies, values and conduct of employees is a challenge. It compels managers to bring about a change in the existing organisational culture.
- Level of motivation:** This is another important parameter to analyse the culture of an organisation. Lack of motivation among employees leads to low self-esteem and weakens organisational culture. Employees often feel demotivated due to job dissatisfaction, structural changes or lack of opportunities for creativity and self-expression. Therefore, managers should work to eliminate such incidences to achieve a desirable organisational culture.
- Availability of resources:** Lack of resources may hamper a smooth functioning of an organisation, thereby affecting the organisational culture negatively. Employees may no longer contribute to organ-

N O T E S

isational goals when resources are scarce, which would increase discontent and conflict in the organisation. Thus, managers need to identify and eliminate such situations and provide sufficient resources to their employees.

**SELF ASSESSMENT QUESTIONS**

11. A strong culture creates uniformity, loyalty and commitment among the consumers of the organisation. (True/False)
12. Name the parameters that can be used for analysing organisational culture.

**ACTIVITY**

Using the Internet, find out how managers in IT organisations evaluate their existing organisational culture for determining the areas of improvement.

10.6 MANAGING CULTURAL DIVERSITY

As discussed earlier, in an organisation culture can be analysed through various parameters, such as uniformity level in work practices, employee motivation level and availability of resources. However, these parameters can be applied in assessing organisational culture only if an organisation successfully manages its cultural diversity.

In an organisational context, cultural diversity can be defined as the existence of different sub-cultures within the dominant culture of an organisation. Cultural diversity takes place in an organisation due to varied values, beliefs and norms within the existing culture. Apart from this, such differences in culture can also be attributed to growing business trends, such as globalisation and multi-ethnic diversity within organisations. In addition, cultural diversity encompasses several other differences, including employee's work experience, educational backgrounds and geographic location.

Cultural diversity, if not managed appropriately, can have a severe impact on organisations. For example, it sometimes becomes a challenge for employees from different cultures to interact with each other due to language barriers. To be able to manage a multicultural workforce, understanding the traditions, beliefs and values of people become indispensable for managers.

According to Nancy Adler, *cross cultural management studies the behaviour of people in organisations around the world and trains people to work in organisations with employee and client populations from several cultures.*

N O T E S

This definition includes three steps to manage cultural diversity in an organisation:

1. Understanding cultural differences
2. Identifying culturally appropriate management practices
3. Teaching cross-cultural management lessons

In addition, recruiting right employees is necessary for an organisation to manage a diversified culture. Thus, an organisation, while recruiting, must take into consideration the varied skills and experiences of candidates. Apart from this, some of the other ways of managing cultural diversity are as follows:

- ❑ Respecting the beliefs and values of people from other cultures
- ❑ Organising more activities where people from different cultures can participate
- ❑ Celebrating all festivals in the organisation irrespective of the culture or religion of employees
- ❑ Not letting any culture dominate the other culture
- ❑ Promoting a team culture within the organisation
- ❑ Providing information accurately and promptly to minimise the scope of ambiguity
- ❑ Discouraging any kind of discrimination based on race, colour, national origin, religion, gender identity and physical or mental disability

Adler identified the following strategies for managing cultural differences in organisations:

- ❑ **Ignoring cultural differences:** In this strategy, managers do not recognise cultural diversity and its impact on the organisation. Organisations using this strategy believe that “*our way is the only way*” to manage and organise. Thus, they consider the management of cultural diversity as irrelevant to organisational success. The strategy of ignoring differences inhibits the possibility of minimising a negative effect and increasing the positive effect of cultural diversity.
- ❑ **Minimising cultural differences:** In this strategy, managers recognise cultural diversity but only as a source of complication within organisations. They consider others’ ways as inferior ways of managing a business. In this approach, although managers try to reduce the problems of cultural differences, they fail to identify the benefits of a diverse organisational culture.
- ❑ **Managing cultural differences:** In this strategy, managers recognise the impact of cultural diversity leading to both positive and negative impact on the organisation. They believe that “*our way and their way of behaving and managing differ, but neither is superior to the other*”.

N O T E S

or to the other." In this approach, managers and employees attempt to reduce potential problems by managing the impact of cultural diversity and not by minimising the cultural diversity itself. Thus, managers seek to maximise the advantages of diversity by managing the impact of diversity and not ignoring it. Organisations using this strategy train their workforce to recognise cultural differences and use them to the benefit of organisations.

**SELF ASSESSMENT QUESTIONS**

13. The growth of _____ can be attributed to growing business trends such as globalisation, increased presence of women workforce, multi-ethnic diversity, cultural and gender differences within organisations.
14. According to Adler which of the following strategies believes in "our way is the only way" to manage and organise?
 - a. Ignoring cultural differences
 - b. Minimising cultural differences
 - c. Respecting cultural differences
 - d. Managing cultural differences

**ACTIVITY**

List the common issues faced by multinational organisations with high cultural diversity.

10.7 SUMMARY

- ❑ In the context of an organisation, culture can be defined as the pattern of shared values, beliefs, assumptions and habits of people working in an organisation.
- ❑ The formation of organisational culture is influenced by several factors, which include:
 - ◆ Working group
 - ◆ Leadership style of managers
 - ◆ Organisational characteristics
 - ◆ Founders and owners
 - ◆ Environment
- ❑ In 1955, two American psychologists, Joseph Luft (1916–2014) and Harrington Ingham (1914–1995) introduced the concept of Johari Window, (calling it 'Johari' after their first names, Joe and Harry),

N O T E S

- which is a technique for developing awareness and better interpersonal relationships within an organisation.
- The Johari Window represents information, feelings, views, attitudes, intentions, motivation and skills of an individual in relation to his/her group from four major perspectives, which include:
 - ◆ Open area
 - ◆ Blind area or blind spot
 - ◆ Hidden or avoided area
 - ◆ Unknown or dark area
 - Different types of organisational culture consist of:
 - ◆ Power culture
 - ◆ Role culture
 - ◆ Task culture
 - ◆ Person culture
 - Different functions of an organisational culture include:
 - ◆ Providing a sense of identity to employees
 - ◆ Enhancing employees' commitment towards organisation
 - ◆ Defining a standard of behaviour
 - ◆ Acting as a binding force
 - Edward Schein (1985) proposed a cognitive aspect of individuals comprising assumptions, values and artifacts that constitute an important element in organisational culture.
 - As per Schein, culture is manifested at three levels of an organisation:
 - ◆ Cultural artifacts
 - ◆ Espoused values
 - ◆ Basic underlying assumptions
 - Cultural artifacts are visible elements and processes, such as company logos, structure, dress code and infrastructure.
 - Espoused values are consciously developed management practices and values that are reflected in organisational goals, objectives and policies.
 - Basic underlying assumptions are deeply shared values within the specific corporate culture.

N O T E S

- ❑ Various parameters on which organisational culture can be analysed by managers are:
 - ◆ Uniformity
 - ◆ Level of motivation
 - ◆ Availability of resources
- ❑ In an organisational context, cultural diversity can be defined as the existence of different sub-cultures within the dominant culture of an organisation.
- ❑ Adler identified the following strategies for managing cultural differences in organisations:
 - ◆ Ignoring cultural differences
 - ◆ Minimising cultural differences
 - ◆ Managing cultural differences



KEY WORDS

- ❑ **Cognition:** A set of mental capabilities and processes related to knowledge, memory, judgment and evaluation.
- ❑ **Cross-cultural management:** A study of how people from different cultural backgrounds communicate and attempt to communicate across different cultures.
- ❑ **Modes of operation:** A term used to describe an individual's methods of working, particularly in the context of business.
- ❑ **Multi-cultural workforce:** A workforce from different cultural and racial backgrounds.
- ❑ **Multi-ethnic diversity:** It is a workforce comprising people from many ethnic groups.

10.8 DESCRIPTIVE QUESTIONS

1. Explain how organisational culture is formed and sustained.
2. What are the types of different organisational cultures? Discuss.
3. List the functions of organisational culture.
4. Briefly describe the cognitive levels of organisational culture as given by Edgar Schein.
5. Explain the need for analysing organisational culture.
6. Discuss how leaders manage cultural diversity.

N O T E S**10.9 ANSWERS AND HINTS****ANSWERS FOR SELF ASSESSMENT QUESTIONS**

Topic	Q. No.	Answers
Introduction to Organisational Culture	1.	Organisational Culture
	2.	True
	3.	False
	4.	Johari Window
	5.	Power Culture
	6.	c. Task Culture
Functions of Organisational Culture	7.	True
	8.	True
Cognitive Levels of Organisational Culture	9.	False
	10.	Artifacts
Analysing Organisational Culture	11.	False
	12.	The various parameters that can be used to analyse organisational culture include uniformity, level of motivation, and availability of resources.
Managing Cultural Diversity	13.	Cultural diversity
	14.	c. Respecting cultural differences

HINTS FOR DESCRIPTIVE QUESTIONS

1. The formation of organisational culture is a time-consuming process, which is influenced by several factors such as working group, leadership style of managers, organisational characteristics, founders and owners and environment (legal, economic and technological). Refer to Section **10.2 Introduction to Organisational Culture**.
2. There are various types of organisational cultures; power culture, role culture, task culture and person culture. Refer to Section **10.2 Introduction to Organisational Culture**.
3. Organisational culture performs a number of functions to make employees feel comfortable in an organisation and increase their

N O T E S

trust and credibility for the organisation. Refer to Section **10.3 Functions of Organisational Culture**.

4. Edward Schein proposed that a cognitive aspect of individuals comprising beliefs, values and artifacts constitute the most important feature of organisational culture. Refer to Section **10.4 Cognitive Levels of Organisational Culture**.
5. Evaluation of organisational culture is an important tool to compare the existing situation with the desirable situation in an organisation. Refer to Section **10.5 Analysing Organisational Culture**.
6. To be able to manage a multicultural workforce, understanding the traditions, beliefs and values of people become indispensable for managers. Refer to Section **10.6 Managing Cultural Diversity**.

10.10**SUGGESTED READINGS FOR REFERENCE****SUGGESTED READINGS**

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NUMINOS

11

C H A P T E R

MANAGING ORGANISATIONAL CHANGE

CONTENTS

11.1	Introduction
11.2	Concept of Organisational Change
11.2.1	Levels of Change
11.2.2	Types of Change
	Self Assessment Questions
	Activity
11.3	Resistance to Change: A Challenge to Change Management
11.3.1	Sources of Resistance
11.3.2	Reasons for Individual Resistance to Change
11.3.3	Challenges Faced by an Organisation during Change Management
	Self Assessment Questions
	Activity
11.4	Process of Change Management
	Self Assessment Questions
	Activity
11.5	Change Management Models
	Self Assessment Questions
	Activity
11.6	Summary
11.7	Descriptive Questions
11.8	Answers and Hints
11.9	Suggested Readings for Reference

INTRODUCTORY CASELET**CHANGE MANAGEMENT AT NISSAN**

Nissan Motor Company Ltd. (Nissan), a Japanese multinational automobile manufacturer, entered into an alliance with Renault in 1999. The alliance resulted in a remarkable turnaround for Nissan in 2000. To improve the performance of the organisation further, Nissan's CEO, Carlos Ghosn, made changes to its organisational structure.

He implemented various concepts, such as competency management, performance management, career development and succession management. According to research, women were found to influence two-thirds of all car purchases. Therefore, Nissan took several initiatives to help women in the workplace. These initiatives mainly focused on women education and advancement. Women were encouraged to play a greater role in the organisation, which included active participation in decision making. The steps taken by Ghosn helped to increase the sales and the global market share of the organisation from 4.6 percent in 1999 to 5.3 percent in 2003.

The changes introduced at Nissan put new life into the organisation. Nissan has started promoting diversity by hiring people of different backgrounds, castes, creeds, and colour. This has encouraged employees to generate new and innovative ideas to enhance the organisation's profit. It also focused on talent management and succession planning. Consequently, the organisation has earned the reputation of being the best places to work in.

N O T E S**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Explain the concept of organisational change
- Describe why people resist change
- Explain the process of change management
- Discuss various change management models

11.1 INTRODUCTION

The previous chapter discussed the significance of organisational culture. Sometimes, changes in an organisation affect its culture, which may or may not be accepted by employees. This chapter describes the concept of change management in an organisation and discusses how it influences its employees.

A change can be defined as an alteration or modification to make an organisation perform better. In an organisation, change can be defined as a process wherein the organisation optimises its performance in order to achieve its goals and objectives, such as minimising costs, improving organisational performance and overcoming competition. According to Peter Drucker, in “Management Challenges for the 21st Century” (1999), *Everybody has accepted by now that change is unavoidable. But that still implies that change is like death and taxes — it should be postponed as long as possible and no change would be vastly preferable. But in a period of upheaval, such as the one we are living in, change is the norm.*

Change is persistent in nature. However, in an organisation, there are several dynamic factors that demand an employee to be flexible enough to embrace those changes. It is necessary for their professional as well as personal growth. In an organisation, employees have to adjust to a dynamic environment, which involves their job responsibilities, working conditions and colleagues. Thus, they may be anxious about the adjustments they may have to make and feel uncomfortable in the new environment. This gives birth to resistance to change. Therefore, to manage change, leaders in an organisation must first understand the forces of change. This chapter discusses the concept of change in organisations in detail.

11.2 CONCEPT OF ORGANISATIONAL CHANGE

Everything in this world is subject to change. To survive in today's highly competitive and dynamic business environment, change is inevitable. Change has been variously defined by several management gurus.

N O T E S

According to Alvin Toffler, *Change is not merely necessary to life. It is life.*

John Naisbett gives the following definition of change: *as a society, we have been moving from old to the new. In addition, we are still in motion. Caught between eras, we experience turbulence.*

In the context of an organisation, change refers to the alterations and modifications of the organisational strategies and structures. Change is of paramount importance for the growth of an organisation in the long run. In recent years, the organisational environment has witnessed several changes, such as the growing complexity of the production process, accelerated delivery cycles, changing governments regulations and policies, and an unstable global environment. The advent of globalisation and technological advancements are also major contributors to organisational change. These changes can be addressed by bringing in relevant changes in the policies, procedures and norms of an organisation. Therefore, change is needed by an organisation to survive and develop in today's fast changing global environment. For example, with the invention of mobile phones, pagers became obsolete. Therefore, organisations that were manufacturing pagers had to change their production policies to launch a new product to attract consumers.

Change is mainly caused by two types of forces: internal and external. Internal forces exist within an organisation and are under the control of the organisation. These include implementation of new technology or changes in employee profile. External forces are present outside the organisation and are beyond the control of the organisation. These include government policies, competition or social pressure.

11.2.1 LEVELS OF CHANGE

Change can occur at various levels in an organisation. There are three main levels of change, as displayed in Figure 11.1:

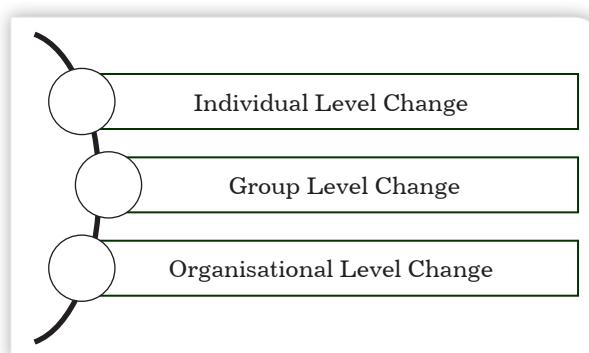


Figure 11.1: Levels of Change

N O T E S

Let us discuss these changes in detail.

- **Individual level change:** This type of change occurs at the personal level, for example, changes in the job assignment of an employee or moving an employee to a different location. A significant change at the individual level has its impact on the group to which the individual belongs. This in turn might influence the organisation as a whole.
- **Group level change:** This type of change occurs at the group/department/team level because most activities in an organisation, are managed as groups. Groups can be formal as well as informal in nature. Formal groups are those that are formed at the directive of the management, whereas informal groups are formed as a result of continuous interactions between employees. An example of group level change is a technological change, such as use of computers to increase the output and efficiency of the group members.
- **Organisational level change:** This type of change influences the entire organisation. These changes involve major programmes that affect both individuals and groups. Decisions regarding these changes are generally made by the senior management. An example of an organisational level change can be the restructuring of the organisation, which involves a change in the senior management.

11.2.2 TYPES OF CHANGE

There are various areas in an organisation where changes can be introduced. Changes can take place in various areas, as described in Table 11.1:

TABLE 11.1: AREAS OF CHANGE

Areas of Change	Result
Mission, vision and business strategy	To achieve long-term goals
Technology	To achieve efficiency and reduce costs
Human resource	To maintain an efficient pool of employees
Organisational structure	To alter the authority-responsibility relationship
Organisational culture	To alter the organisation's styles, values and beliefs

An organisation may experience various types of change according to its requirements as well as the demands of the environment. Some of the important changes that organisations often deal with are shown in Figure 11.2:

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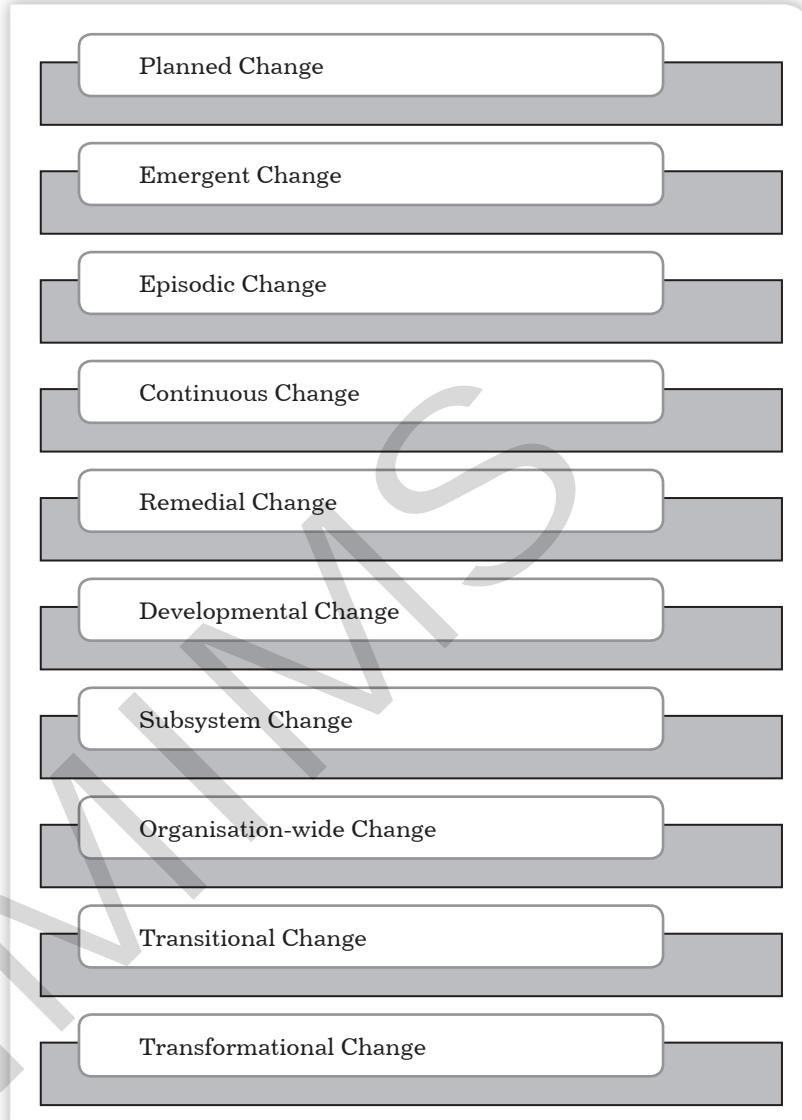


Figure 11.2: Types of Change

Let us discuss these changes one by one in detail.

- **Planned change:** A conscious change that occurs as a result of logic can be categorised as planned change. Such changes are implemented in an organised manner and are well thought out and communicated in advance to the stakeholders of the organisation.
- **Emergent change:** This is a spontaneous occurrence arising out of factors beyond the reach of a change implementer. Emergent changes may be implemented by the top management of an organisation at the time of crisis. Such changes are generally temporary in nature.
- **Episodic change:** This is a change that does not occur on a daily basis. Episodic changes occur only for a particular time period. These changes are often termed as second order changes.

N O T E S

- **Continuous change:** A continuous change is one that occurs on a daily basis. It is often termed as a first order change and does not influence an organisation significantly.
- **Remedial change:** This refers to a change that calls for transformation in a particular situation, task, procedure or policy. This type of change is focused on corrective measures.
- **Developmental change:** This refers to a change that is taken up for the improvement of employees as well as organisational performance.
- **Subsystem change:** This type of change may not affect the overall functioning of the organisation. It generally refers to a change that takes place within a department, team or group.
- **Organisation-wide change:** This type of change affects the entire organisation. It is generally triggered by macro level factors, such as economic changes, including booms and recessions.
- **Transitional change:** This is a change in which old processes and work procedures are replaced with new ones. For example, transitional change in an organisation takes place when old technology is replaced with the new one.
- **Transformational change:** This is a second order change. The outcome of such a change is not clearly distinguishable. An example of such a change would be a merger of two organisations.

To incorporate any type of change, organisations must identify the type of change they desire to implement. Accordingly, organisations must develop change plans to implement alterations with minimal resistance from employees. Let us now discuss the types of resistance that may be faced by organisations.



SELF ASSESSMENT QUESTIONS

1. Name the process that involves alterations and modifications in the strategies and structures of an organisation.
2. Name the different forces of change.
3. Changes in the job assignment of an employee come under individual level changes. (True/ False)
4. Which of the following is a change that does not occur on a daily basis?
 - a. Episodic change
 - b. Continuous change
 - c. Subsystem change
 - d. Emergent change
5. In organisations, there are only formal groups. (True/False)

N O T E S



ACTIVITY

Form a group of students and discuss why change is important in an organisation. Support your views with the help of examples.

11.3 RESISTANCE TO CHANGE: A CHALLENGE TO CHANGE MANAGEMENT

Employees, generally, resist change because they fear that it might alter their position or functioning in a negative way. The main reason behind resistance to change is lack of communication between the employees and the management, resulting in an atmosphere of fear and uncertainty. The employees do not know how the change is going to affect them, or whether they would be able to cope with the change. They may also fear their technical or managerial skills might become obsolete after the change is implemented. To overcome such challenges, the top management needs to inform the employees about the need for change and how the employees as well as the organisation are going to benefit from it.

11.3.1 SOURCES OF RESISTANCE

There can be various types of sources that trigger resistance to change. Two important sources of resistance are shown in Figure 11.3:

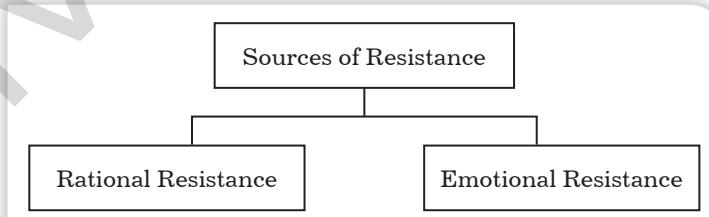


Figure 11.3: Sources of Resistance

Let us discuss these sources in detail.

- **Rational resistance:** This type of resistance occurs when employees have inadequate information to analyse the effects of the change being implemented. This resistance fades away when the employees are provided all relevant information related to the change.
- **Emotional resistance:** This type of resistance occurs due to feelings of fear, anxiety, suspicion and insecurity. Emotional resistance arises when people think that the change will affect them negatively. This resistance can be overcome by counselling and convincing employees about the positive outcomes of the change.

N O T E S

11.3.2 REASONS FOR INDIVIDUAL RESISTANCE TO CHANGE

Changes should not be avoided because they usher in new ideas, which often lead to organisational growth. However, changes may not be accepted universally by all the employees or groups in an organisation because each individual has a unique set of attributes, thoughts and characteristics that determine how he/she is going to adapt to those changes. Resistance by individuals can occur because of various reasons. Some of these are as shown in Figure 11.4:

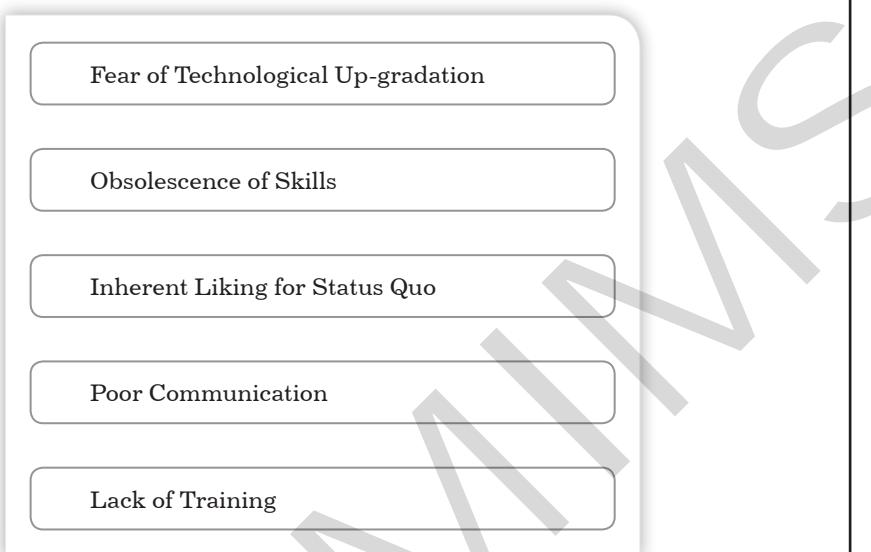


Figure 11.4: Reasons for Resistance to Change

The various reasons for individual resistance to change can be explained as follows:

- **Fear of technological up-gradation:** It refers to the fear of unemployment among people due to technological up-gradation. The people fear that their jobs may be taken over by machines or highly skilled people who are capable of doing the job more quickly or efficiently.
- **Obsolescence of skills:** With transformation, people often start thinking that their present skills would get obsolete and they would not be able to master the new skills required in the changed environment. Skill obsolesce is one of the major reasons for individuals to resist change.
- **Inherent liking for status quo:** Some people just want to continue the way they are working, and any kind of change is unacceptable to them. They may even forego something rewarding just to avoid change. For example, an employee may avoid taking a promotion if it means getting transferred to another area.

N O T E S

- **Poor communication:** Changes made in an organisation may not be communicated clearly to every level of the organisation. This may lead to a feeling of dissatisfaction among the employees. In some cases, this dissatisfaction may result in employees fearing the loss of their jobs.
- **Lack of training:** Some changes to be successfully implemented within an organisation may require extensive training of its employees. If such training is not imparted by the organisation, the employees may resist the change.

Thus, before implementing change, organisations must understand the reasons that can build resistance among employees to accept the change. This can help the management in devising appropriate means to minimise resistance, such as keeping the employees informed about all aspects of the change, involving them in the various phases of its implementation, and asking their opinion about the change once it is implemented so that minor glitches can be identified and rectified.

11.3.3 CHALLENGES FACED BY AN ORGANISATION DURING CHANGE MANAGEMENT

Apart from individual resistance to change, an organisation may face various other challenges during the change management process. Some of the common challenges are shown in Figure 11.5:

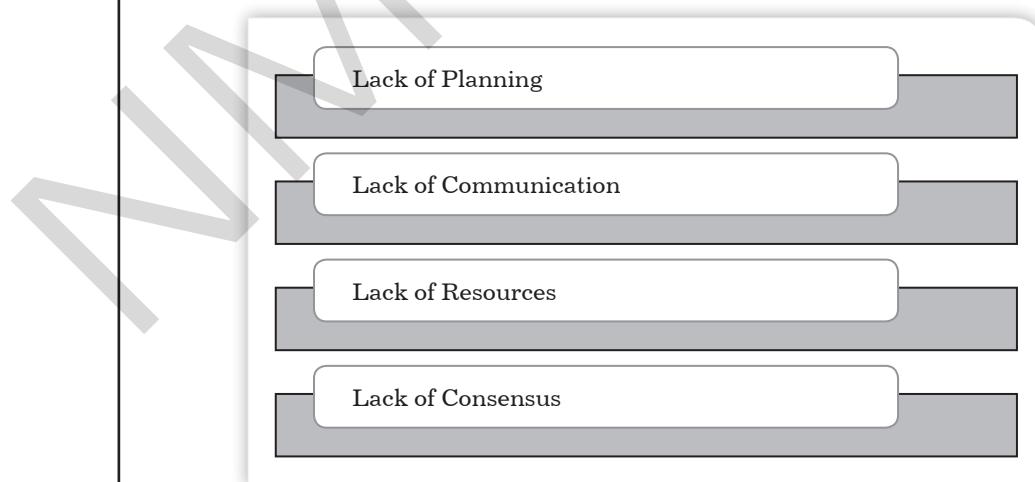


Figure 11.5: Challenges in Change Management

Let us now discuss the various challenges in change management in detail, as follows:

- **Lack of planning:** Change becomes a challenging job for an organisation if it fails in planning the change implementation process properly. It is necessary for the management to understand exactly what changes are required and how those changes will be introduced in the organisation. There should also be clarity on the

N O T E S

assignment of roles to the individuals responsible for change implementation.

- **Lack of communication:** If an organisation fails to communicate the change process and its requirement to the employees, it may lead to rumours in the organisation. These rumours may create an environment of uncertainty among the employees and instil fear in them about their future in the organisation.
- **Lack of resources:** At times, the organisation may not have the resources needed to implement the desired change. This poses a big challenge in the implementation of the change process.
- **Lack of consensus:** If the top management fails to involve everyone in the process of change, it will have to face obstacles during the change management process. It is true that everyone cannot be taken on board; however, from time to time, employees should be involved in decisions pertaining to the implementation of change.

**SELF ASSESSMENT QUESTIONS**

6. Name the type of resistance faced by organisations when employees are not provided relevant information related to the change.
7. Emotional resistance arises when people think that change will affect them negatively. (True/False)
8. Employees experience _____ due to feelings of fear, anxiety, suspicion and insecurity.
9. List any two challenges that may affect the change management process.
10. How is lack of communication a challenge in change management?

**ACTIVITY**

Using the Internet, determine why change is generally not acceptable by all the employees in an organisation.

11.4 PROCESS OF CHANGE MANAGEMENT

Change management can be defined as a systematic approach used to implement procedures for managing change in an organisation. According to David P. Baker, *change management is the process, tools and techniques to manage the people side of the change process, to achieve the required outcomes and realise the change effectively within the individual, change agent, inner team and wider system.*

N O T E S

The main objectives of change management include:

- Ensuring that the desired results of a change are achieved
- Sustaining organisational efficiency and productivity
- Ensuring that all employees in the organisation are informed about the change
- Establishing a creative and flexible culture
- Eliminating issues associated with implementing the change
- Evaluating the exact cost associated with change implementation

The change management process is a sequence of steps that an organisation needs to follow in order to adapt to the change. An organisation usually forms a team to implement the change management process. Based on Prosci's research, a change management process involves three phases, as shown in Figure 11.6:

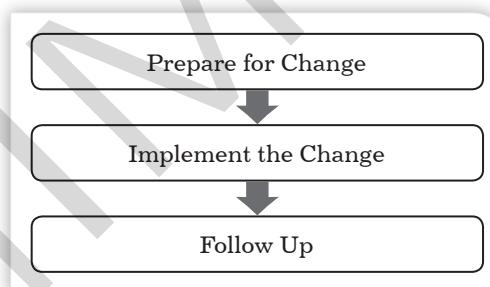


Figure 11.6: Process of Change Management

Let us discuss these phases one by one.

- Phase 1: Prepare for change:** In this phase, a high-level strategy is prepared with the help of the top management or stakeholders. Further, the management explores various ways to introduce the change successfully in the organisation. In addition, the team discusses the plan and explains what to change, when to change and how to change.
- Phase 2: Implement the change:** In this step, change is executed in the organisation. All employees are trained or educated with respect to the change. The management assists the employees in adapting to the change by highlighting the positive aspects of the change.
- Phase 3: Follow up:** In this phase, the team gathers feedback from employees about change and communicates it to the top management. This step ensures that the implemented change provides the desired results. In case of any deviation, remedial measures are taken.

N O T E S**EXHIBIT****Tips for Change Management in an Organisation**

The following are some tips for successful change management in an organisation:

- ❑ Sort out options and ideas until a final decision is taken for change.
- ❑ Protect new ideas from criticism.
- ❑ Listen to suggestions and appreciate good ideas.
- ❑ Force the employees and the organisation out of their comfort zone.
- ❑ Learn from past mistakes.
- ❑ Share potential risks pertaining to the change.
- ❑ Create a feeling of togetherness and mutual support for implementing the change.

**SELF ASSESSMENT QUESTIONS**

11. _____ is a systematic approach used to implement procedures for managing change in an organisation.

**ACTIVITY**

Meet an employee of any organisation and discuss the recent changes implemented in his/her workplace. Also, study how those changes influenced his/her working routine.

11.5 CHANGE MANAGEMENT MODELS

There are various models that help an organisation to cope effectively with changes. Such models ensure that the changes do not hamper the smooth working of the organisation. These models are known as planned change management models, and are shown in Figure 11.7:

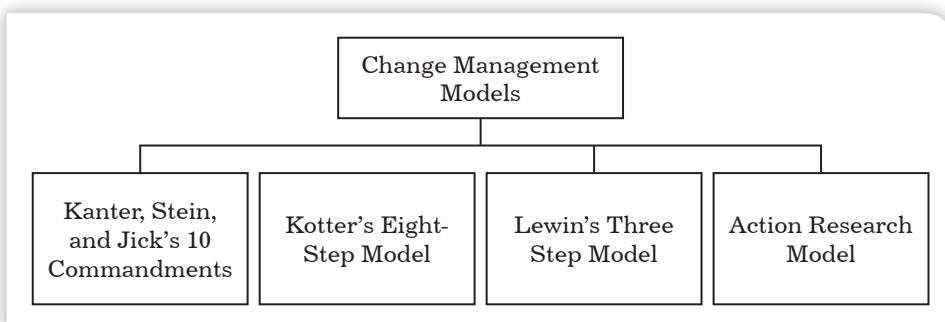


Figure 11.7: Models of Change Management

N O T E S

Let us discuss each of these models in the following section.

KANTER, STEIN AND JICK'S 10 COMMANDMENTS

Kanter, Stein and Jick formulated 10 commandments to help in the implementation and managing of change in an organisation. These commandments are briefly described in Table 11.2:

TABLE 11.2: KANTER, STEIN AND JICK'S 10 COMMANDMENTS

Commands	Description
Analyse the need for change	<ul style="list-style-type: none"> Take steps to understand the requirements of change in the organisation. Analyse the current operations of the organisation, their effectiveness as well as strengths and weakness of the operations.
Create a shared vision	<ul style="list-style-type: none"> Develop a central vision to unite the whole organisation. The vision must represent the philosophy and values of the organisation.
Separate from the past	<ul style="list-style-type: none"> Discontinue those procedures and operations that have ceased to work in the organisation's favour.
Create a sense of urgency	<ul style="list-style-type: none"> Develop a sense of urgency to change in the employees to make them understand how these changes can affect the performance of the organisation.
Support a strong leadership role	<ul style="list-style-type: none"> Adopt a strong leadership for developing a company vision, encouraging employees to accept it and rewarding those who work toward the attainment of the vision, to bring large scale change.
Line up political sponsorship	<ul style="list-style-type: none"> Gain the support of managers, change implementers and recipients for the adopted leadership.
Formulate an implementation plan	<ul style="list-style-type: none"> Prepare a change plan that clearly defines what to do and how to do it.
Develop the enabling structures	<ul style="list-style-type: none"> Design alterations in organisational structure that can facilitate and focus on the modifications made.
Communicate and involve people	<ul style="list-style-type: none"> Communicate openly with all employees to seek their trust and involvement in the change process.
Reinforce and institutionalise change	<ul style="list-style-type: none"> Prioritise the transformation process, and reward those who successfully incorporate new behaviours in the daily operations of the organisation.

N O T E S

KOTTER'S EIGHT-STEP MODEL

Kotter suggested a change management model consisting of eight steps needed for implementing change in an organisation. These steps are shown in Figure 11.8:

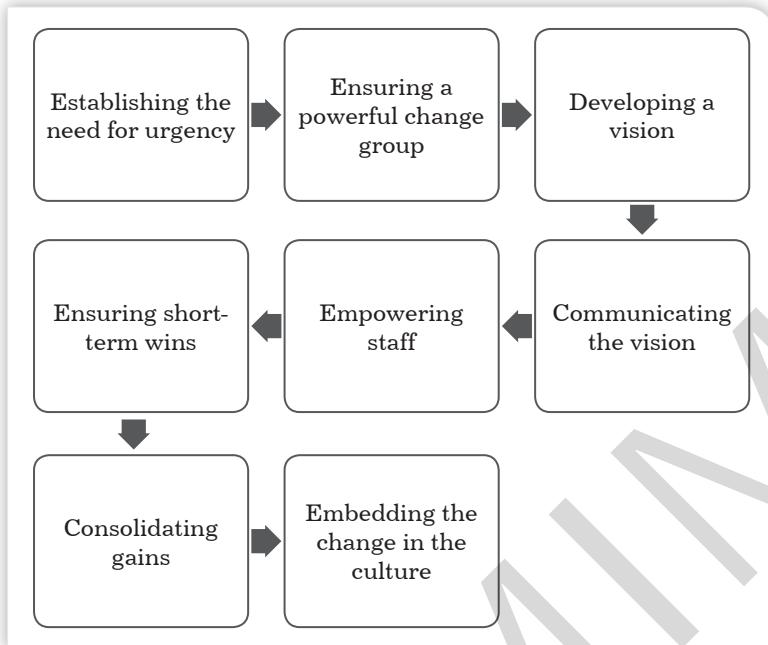


Figure 11.8: Kotter's Eight-Step Model

Kotter's Eight-Step Model can be briefly explained as follows:

1. **Establishing the need for urgency:** In this step, the management should perform market analysis, determine problems and opportunities, and use techniques to establish the need for change.
2. **Ensuring a powerful change group:** The second step focuses on assembling a powerful group to lead and support a collaborative change effort.
3. **Developing a vision:** This step focuses on shaping a vision to steer the change effort. The vision helps employees to focus on the change to be implemented.
4. **Communicating the vision:** In this step, the transformed vision of the organisation is explained to the employees.
5. **Empowering staff:** This step ensures that the employees have sufficient resources and skills to implement the change.
6. **Ensuring short-term wins:** This step motivates people to achieve short-term successes while implementing the change.
7. **Consolidating gains:** This step focuses on the implementation of organisational policies and processes that instil the change and reward people who engage positively with the change.

N O T E S

8. **Embedding the change in the culture:** This step ensures the incorporation of the change in the organisation's culture to help employees in adapting to the change.

LEWIN'S THREE-STEP MODEL

Lewin's Three-Step Model was created in the 1950s by psychologist Kurt Lewin. Lewin noted that a majority of people tend to prefer and operate within certain levels of comfort and safety. According to him, the process of managing change includes three steps. Figure 11.9 shows Lewin's Three-Step Model of change management:

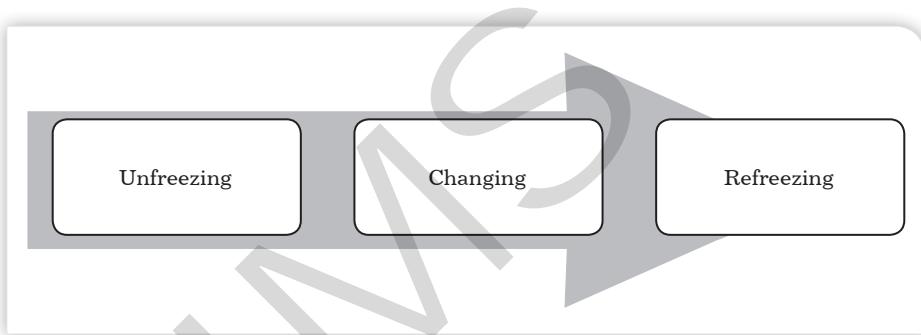


Figure 11.9: Three-Step Model of Lewin

The three steps of Lewin's change management model are detailed below:

1. **Unfreezing:** This refers to the need for recognising the necessity for change; identifying old values, behaviour, processes or structures; and detaching from them deliberately. Counselling programmes are conducted to change the minds of the employees. It creates the need for change that can be brought about by performing the following three actions:
 - ◆ Increase the strength of the forces that lead to change.
 - ◆ Decrease the strength of the forces that resist change.
 - ◆ Change the forces that resist change to those that support the change
2. **Changing:** Organisations replace old values, behaviour or structures with new ones. This is an action-oriented step where the planned change process is implemented. Proper leadership is necessary for the process to be successful. This step is also called a transition period.
3. **Refreezing:** In this step, the change is made permanent by including it in all formal policies and procedures of the organisation. The change is accepted and implemented successfully, and the functioning of the organisation stabilises once again.

N O T E S

ACTION RESEARCH MODEL

The Action Research Model is another popular change management model used by organisations. This model helps in generating and attaining information that is used by managers to define the desired objective of an organisation.

There are various techniques and practices that can help managers to unfreeze an organisation, move it to the new desired position by undergoing change and refreeze it so that the benefits of the change are retained. It involves five steps, as shown in Figure 11.10:

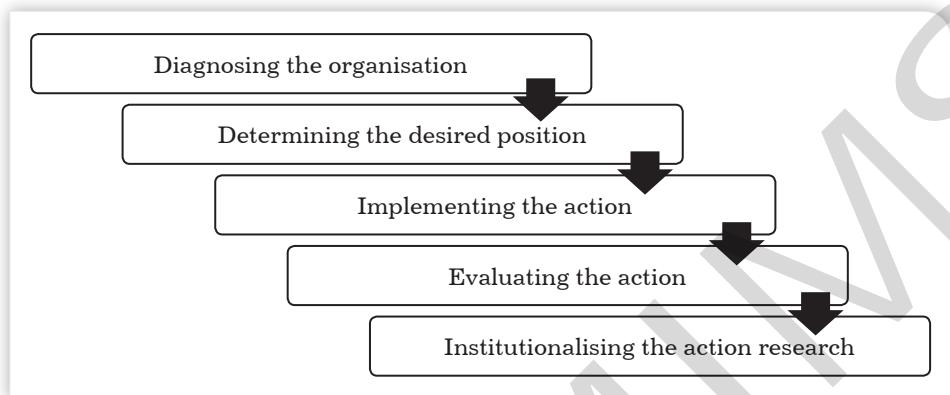


Figure 11.10: Steps in Action Research

The steps shown in Figure 11.10 can be explained as follows:

1. **Diagnose the organisation:** It requires managers to identify the existence of a problem and acknowledge that some type of change is needed. The gap between the desired and actual performance is measured to identify the need for change. Managers need to carefully collate information pertaining to the organisation in order to identify the problem, and obtain the employees' commitment to facilitate the entire change process.
2. **Determine the desired position:** It identifies the organisation's desired position and plans alternative courses of action to attain that position. It helps the organisation in formulating its strategy and structure to achieve the desired state.
3. **Implement action:** This step involves the actual implementation of the change and identification of the key individuals who will be responsible for actually managing the change. The possible barriers to change that the managers might come across during the change process are also identified in this step.
4. **Evaluate the action:** It identifies the extent to which the changes have achieved the objectives. Subsequently, the management decides if any further alteration is needed to achieve the objectives.

N O T E S

5. **Institutionalise the action research:** It involves making the change permanent. It incorporates changes in the policies, procedures, rules and regulations of the organisation so that the employees are familiarised with the implemented changes.

 SELF ASSESSMENT QUESTIONS

12. What are the three steps of change management suggested by Lewin?
13. In Lewin's change management model, _____ programmes are conducted to help employees understand the need for change in an organisation by removing their apprehensions.
14. The gap existing between the desired performance and the actual performance in an organisation is the reason for implementing change. (True/False)

 ACTIVITY

Visit any organisation and explore how the changes are being managed.

11.6 SUMMARY

- ❑ Change management can be defined as a systematic approach used to implement procedures for managing change in an organisation.
- ❑ Change is mainly caused by two types of forces: internal and external. Internal forces exist within an organisation and are under its control. External forces are present outside the organisation and are beyond its control.
- ❑ The different levels of change are individual, group, and organisational.
- ❑ Types of change in an organisation are planned, emergent, episodic, remedial, developmental, sub-system, transitional, transformational and organisation-wide.
- ❑ The various reasons for an individual's resistance to change are fear of technological up-gradation, poor communication about the change and lack of training to understand and benefit from the change.
- ❑ Some of the challenges that an organisation faces during change management include lack of planning, lack of communication and lack of resources.

N O T E S

- ❑ The various steps in the process of change management include preparing for the change, implementing the change and doing a follow up.
- ❑ Important models of change management are Kanter, Stein and Jick's 10 Commandments, Kotter's Eight-Step Model, Lewin's Three-Step Model and the Action Research Model.

**KEY WORDS**

- ❑ **Change agent:** It is a factor that serves as a catalyst and takes the initiatives to manage change.
- ❑ **Recession:** It is a temporary period of slowdown of trade and industrial activity.
- ❑ **Resistance:** It is the act of opposing something.
- ❑ **Status quo:** It is the current state of affairs or events.

11.7 DESCRIPTIVE QUESTIONS

1. What is organisational change? Discuss the levels of change.
2. Describe why individuals may resist change.
3. Explain the process of change management.
4. Explain Kotter's Eight-Step Model of change management.
5. What are the challenges faced during change management?
6. Explain the Action Research Model of change management.

11.8 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Concept of Organisational Change	1.	Change
	2.	There are two types of forces of change, which are internal forces and external forces.
	3.	True
	4.	a. Episodic change
	5.	False

N O T E S

Topic	Q. No.	Answers
Resistance to Change: A Challenge to Change Management	6.	Rational resistance
	7.	True
	8.	Emotional resistance
	9.	Lack of planning and lack of resources
	10.	If an organisation fails to communicate the change process and its requirement to the employees, it may lead rumours to spread in the organisation.
Process of Change Management	11.	Change management
Change Management Models	12.	Unfreezing, Changing and Refreezing
	13.	Counselling programmes
	14.	True

HINTS FOR DESCRIPTIVE QUESTIONS

1. Change is of paramount importance for the growth of an organisation in the long run. Refer to Section **11.2 Concept of Organisational Change**.
2. Employees generally resist change because they fear that it might alter their position or functioning in a negative way. The main reason behind resistance to change is lack of communication between the employees and the management, resulting in an atmosphere of fear and uncertainty. Refer to Section **11.3 Resistance to Change: A Challenge to Change Management**.
3. Change management can be defined as a systematic approach used to implement procedures for managing change in an organisation. Refer to Section **11.4 Process of Change Management**.
4. Kotter suggested a change management model consisting of eight steps that are required for implementing change in an organisation. Refer to Section **11.5 Change Management Models**.
5. Some of the challenges that an organisation may face during change management include lack of planning, lack of communication and lack of resources. Refer to Section **11.3 Resistance to Change: A Challenge to Change Management**.

N O T E S

6. The Action Research Model is another popular change management model used by organisations. This model helps in generating and attaining information that is used by managers to define the desired objective of an organisation. Refer to Section **11.5 Change Management Models**.

11.9 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

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12

C H A P T E R

CASE STUDIES

CONTENTS

- Case Study 1 Redesigning Organisational Structure Rescues Wild Wear
- Case Study 2 EuroChem Seeks IBM's Support to Boost its Effectiveness
- Case Study 3 Organisational Restructure Leads to Improved Efficiency
- Case Study 4 Industry Analysis for Competitive Advantage
- Case Study 5 Lack of Organisational Analysis at McDonald's
- Case Study 6 Strategic Management at Nestlé
- Case Study 7 History of Workforce Diversity at IBM
- Case Study 8 Organisational Politics at BSL Steel Ltd.
- Case Study 9 Conflicts at CRIS: Friends Turn Foes
- Case Study 10 Cultural Change at Jaguar
- Case Study 11 Change Management Using Kotter's Eight Steps at National Database and Registration Authority (NADRA)
- Case Study 12 Misuse of Delegated Authority by a Manager

CASE STUDY 1**REDESIGNING ORGANISATIONAL STRUCTURE
RESCUES WILD WEAR**

This Case Study discusses the importance of organisational design. It is with respect to Chapter 1 of the book.

Wild Wear specialises in clothing, rainwear and sleeping bags for hikers and people who love the outdoors. The company was founded by Myrtle Kelly, who initially offered sewn pile jackets. These jackets were then offered for sale in college campuses by Kelly's husband, Ray. Presently, the company employs a workforce of around five hundred people in different divisions, such as marketing, manufacturing and research and development.



Lately, Kelly felt some problems in increasing the revenues of the company. Though the balance sheet appeared to be healthy, the company's growth was stagnant. Kelly was surprised at this as the workforce was working hard, and the company's products seldom flopped. Nevertheless, the company bore a 'me too' posture in the market by bringing in new products after competitors.

To uncover the problems, Kelly and her management decided to study performance appraisals for the last few years. However, it appeared that the human resource department too had been performing its tasks well. Moreover, there were some new products in line to be launched in the market. The manufacturing facility of the company was also modern and efficient, and the marketing tactics adopted had been successful in gaining the attention of customers.

The management at Wild Wear was completely surprised at the situation, and in an attempt to get some idea about it, a meeting of middle-level managers was called. To its utter amazement, the management realised that the managers working in the company for years introduced themselves for the first time. During the meeting, which continued for ninety minutes, Kelly and other senior people listened to the problems their managers raised.

CASE STUDY 1

N O T E S

Initially, when the company was in its infancy, all the aspects of the business were handled by the couple itself. Ray was responsible for taking orders from customers and would order materials required by Kelly for creating the products. Within a few weeks, the products were delivered to the customers. However, with the expansion of the company, there was a lack of formal business training for employees and appropriate rules and procedures for running all divisions.

Another problem that the company faced was the distorted flow of information among different departments. Moreover, information that was disseminated was often incomplete. This was evident in the following scenario at the company. While the R&D people were in the process of coming up with a new breathable fabric for rainwear, the production department had already begun to make a new rainwear line out of the old fabric. Apart from this, the marketing division was directing all its efforts towards selling the large inventory of sleeping bags only. This scenario shows that various divisions were not updated about each other's activities, which could result in disruption in all processes. Consequently, it always appeared that new ideas did not deliver the product on time.

In order to fix all these problems, the management at Wild Wear appointed a management consultant to redesign its organisational structure and discover solutions to existing problems. In the meantime, weekly 'horizon' meetings were conducted, where a group of middle managers would interact on a regular basis to discuss what they saw on their horizon. Within less than a month of such meetings, the complete environment at Wild Wear changed considerably as the managers expanded their horizons to help others in bringing their ideas to light. As a result, a new excitement was generated at all levels that helped Wild Wear to redesign its structure completely and make a quick recovery.



QUESTIONS

1. In your opinion, what type of organisational structure should Wild Wear adopt for its redesigning? Justify.

(Hint: The company should adopt a matrix structure for its redesigning to sync its different divisions.)

2. Other than the above-mentioned causes, what are the possible reasons for the stagnation of Wild Wear?

(Hint: In Wild Wear, there was a lack of upward communication because of which senior people never got a correct picture of the problems faced by low-level employees.)

CASE STUDY 2**EUROCHEM SEEKS IBM'S SUPPORT TO BOOST ITS EFFECTIVENESS**

This Case Study discusses how to achieve organisational effectiveness. It is with respect to Chapter 2 of the book.

EuroChem is a producer of mineral fertiliser with its headquarters in Moscow, Russia. The company is the third largest fertiliser producer in Europe and also holds a position among the top ten in the world.



The company aimed at sustaining its high production levels and focused on increasing its internal efficiencies. It also aimed at introducing a new common technology platform, for which it required cooperation and collaboration among its geographically dispersed operational units. The company also required automated document management and control for efficient collaboration among its units. All these requirements forced EuroChem to look for an IT partner that can help the company in realising its aim of increasing organisational effectiveness.

EuroChem looked for various available alternatives, and after conducting an analysis, it decided to engage a Moscow-based IBM Premier Business Partner, for delivering optimum solutions. IBM was asked to design and build a first-hand IT architecture for EuroChem. It was also responsible for implementing a new corporate email system and bringing efficient online collaboration.

As a part of solutions, first of all, IBM implemented IBM Lotus Notes and Domino to replace the existing email system. The company also developed automated procedures for transferring the existing email and address book data to Lotus Notes and providing distance learning services for users at faraway locations. The implementation of Domino Enterprise Server, supporting both Lotus Notes clients and Web browsers, brought a highly secure and stable platform for managing information at EuroChem. Moreover, the innovative solution brought centralised access to shared corporate information resources. Further, the new solu-

CASE STUDY 2

N O T E S

tion provided each user with a personalised work environment and offered apt security by preventing unauthorised users from accessing sensitive information.

Because of the efforts of IBM, EuroChem had a standard platform for communication and document management. The company also owned well-defined communication channels, enabling the implementation of unified business processes throughout the entire organisation. Moreover, the new improved document management helped EuroChem in making swift decisions regarding the purchase and sales of goods and services. The new collaborative functions greatly improved personal productivity and effectiveness that the company was aiming to achieve.



QUESTIONS

1. Justify the choice of IBM by EuroChem in the above case study.

(Hint: IBM helped EuroChem in successfully unifying its business processes and achieving the desired level of organisational effectiveness.)

2. What additional measures could be taken by EuroChem to increase its organisational effectiveness?

(Hint: EuroChem could increase its organisational effectiveness by ensuring the right people at right levels, safeguarding organisation's stakeholders' interests, etc.)

CASE STUDY 3

ORGANISATIONAL RESTRUCTURE LEADS TO IMPROVED EFFICIENCY

This Case Study discusses how simplifying the structure of an organisation can help it to improve its performance. It is with respect to Chapter 3 of the book.

McKinsey & Company is a global leader that provides management consulting services to prominent businesses, governments and non-governmental institutions. The company helps its clients to improve the existing structure of their organisations and develop strategies to realise their goals efficiently.



One of the clients of McKinsey is a global logistics company, which also happens to be an industry leader. The client company had been struggling to retain its position in the market due to stiff competition. Besides, the overheads of the company had been significantly high due to a large regional staff. It had a workforce comprising 25,000 employees across the globe. Hence, if the company opted for staff reduction, the problem of multiple handovers would arise.

The CEO of the company felt the need to restructure the organisational structure to overcome the problems of lowered performance due to oversizing and redundancy in processes. For this, the CEO hired McKinsey to undertake a comprehensive restructuring of the company. The client company also communicated the objectives to McKinsey, which were as follows:

- ❑ Establish business-oriented leadership
- ❑ Simplify organisational structure
- ❑ Reduce overheads
- ❑ Strengthen performance management
- ❑ Respond quickly to customer needs

After analysing the processes being followed at the client company, McKinsey began to work closely with the company's management to determine the new architecture. It discovered that the key to all their problems lay in simplifying the company's regional structure by removing an entire organisational layer. McKinsey also advised the company to streamline its decision-making process. In addi-

CASE STUDY 3

NOTES

tion, the company agreed to redesign performance management to shift profit and loss accountability to the country managers.

McKinsey offered the following two procedures that were critical in restructuring the client company:

- ❑ First, apply a standardised structure in all its offices in different countries, with minimum tailoring, to aid simplification and speedy decision making.
- ❑ Second, work to improve the efficiency of the company.

Once the structuring modalities were agreed upon, the restructuring of the client company began in earnest. For the next five months, the designing of the client company went on at all levels right from the bottom to the top. In addition, new core operations were developed for each level. For this, novel job descriptions were distributed across the business. Moreover, new metrics were designed and adopted to evaluate the performance of the employees.

To ensure smooth restructuring, McKinsey used a web-based solution to map the recent activities of the client's existing employees. A central Program Management Office (PMO), co-staffed by McKinsey consultants and the client company's best talents, was established to administer the restructuring and offer hands-on support to the managers in designing their individual units.

Within five months of the restructuring process, the client company came at a simplified and streamlined arrangement. The workforce was reduced by 12 per cent, and two major business units were developed. Also, a new comprehensive performance management system was put in place.

Consequently, the client company's profit margins were up within two years, adding over \$2 billion to the incremental profit. Moreover, the client company was now able to retain its position as a leader in the market.



QUESTIONS

1. Justify the company's decision of restructuring in the above case.

(Hint: Restructuring helped the company in simplifying its complex structure and maintaining its leadership in the market.)

2. What other restructuring efforts could McKinsey have suggested?

(Hint: Enhance interpersonal communication between all layers, follow a uniform system for recruitment of new employees, etc.)

CASE STUDY 4

INDUSTRY ANALYSIS FOR COMPETITIVE ADVANTAGE

This Case Study discusses how industry analysis helps a management consulting firm in delivering appropriate solutions to one of its clients. It is with respect to Chapter 4 of the book.

MangoStrategy is a US-based company that offers strategy development services to firms and helps them in making critical decisions related to different business issues. The company specialises in providing perceptive, client-specific, high-quality strategy development services at affordable prices.



Recently, MangoStrategy was approached by a US-based management consulting company as the latter was facing challenges in providing appropriate solutions to one of its customers, say Customer T, for developing and executing a service growth strategy. MangoStrategy helped with a comprehensive assessment of the trends, issues and opportunities in telecommunications sector.

The objectives established by MangoStrategy for its US client were as follows:

- ❑ Prepare a comprehensive assessment of telecommunications sector.
- ❑ Understand various challenges faced by telecommunications sector in terms of market demand, key competitors, alliances, latest technology trends, problems and opportunities.
- ❑ Build a futuristic view of telecommunications industry in next five years.
- ❑ Determine the probable influence of the evolution of the industry on the business strategies of the client.

To achieve these objectives, MangoStrategy began to work closely with the client company to determine the scope of the project and decide on the methodology to analyse telecommunications industry. MangoStrategy reviewed a large number of sources including research reports, company websites, news stories and blogs. It

CASE STUDY 4

N O T E S

also assessed the market data and background information available with Customer T. Based on its analysis, MangoStrategy developed well-structured frameworks to provide a basis of decision making for the client.

MangoStrategy presented a 30-page presentation, named Key Findings, which outlined the salient issues, opportunities and recommendations for the client. It also created a 175-page Industry Analysis Fact Book to support the analysis of the Key Findings presentation. Industry Analysis Fact Book provided complete information of the major competitors in telecommunications industry.

With the help of MangoStrategy through the client company, Customer T was able to focus on the areas of improvement and develop strategies to retain its position in the market. It also became familiar with the political and legal constraints that were affecting its growth. Moreover, it was now aware of the latest trends in the market, and the policies and strategies adopted by its competitors. Consequently, it developed effective strategies to meet challenges and focussed on strengthening its position in the market.

The client company also benefitted from MangoStrategy's methodologies as it successfully exceeded its expectations by providing valuable services for its customer (Customer T) within the decided budget.



QUESTIONS

- What forms the basis of the Key Findings presentation developed by MangoStrategy for the client company?

(Hint: MangoStrategy reviewed a large number of research sources, assessed market data, etc.)

- What initiatives can the telecommunications solution provider take to align its service standards with the changes in external environment?

(Hint: Adopt latest technologies, train employees, keep up to date on latest political and social changes taking place, etc.)

CASE STUDY 5**LACK OF ORGANISATIONAL ANALYSIS AT MCDONALD'S**

This Case Study discusses the lack of organisational analysis at McDonald's, leading to heavy criticism for causing obesity and other health problems in the US. It is with respect to Chapter 5 of the book.

McDonald's is the world's largest hamburger fast food chain catering to about 68 million customers per day across 119 countries through 35,000 restaurants. The company's headquarters are in the US. The company has extended its products to french fries, soft drinks, shakes and desserts. McDonald's began its operations in 1940 as a barbecue café by two brothers, Richard and Maurice McDonald. Later in 1948, the two restructured their business to a hamburger seller using production line principles. Ray Kroc, who joined McDonald's as a franchise agent in 1955, purchased the company from the two brothers. This move lead to the growth of the company globally.



McDonald's had been witnessing high sales and turnover until the rise of the health and anti-obesity trend, which drew attention to McDonald's fast-food offerings that contain large amounts of fat and salt with very little nutritional value.

McDonald's worries increased with the release of a documentary movie, 'Super-Size Me'. The film traces a 30-day period beginning February 1 and ending March 2, 2003 during which Morgan Spurlock (the filmmaker) consumed only McDonald's fast food items. The film shows the drastic effect on Spurlock's physical and psychological well-being due to his food choices. As a result, Spurlock gained 25 lb along with various health issues, including liver problems and increased cholesterol levels. The film walks through the fast food industry's corporate influence, which includes how the industry encourages poor nutrition for its own profit.

Food analysts blamed the supersize portions of fries and drinks packed with calories as being the culprit for the increasing obesi-

CASE STUDY 5

N O T E S

ty. A large glass of Coca-Cola at McDonald's has 226 calories, and supersized a Coke provides 323 calories. Also, a supersize Coke and fries with a Big Mac hamburger contain 1,302 calories and 44.1 gm of fat. Further, McDonald's faced legal action over obesity in the US, where a group of children claimed that its food was responsible for certain health problems.

Quite evidently, a lack of organisational analysis along with changes in the external environment (customers' resentment) resulted in a lot of criticism for McDonald's and its food. The company had to promptly respond to the criticism by bringing about certain strategic changes. In March 2004, McDonald's came out with the following changes:

- "Supersize" portions of chips and fizzy drinks were removed from the fast food retailer's menu.
- The company aimed to introduce more low-calorie and low-fat options along with milk, yoghurt, and fruit.
- McDonald's changed its food range by offering salads, fruits, and various types of coffees and smoothies.
- McDonald's made the number of calories visible on its food packages.

To make sure that McDonald's food isn't of poor quality, the company has started a project, Mom's Quality Correspondents, through which the company interviews their toughest critics about what their kids eat as parents intend to offer their children quality and nutritious food.



QUESTIONS

1. Who do you think are the biggest opponents of McDonald's in its external environment?

(Hint: The biggest critics include health organisations claiming that McDonald's poses a serious threat towards world health; child rights groups, which claim that McDonald's influences children's eating habits in the long term, etc.)

2. What other modifications can McDonald's make to improve its image as being a healthy food chain?

(Hint: By advertising and reflecting its concern for healthy food, running programs to increase awareness about nutritional food, spreading awareness about the credibility of its suppliers, etc.)

CASE STUDY 6

STRATEGIC MANAGEMENT AT NESTLÉ

This Case Study discusses the efforts of Bulecke, Nestlé's CEO, to formulate plans for advancing his strategic vision at Nestlé. It is with respect to Chapter 6 of the book.

In the 1860s, Henri Nestle, a chemist, experimented with several combinations of cows' milk, wheat flour and sugar. The subsequent product was designed to serve as a source of infant nutrition. In 1867, Henri's infant formula saved the life of a premature child. Thus, the production of infant formula under the name Farine Lactee Nestle began in Vevey, Switzerland, resulting in the formation of Nestlé Company.



In 1905, Nestle merged with Anglo-Swiss Condensed Milk Company, a milk-based infant food manufacturer. During World War I, a huge demand for dairy products provided Nestlé the opportunity to execute contracts with the countries involved in the war. In 1938, Nestlé discovered a soluble powder that changed coffee drinking all over the world. This powder was launched under the brand name of Nescafé and became an instant success.

After the end of World War II, Nestlé added several new products to its pool. The company merged/acquired several companies to expand its operations. In 1947, Nestle expanded into culinary products by merging with Alimentana, a Swiss company that manufactured Maggi soups, spices and other food products in various countries. At present, Nestlé is one of the world's prominent nutrition, health and wellness organisations based in Switzerland. Nestlé's products include baby food, breakfast cereals, coffee, confectionery items, dairy goods, frozen foods, pet nutrition, yoghurt and snacks. Some of its major consumer brands are Stouffers, Nescafé, Kit-Kat, Carnation, Nestlé Water, among others.

Nestlé's mission of "Good Food, Good Life" aims to provide customers with good quality, nutritious choices in a wide range of foods and beverages .

CASE STUDY 6

N O T E S

Later an experienced veteran in the organisation, **Paul Bulcke**, took over as the CEO of Nestlé. Nestlé is a highly successful, global organisation with a strong organisational culture and a history of delivering innovative products and services to meet local demands. However, analysing and scanning the internal and external environment of the company, Paul Bulcke's only concern is "that we become complacent". He reaffirmed the four strategic pillars identified by his predecessor, Brabeck, for achieving worldwide sustainable competitiveness. These strategies are:

- Low-cost, highly efficient operations
- Renovation and innovation of the Nestlé product line
- Universal availability
- Improved communication with consumers through better branding

Paul Bulcke believed that adherence to these four strategic pillars would help in achieving the "Nestlé Model", which referred to Nestlé's long term objectives of "organic growth between 4% - 6% each year; sustained improvements in Earnings Before Interest and Tax (EBIT) after each passing year and better capital management." To implement these strategies, several important initiatives including restructuring of the R&D department, becoming more responsive to customers, driving innovation and supporting organic growth, were implemented. Other initiatives included launching a comprehensive information system to bind all of Nestlé's businesses together under a common technological infrastructure. A sales growth rate of 78% and EBIT growth rate of 142% during this time period was reported. The CEO made several critical acquisitions in bottled water, pet nutrition, coffee and ice cream. However, Bulcke was clear about the fact that his strategic management would not be identical to his predecessor's. He advocated that all of Nestlé's future growth should be a result of its internal growth, and not acquisitions. He supported a rapid transition to the health, nutrition and wellness strategy. Bulcke's four strategic pillars (4 Complementary Platforms of Growth) included:

- Health, nutrition and wellness
- Emerging markets
- Out of home consumption
- Premiumisation of existing products (developing exclusive, high-quality versions of existing products and appealing to higher income customers)

CASE STUDY 6

Bulcke's strategic management at Nestlé brought about a paradigm shift by converting the food and beverage company to one focused on nutrition, health and wellness.



QUESTIONS

1. Considering the strategies followed by the two CEOs at Nestlé, which strategy do you think is more supportive of Nestlé's success in future?

(Hint: Nestlé should identify and implement an optimal strategy that promotes the Nestle Model and at the same time help in achieving a sustainable competitive advantage with a broader vision of transitioning into a health, nutrition and wellness company.

2. Briefly analyse Bulcke's 4 Complementary Platforms of Growth.

(Hint: Benefits of the strategy: provides a moderate degree of consistency with the previous strategy under CEO Brabeck; builds on Nestlé's strengths such as wide product and brand portfolio and strong global presence. Limitations of the strategy: forgoes possible benefits of acquisition; working too quickly to adopt the new vision as the mainstream of Nestlé's business may not reflect it as a realistic goal, etc.)

CASE STUDY 7

N O T E S

HISTORY OF WORKFORCE DIVERSITY AT IBM

This Case Study discusses the influence of workforce diversity on an organisation's performance. It is with respect to Chapter 7 of the book.

IBM is one of the world's leading IT companies. It is a US-based company and has operations in many parts of the world. IBM is known for recruiting people from a diverse talent pool. In 2004, IBM was included in the top 10 list of America's most admired companies by Fortune 500 magazine. IBM developed a talent marketplace in 2004 owing to which the employees could explore the best job opportunities within the organisation across its different units.

In 1935, Watson Sr, the then President of IBM stated, *Men and women will do the same kind of work for equal pay. They will have the same treatment, the same responsibilities, and the same opportunities for advancement.* In 1940, the concept of Equal Employment Opportunity (EEO) surfaced and it was legalised under the Civil Rights Act of the US in 1964. The first evidence of organisational diversity was seen in 1953 when Watson Jr., the CEO of IBM, emphasised on equal employment opportunities in a formal letter. In the 1970s, the company was focussed on recruiting women and the members of minorities in the US. After the 1970s, the company went global and started operations outside the US. Till 2000, IBM was able to develop a diverse and skilled workforce, which was also one of the most important factors for its success. In addition, the company implemented the Human Capital Management Services software in 2004. This software allowed the company to manage the employees' talent along with keeping track of future needs of the company from the viewpoint of talent acquisition.

After globalisation in the 1980s, companies entered new markets to explore more business opportunities with modified products and services. IBM opened its offices in different countries and hired people from across the local population and from both genders. IBM also had a plan in place for the recruitment and training of differently abled individuals. The company appointed line champions (employees who were pioneers in their work) to train and develop such employees. The recruitment for differently abled people was made through campus recruitment as well as a diversity website. The company had made efforts for providing equal opportunities to people. Moreover, IBM also created female networking groups, which mentored women in the company and also endeavoured to encourage girls to enter the IT field.

CASE STUDY 7

Since the 1950s, the company had always encouraged recruitment of people from different social and cultural backgrounds. This practice has helped the company grow and serve customers in a better manner.

**QUESTIONS**

1. Discuss the impact of globalisation on IBM's workforce.
(Hint: IBM opened its offices in different countries and hired people from a diverse talent pool.)
2. Discuss Equal Employment Opportunity (EEO) with reference to IBM.

(Hint: Equal Employment Opportunity was legalised under the Civil Rights Act of the US in 1964. The first evidence of organisational diversity was seen in 1953 when the CEO of IBM emphasised on equal employment opportunities in a formal letter.)

CASE STUDY 8

N O T E S

ORGANISATIONAL POLITICS AT BSL STEEL LTD.

This Case Study discusses the influence of organisational politics on employees and the organisation. It is with respect to Chapter 8 of the book.

Vijay is a young, ambitious man who did a Diploma in electrical engineering in 1995. He joined BSL the same year as Diploma Engineer Trainee (DET) and got promoted as a Graduate Engineer Trainee (GET) after completing his B.Tech through part-time mode in 2000. By 2010, he had already been promoted five times with good salary hikes because he worked diligently. After working at different hierarchical levels for a long time, he had gained enough experience to comprehend the minutes of electrical works. Therefore, he was made Assistant Senior Manager (Sales) in 2010. He also pursued an MBA in Sales and Marketing and completed it in 2011. On completion of his MBA, he was made Senior Manager (Marketing).

However, by this time he had also turned into an over-ambitious middle-aged man who had started using politics to influence his colleagues, subordinates and even senior people. He had a secret desire of heading the marketing department. Somewhere in the middle of 2012, he started targeting other co-workers. The head of the marketing department was Mr. Somnath. Vijay made a series of false allegations against Somnath and started complaining to the General Manager (Marketing) in this regard. In order to raise himself in the eyes of GM, Vijay alleged that Somnath was incompetent and not handling the marketing department well due to which the company was losing major production orders. He also did the same with Mr. Arihant, who was the head of the purchase department. Vijay had a cousin brother, Vishal, whom he wanted to place in the purchase department. Vijay alleged that Arihant did not execute orders on time, due to which there was delay in the production, which affected marketing. He also added that the material being bought by the purchase department was of poor quality.

After about six months of making false allegations against Arihant and Somnath, Vijay's efforts paid off. GM (Marketing) decided to promote Vijay as the marketing head and fire Arihant. On the recommendation of Vijay, the GM employed Vishal in place of Arihant. Somnath was demoted as Senior Manager (Marketing). Now, Somnath had to work under Vijay. As a result of his manipulations, Vijay was able to have full control of the marketing as well as purchase departments.

CASE STUDY 8

Vijay along with Vishal committed a fraud of nearly Rs. 50 crores. In 2014, the fraud was discovered and both were demoted. Somanth was reinstated as the head of the marketing department. Arihant too was called back and given his former position along with a salary hike.

**QUESTIONS**

1. What was the real intention of Vijay behind planting his cousin in the purchase department?

(Hint: The real intention of Vijay was to engage in money laundering and make money from fraudulent purchases.)

2. The GM (Marketing) could have stopped this from happening. Discuss.

(Hint: Yes, GM (Marketing) could have stopped this if he had made some efforts to find out if the allegations made by Vijay were genuine.)

CASE STUDY 9

N O T E S

CONFLICTS AT CRIS: FRIENDS TURN FOES

This Case Study discusses the process of conflict resolution in an organisation. It is with respect to Chapter 9 of the book.

The Cocoa Research Institute of Savana (CRIS) was established in the United Kingdom in 1937—on the recommendation of Agricultural Advisor to the Secretary of State for colonies. The reason for its foundation was a decline in the cocoa production. The main divisions of CRIS are Agronomy, Entomology, Plant Breeding, Physiology and Biochemistry, Plant Pathology and Soil Science. Each division has a team of scientists assisted by a number of laboratory assistants. The main objective of each division is to conduct quality research in different fields.

In 1984, during the tenure of Dr. Swanson, Executive Director at CRIS, arose a conflict between the plant pathology department and the biochemistry department. Senior scientists in both the departments failed to work together. However, there was a time when both the scientists were friends and worked together on various researches.

As per Dr. Swanson, there had been many conflicts in the past on the issues of allotment of plots for research and experiment and budget allocation. Most of them were resolved amicably without his interference. For instance, in the past, some scientists raised objections about the area provided for experiments stating that it was unsuitable. They demanded a larger area. In these cases, an expert was invited to review the experimental design and find a solution to the problem. Sometimes, peer intervention also took place to find a solution. But the conflicts never affected the work environment of the institute. This time, the conflict between the departments of plant pathology and biochemistry was different. It arose when CRIS was preparing a five-year plan of activities to be included in the project with the World Bank. Each division submitted its plan to the committee. The issue came up when both plant pathology and biochemistry departments gave proposals of virus purification and detection. The head of Plant Pathology, Dr Agadir, a biochemist, stated that they were performing research on cocoa swollen shoot virus over a decade. He further stated that this was the job of the plant pathology department and not of the biochemistry department. The head of Biochemistry, Dr Ouadda, was stunned by hearing this and reacted angrily.

The committee then wrote a letter to the plant pathology department seeking an explanation on what was meant by the statement “they would work on cocoa swollen shoot virus problem as and

CASE STUDY 9

when they found time". No reply was received by the committee. Thereby, the committee gave their approval to the research on cocoa swollen shoot virus as the task of the biochemistry department.

The plant pathology department mailed the letter to Dr. Swanson stating, "If this is the attitude of the biochemistry department, we shall have no research in collaboration with them as of now. Not only do they lack a healthy attitude towards collaborative work, but they have also often refused to share achievements. Now they want to stifle our work on cocoa swollen shoot virus, notwithstanding the fact that we have been working on it for over a decade. We will of course continue our work in this area, but without the biochemistry department".

The conflict between both the departments somewhat lessened after Dr. Ouadda's departure to Saudi Arabia. However, the departments still exchanged hostile letters. All the conflicts were taken to the executive director for finding solutions. Dr. Swanson planned to do something to better the atmosphere in the institute as Dr. Quadda was expected to re-join the institute.



QUESTIONS

1. What types of conflict occurred at CRIS? What was done to solve them?

(Hint: A conflict arose between the biochemistry and plant pathology department on the issues of the allotment of area for experiments, budget allocation, etc.)

2. Suppose you are Dr. Swanson. What conflict resolution techniques would you suggest for resolving the conflict between Dr. Quadda's and Dr. Agadir's divisions?

(Hint: Negotiation; an end-to-end discussion)

CASE STUDY 10

N O T E S

CULTURAL CHANGE AT JAGUAR

This Case Study discusses how change in culture led to the development of a world class facility at Jaguar after its acquisition by Ford. It is with respect to Chapter 10 of the book.

The growth in global competition has forced organisations to adapt to changing times. This has been reflected in the car industry too. For example, Ford Group of Companies has implemented changes while setting up its plant at Halewood.



When Ford acquired Jaguar in the 1990s, the company had to make a lot of changes. It set up a new plant at Halewood in the UK for the production of the new X400 Jaguar. Along with this, the company also decided to make some modifications in the existing style of working.

To implement cultural change, Ford contacted a consultancy group called Senn Delaney Leadership, led by Senn Delaney. Delaney suggested new working patterns for the implementation of cultural change. The Halewood Difference Programme was introduced at the Halewood plant based on new goals and objectives. Some of the important objectives of the programme were as follows:

- Develop a world-class manufacturing facility
- Ensure maximum job satisfaction
- Provide a safe working environment to employees to boost their motivation
- Build a committed management that recognises and respects employees and follows best practices

Apart from these objectives, a new set of values was developed to guide the organisation. These values were as follows:

- Introduce quality products and services in the market
- Achieve customer satisfaction

CASE STUDY 10

- Treat all individuals with dignity and respect at the workplace
- Build teams to work for the good of the Halewood plant
- Embrace change

Further, the consultancy group prepared a detailed programme to encourage employee participation in the implementation of the programme.

Initially, one-to-one interviews and focus group activities were conducted to encourage employees to share their thoughts about how they felt about their work. This enabled the organisation to identify the strengths and weaknesses to change.

In addition, a three-day management workshop was conducted to motivate managers to implement a new work culture at the plant. The organisation also conducted workshops to make the unions understand the Jaguar approach of building cars. A joint approach was built by the management and unions to embrace the change and show a strong commitment for its implementation.

As a result of the cultural change, the new production system at the Halewood plant delivered results that were up to the management's expectations. The implementation of the new culture ensured emphasis on quality at every stage of production. Moreover, the cultural change resulted in an empowered and committed workforce. It also established centres of excellence, where practices were defined as benchmarks for the improvement of performance. The change in work culture was a success at the Halewood plant and helped to highlight the plant as a world class facility. Moreover, it also instilled a feeling of pride in employees working at Jaguar.



QUESTIONS

1. Do you think the need for cultural change at the Halewood plant by Ford was justified? Why/why not?

(Hint: Ford needed to keep up with the changes in the work environment due to the acquisition of Jaguar by establishing a committed and stable work culture.)

2. Mention the steps taken by Ford to change the culture at the Halewood plant.

(Hint: One-to-one interviews and focus group activities were carried out, and management workshop was conducted, etc.)

CASE STUDY 11

N O T E S

CHANGE MANAGEMENT USING KOTTER'S EIGHT STEPS AT NATIONAL DATABASE AND REGISTRATION AUTHORITY (NADRA)

This Case Study discusses the impact of applying Kotter's eight-step model for change management at National Database and Registration Authority (NADRA), Pakistan. It is with respect to Chapter 11 of the book.

National Database and Registration Authority (NADRA) is a semi-government IT company based in Pakistan. The primary aim of creating NADRA was to issue Computerised Identity Card (CNIC) for the registration of Pakistani nationals. It can also be said that NADRA was created as a national data warehouse for providing identity documentation for all residents of Pakistan. NADRA is perhaps the most successful organisation of Pakistan. It has more than 800 data acquisition centres across the country.

In March 2000, National Database Organisation (NDO) and Directorate General of Registration merged to form NADRA. After the merger, a need was felt for organisational change in NADRA. To implement this change, NADRA used the eight-step Kotter model. Changes were made in the corporate culture and business mission of the organisation. These changes resulted in Pakistan achieving the unique distinct of being the world's first country with a fully integrated and centralised system for registration.

NADRA used the Kotter's eight-step model for implementing organisational change. Various steps in the model have been depicted in the following figure:

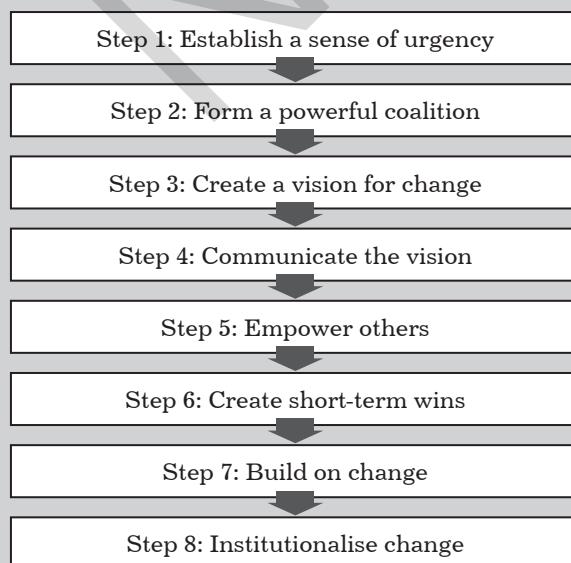


Figure: Kotter's Eight Step Model for Managing Change at NADRA

CASE STUDY 11

Step 1: Establish a sense of urgency

The first step of the Kotter's model includes minimising the resistance to change and creating a sense of urgency in the organisation. NADRA created a sense of urgency among its employees. They were made aware of the reasons for change in the existing organisational structure. A comparison of the advantages and disadvantages of change was also made by NADRA, and communicated to the employees. This step was necessary because the change would be successful only if it faced minimum resistance from the employees.

Step 2: Form a powerful coalition

It is important that during the change process, teams are built in order to form a powerful coalition and lead the change process smoothly. Four points are required for the formation of a powerful coalition. They are position power, expertise, credibility and leadership. The key stakeholders of NADRA supported the change process (position power). All the team members were highly experienced in their respective fields, and even members were recruited from outside to form strong and specialised teams (expertise). To ensure smooth transition and positive results, only highly capable and credible people were inducted into the teams (credibility). In the teams, it is important to have strong leaders who show traits of transformational leadership and can prepare the members for the coming changes. At NADRA, the team was spearheaded under the guidance of the then chairman.

Step 3: Create a vision for change

After the merger, the new management created a new vision for the company. The new vision of NADRA was to transform itself into a learning organisation. NADRA also endeavoured to provide the highest level of customer service. In addition, it also adopted a data entry system for data collection from the older manual data collection system.

Step 4: Communicate the vision

NADRA had communicated the change in vision and other elements of the organisation to all its members. Leaders started incorporating all the behaviours that they wanted to see in the organisation at large.

Step 5: Empower others to act on vision

For implementing a change, it is important that all the barriers to the change process are eliminated. Involving people in the decision-making process increases the chance of successful implementation. Before the change process started, the NADRA had a formal system of command and control. However, after the change process was initiated, NADRA implemented the partici-

CASE STUDY 11

N O T E S

pative style of management. The employees were encouraged to innovate and share ideas.

Step 6: Create short-term wins

NADRA created short-term, low-cost goals to create short-term wins. Initially, the goals were software development and integration. Later, the goals shifted to providing technology solutions in and outside the country. At present, NADRA offers various solutions, such as Multi-Biometric e-Passport, Automated Border Control, Integrated Solution for Multi-Biometric Identity Cards, Vehicle Monitoring and Identification System, Electronic Point of Sale System, Facial Access Control System, RFID Driving License, Machine Readable Seafarer Identity Document, Biometric Identification & Payment Solutions, etc.

Step 7: Build on change

NADRA continued to achieve more and more short-term wins in order to achieve economic development. Building on these small wins, NADRA achieved a position in the top 50 identity management countries across the globe.

Step 8: Institutionalise change

NADRA was able to institutionalise various changes by creating an organisational culture that integrated the business mission and strategy of the organisation. Customer service, innovation and transparency were also made a part of its culture. The employees were also encouraged by the management to create a healthy, non-corrupt and transparent environment.

Thus, NADRA was able to transform itself into a learning organisation and implement change gradually owing to the Kotter's eight-step model.



QUESTIONS

1. What was the reason for the creation of NADRA?

(**Hint:** The primary aim of creating NADRA was to issue Computerised Identity Card (CNIC) for the registration of all Pakistani nationals.)

2. How did NADRA achieve short-term wins?

(**Hint:** NADRA created short-term, low-cost goals to achieve short-term wins. Initially, the goals were software development and integration. Later, the goals shifted to providing technology solutions in and outside the country.)

CASE STUDY 12

MISUSE OF DELEGATED AUTHORITY BY A MANAGER

This Case Study discusses the political behaviour and misuse of the delegated authority of the manager of a public agency. It is with respect to Chapter 8 of the book.

Independent Commission Against Corruption (ICAC) is a governing body that works towards handling the growing concerns of public administration. It was established in 1989 by the New South Wales (NSW) government. The main functions of this body are to investigate and expose unethical, fraudulent and corrupt conduct in public sector agencies; prevent corruption through advice and support; and train and educate the NSW community about corruption and its repercussions. ICAC covers the jurisdiction of all public agencies, which includes all public sector employees, government departments, local councils, ministers, members of parliament, judiciary, and the governor. However, the NSW police force does not come under the jurisdiction of ICAC.

In 2007, after an extensive investigation, ICAC found that the decisions taken by one of the managers of a public agency was highly influenced with his political affiliations. ICAC also found out that all his decisions had a negative impact on the entire agency due to the misuse of the delegated authority. The manager was also accused of favouring some air-conditioning maintenance companies by misusing his tendering decisions. He had the authority to sanction or approve tenders, which was delegated to him by the senior officers at the agency. The manager influenced many companies by mishandling his authority.

It was also found by the ICAC that the manager had started approving extra services for the benefit of some of the contracted vendors to please them for his personal interest. These vendors were not even a part of the original contract. As a result, the extra payments increased the costs of services and contracts for the agency.

The manager happily approved all the contracts and invoices where his profit sharing was involved. Moreover, he had a very close relationship with those companies in order to receive the part of the contracts he approved. Gradually, the manager began to approve contracts worth more than \$ 22,000, which was beyond his delegated authority.

Consequently, the misuse of his authority became apparent to the other officials in the agency. Finally, ICAC stepped in and investigated the matter. The manager was found guilty and punished. Further, he was counselled and educated on his designated roles and responsibilities.

CASE STUDY 12**N O T E S****QUESTIONS**

1. What role was played by ICAC in this case?

(Hint: The ICAC investigated the matter, and exposed the corrupt manager of the agency. Also, the manager was counselled on his job responsibilities.)

2. How did the manager misuse his delegated authority?

(Hint: All the decisions of the manager of the agency were highly influenced by his political affiliations. He approved only those invoices and contracts in which he had a share in the profits.)

NUMINOS

PROGRAMS OFFERED

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Business Management	Business Management	Business Management
Marketing Management	Marketing Management	Digital Marketing
Financial Management	Financial Management	Corporate Communication
Human Resource Management	Human Resource Management	
International Trade Management	International Trade Management	
Banking and Finance Management	Banking and Finance Management	
Supply Chain Management	Supply Chain Management	
Retail Management	Retail Management	
	Services Management	
	Financial Planning and Wealth Management	

PROGRAM HIGHLIGHTS



Self Instructional
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Delivery



Personal Contact
Program



Access to the Learning
Management System
& Digital Library



Placement Support
Services

AWARDS AND ACCOLADES

- Awarded "Top Distance Learning Institute of India" by Competition Success Review at CSR Awards for Excellence
– 2013 & 2014
- Ranked 2nd among Top B-Schools in India offering Management Program in Distance Learning Mode by Zee Business
– 2011 & 2012
- Ranked 5th among Top Distance Learning Institutes in India that have leveraged methodology, technology, faculty & infrastructure to provide best experience by DNA – Indus Learning Survey 2012

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