CHAPTER

4

PLANNING

Learning Objectives

This chapter will enable the reader to:

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

NATURE OF PLANNING

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

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

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

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

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

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

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

IMPORTANCE OF PLANNING

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

Minimises Risk and Uncertainty

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

Leads to Success

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

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

Focuses Attention on the Organisation's Goals

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

Facilitates Control

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

Trains Executives

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

TYPES OF PLANS

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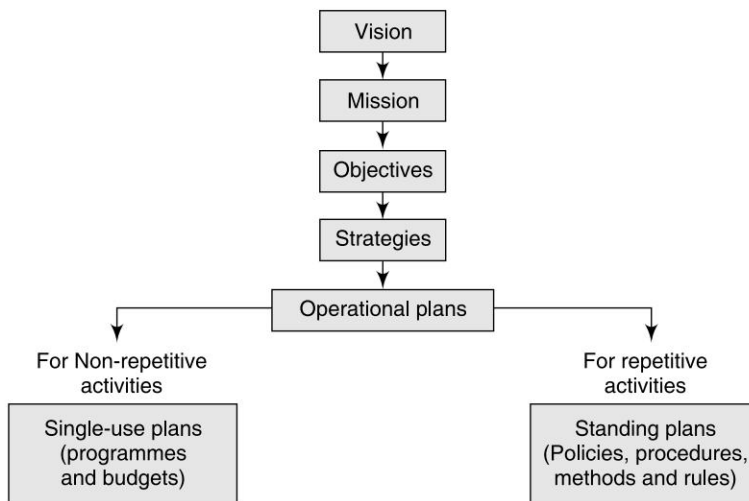

Fig. 4.1 Hierarchy of organisational plans

Vision

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

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

Mission

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

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

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

Objectives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Precise and measurable goals are better motivators of people than general goals.

3. Precise and measurable goals make it easier for lower level managers to develop their own plans for actually achieving those goals. For example, if a general manager is aiming for a 15 per cent growth rate over the next four years, the sales manager can determine how sales must increase in order to meet this goal.

4. It is easier for managers to ascertain whether they are succeeding or failing if their goals are precise and measurable. For example, if they are aiming for a profit of Rs 15 lakh over the next two years, they can check progress as profit and loss figures come in. They would then be in a better position to take whatever corrective action may be necessary to help them meet their goal.

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

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

Advantages of objectives Basically the following benefits result from objectives:

1. They provide a *basis for planning* and for developing other type of plans such as policies, budgets and procedures.

2. They *act as motivators* for individuals and departments of an enterprise imbuing their activities with a sense of purpose.

3. They *eliminate haphazard action* which may result in undesirable consequences.

4. They facilitate *coordinated behaviour* of various groups which otherwise may pull in different directions.

5. They function as a *basis for managerial control* by serving as standards against which actual performance can be measured.

6. They facilitate *better management* of the enterprise by providing a basis for leading, guiding, directing and controlling the activities of people of various departments.

7. They *lessen misunderstanding and conflict* and facilitate communication among people by minimising jurisdictional disputes.

8. They *provide legitimacy* to organisation's activities.

Strategies

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

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

1. *Political and legal factors:*
   (a) Stability of the government and its political philosophy
   (b) Taxation and industrial licensing laws
   (c) Monetary and fiscal policies
   (d) Restrictions on capital movement, repatriation of capital, state trading, etc.

2. *Economic factors:*
   (a) Level of economic development and distribution of personal income
   (b) Trend in prices, exchange rates, balance of payments, etc.
   (c) Supply of labour, raw material, capital, etc.

3. *Competitive factors:*
   (a) Identification of principal competitors
   (b) Analysis of their performance and programmes in major areas, such as market penetration, product life-cycle, product mix, distribution channels and sales organisation, servicing, credit and delivery, advertising and promotion, pricing and branding, labour unions, training of personnel, technological development, productivity and efficiency in manufacturing, financial strength, profitability and rate of return on sales and investment
   (c) Anti-monopoly laws and rules of competition
   (d) Protection of patents, trade marks, brand names and other industrial property rights

4. *Social and cultural factors:*
   (a) Literacy levels of population
   (b) Religious and social characteristics
   (c) Extent and rate of urbanisation
   (d) Rate of social change

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

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

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

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

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

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

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

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

Operational Plans

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

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

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

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

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

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

Advantages of policies The advantages of policies are as follows:

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

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

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

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

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

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

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

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

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

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

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

1. Policies should, as far as possible, be stated *in writing* and should be clearly understood by those who are supposed to implement them.

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

   Only when the policy is translated into specific actions with specific control and checkpoints are established for each employee's job, might safety be said to have been truly *deployed* as a policy.

3. To ensure successful implementation of policies, the top managers and the subordinates who are supposed to implement them must *participate* in their formulation. Participation is the best assurance of loyalty to a policy.

4. A policy must strike a *reasonable balance between stability and flexibility.* Conditions change and policies must change accordingly. On the other hand, some degree of stability must also prevail if order and a sense of direction are to be achieved. There are no rigid guidelines to specify the exact degree of the requisite flexibility; only the judgement of management can determine the balance.

5. Different policies in the organisation *should not pull in different directions* and should support one another. They must be internally consistent. A family-owned organisation which is thinking to expand rapidly and also to retain exclusive family control over the enterprise is following an internally inconsistent policy because to achieve expansion, outside finance will have to be raised which may involve loss of family control.

6. Policies should *not be detrimental* to the interest of society. They must conform to the canons of ethical behaviour which prevail in society.

7. Policies must be *comprehensive* to cover as many contingencies as possible. For example, the policy to hire people through employment exchanges should also provide for a situation when adequate number of persons are not so available.

8. Policies should be *periodically reviewed* in order to see whether they are to be modified, changed, or completely abandoned and new ones put in their place.

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

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

1. Policies are general guides to both thinking and action of people at higher levels. Procedures are general guides to action only usually for people at lower levels.

2. Policies help in fulfilling the objectives of the enterprise. Procedures show us the way to implement policies.

3. Policies are generally broad and allow some latitude in decision making. Procedures are specific and do not allow latitude.

4. Policies are often established without any study or analysis. Procedures are always established after thorough study and analysis of work.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STEPS IN PLANNING

The steps generally involved in planning are as follows.

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

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

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

Planning premises can be variously classified as under:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STRATEGIC PLANNING PROCESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIMITATIONS OF PLANNING

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

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

4. Establishment of advance plans tends to make administration inflexible. When unforeseen changes in the environment, such as a business recession, change in government policy, crop failure, etc. take place, the original plan loses its value and there is need to draw up a fresh plan. But there is a tendency to make the original plan work.

5. There is the difficulty of formulating accurate premises. Since these premises are the background against which a set of plans is made, they necessarily deal with the future. Since the future cannot be known with accuracy, premising must be subject to a margin of error.

6. Planning may sometimes face people's resistance to it. In old, established organisations, managers are often frustrated in instituting a new plan simply by the unwillingness or inability of people to accept it.

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

MAKING PLANNING EFFECTIVE

Some guidelines for making planning effective are given below.

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

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

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

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

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[8]See Chapter 13 for details.

PLANNING SKILLS

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

STRATEGIC PLANNING IN THE INDIAN INDUSTRY

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

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

SUMMARY

❖ Planning has a primacy over the management functions and is a pervasive element in organisations. By planning, managers minimise uncertainty and help focus the sight of their organisation on its goals.

❖ There are two important forms of planning: strategic and tactical. *Strategic planning involves* deciding the major goals of the organisation. It is always done at the top management level. *Tactical planning* is concerned with the implementation of strategic plans. It is done at the middle and lower management levels.

❖ Besides objectives, which are the end goals of the organisation, there are two broad categories of plans: single-use plans and standing plans. *Single-use plans* are developed for a specific activity that is usually not repeated. They include programmes and budgets. Conversely, *standing plans* are used for repetitive activities. They include policies, procedures, methods and rules.

❖ There are eight steps in the process of planning: (a) establishing verifiable goals: (b) establishing planning premises; (c) deciding the planning period; (d) searching alternative courses of action;

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

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

KEY TERMS

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

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

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

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

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

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

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

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

Review Questions

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

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

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

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

MEANING OF A DECISION

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

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

TYPES OF DECISIONS

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

Programmed and Non-Programmed Decisions

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

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

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

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

Major and Minor Decisions

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

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

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

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

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

Routine and Strategic Decisions

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

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

Individual and Group Decisions

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

Some *advantages* of group decisions are:

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

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

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

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

Following are the *disadvantages* of group decisions:

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

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

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

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

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

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

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

Nominal Group Technique   This technique proceeds as under:

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

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

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

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

Simple and Complex Decisions

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

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

STEPS IN RATIONAL DECISION-MAKING

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

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

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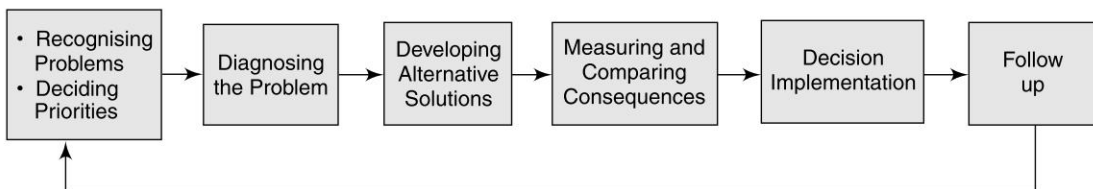6. Converting the decision into effective action
7. Follow-up

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

Recognising the Problem

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

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

Deciding Priorities among Problems

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

Diagnosing the Problem

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

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

Developing Alternative Solutions or Courses of Action

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

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

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

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

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

EXHIBIT 5.1 ▌

THE CROOKED TAILPIPE

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

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

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

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

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

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

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

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

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

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

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

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

Measuring and Comparing the Consequences of Alternative Solutions

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

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

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

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

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

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

Converting the Decision into Effective Action

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

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

Follow-up of Action

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

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

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

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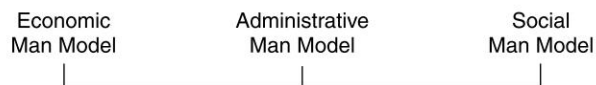
```
    Economic            Administrative          Social
   Man Model             Man Model            Man Model
   |_____|_____|
```

Fig. 5.2   The continuum of decision-making behaviour

Economic Man Model or Econologic Model

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

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

- gather *all* necessary information for a decision;

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

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

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

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

Administrative Man Model or Bounded Rationality Model

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

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

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

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

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

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

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

Social Man Model

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

ENVIRONMENT OF DECISION-MAKING

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

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[3]Kenneth E. Boulding, "The Present Position of the Theory of the Firm. In K.E. Boulding and W. Allen Spivery", *Linear Programming and the Theory of the Firm* (N.Y.: Macmillan, 1960), p. 17.
[4]Solomon E. Asch, "Opinions and Social Pressure", *Scientific American,* November 1955, pp. 31–35.

Certainty

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

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

Risk

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

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

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

■ **Table 5.1** Expected Pay Offs Associated with Two Decisions Alternatives

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

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

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

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

Decision Tree

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

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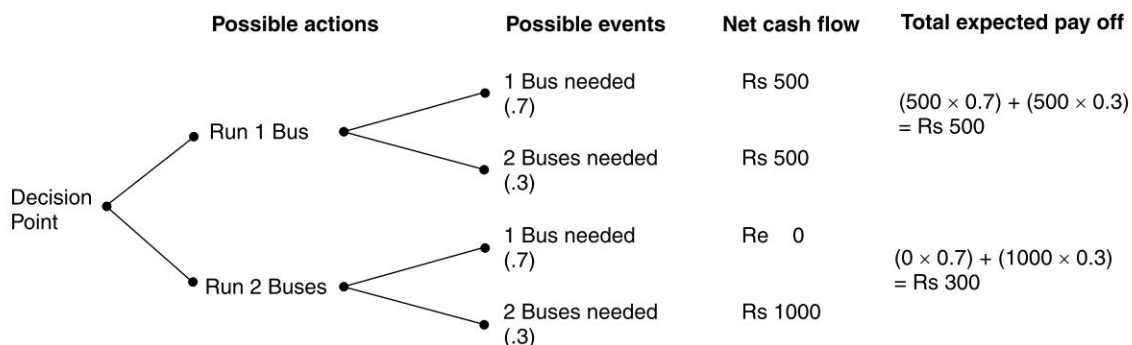and   Rs 1000 when two buses are run against the need for two.

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

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

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

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

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

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

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

Uncertainty

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

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

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

(Pay off stated in lakh of rupees)

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

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

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

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

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

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

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

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

Table 5.3 Opportunity Losses or Regrets

(Stated in lakh of rupees)

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

COMMON DIFFICULTIES IN DECISION-MAKING

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

Non-actionable Information

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

Unsupporting Environment

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

Non-Acceptance by Subordinates

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

Ineffective Communication

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

Incorrect Timing

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

SUMMARY

❖ Managers spend a great deal of time in making decisions that must be carried out by others. One can classify decisions in several ways. For example, there are programmed and non-programmed decisions, major and minor decisions, routine and strategic decisions, individual and group decisions and so on.

❖ A decision is rational if appropriate means are chosen to reach desired ends. There are seven steps of a rational decision-making process: (i) recognising the problem; (ii) deciding priorities among problems; (iii) diagnosing the problem; (iv) developing alternative solutions or courses of action; (v) measuring and comparing the consequence of alternative solutions; (vi) converting the decision into effective action and (vii) follow-up of action. According to Herbert Simon, a manager uses only limited rationality in his decisions. He only tries to reach satisfactory, rather than ideal, decisions. Search for ideal decisions may promote paralysis by analysis!

❖ Weighing and measuring of the consequences of each alternative can be done in three types of conditions: certainty, risk and uncertainty. Under conditions of certainty, managers know precisely as to what the results of each of the alternatives available to them will be. Under conditions of risk, they

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

KEY TERMS

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

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

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

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

Review Questions

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

Introduction

Directing (also referred to as leading)[1] is a process in which the management tells its employees what is to be done and ensures through guidance and supervision that it is done. It basically deals with the interpersonal relations and aims at converting plans into action. Directing makes sure that the organizational objectives and plans are effectively accomplished within the available resources and time frame. In a way, directing is considered to be the heart of the management process as planning and organizing serve no purpose without it. Even though directing in general includes all those activities performed by the managers to make employees to work willingly and efficiently, it basically involves leading, motivating and communicating with the employees. Management provides directions to its members by performing leadership, motivation and communication functions.

Directing, which is a physical act of managing employees, is not an easy task as human behaviours are rarely similar, consistent or predictable. Behaviour not only differs from one individual to another, but also differs within an individual from one situation to another. Individuals have different personality, attitudes, values, perception, motives, abilities and aspirations. Managers cannot perform their tasks satisfactorily without developing a reasonable degree of understanding of the people around them. To be successful in directing, managers need to be good at emotional intelligence, communication, motivation, teamwork, delegation and relationship management.[2]

Definitions of Directing

Directing is instructing, guiding and overseeing of employee performance. This is the essence of many definitions of directing. Let us now look at a few definitions of directing.

"Directing is the process by which personnel are inspired or motivated to accomplish work."—Russell C. Swansburg[3]

"Directing concerns the total manner in which a manager influences the actions of subordinates."—Joseph L. Massie[4]

"Directing (leading) is a management function that involves working with and through people to accomplish organizational goals."—Stephen P. Robbins[5]

"Directing (leading) is the management function that involves the manager's efforts to simulate high performance by employees."—Bateman[6]

Characteristics of Directing

The main features of directing based on the definitions are as follows:

- **Top-down approach**—In directing, the directions are issued from the higher levels to lower levels in the organizational hierarchy.

- **Command function**—Directing as a command function typically involves the issue of orders or instructions by the superiors to their subordinates. However, directing also includes activities like guiding, inspiring and mentoring of the subordinates by their superiors.

- **Pervasive function**—Directing per se is performed at different levels across the whole organization. Certainly, directing is an integral part of any level of management and it invariably happens wherever superior–subordinate relations exist.

- **Continuous activity**—Directing, as a managerial function, is continuously performed throughout the life of an organization. It is essential for the performance of other managerial functions such as planning, organizing, staffing etc.

- **Influences human behaviour**—Directing is an act of influencing the behaviour of the subordinates by the superiors. The purpose of influencing other's behaviour is to get their willing cooperation for organizational goal accomplishment.

- **Delegated function**—Directing powers are usually delegated to the lower levels of the management for the sake of better administration and time management. Delegating is a major aspect of directing function of the management.

Importance of Directing

The primary purpose of directing is to inspire the organizational members to produce products or services that satisfy the customers and promote the vitality of the organization. We shall now look at the other specific purposes of directing.

- Directing facilitates managers to get the best out of their employees through their effective performance and willing cooperation.

- It helps the employees to know what is expected of them in their job. It also helps them to begin their activities needed for goal accomplishment. Instruction and orders issued by managers as a part of the directing process helps the employees to understand, commence, proceed with and complete their work.

- It enables managers to continuously coordinate the different activities performed by their subordinates. Proper coordination between all members in an organization is essential for effective achievement of the goals of the organization.

- Directing helps the management to make optimum utilization of the human and physical resources of the organization. Clear and specific directions can help the employees understand their jobs better and minimize the wastage of resources.

- Directing enables managers to encourage and motivate the employees to willingly cooperate and perform better in their jobs through direct interactions. In other words, directing initiates and maintains actions towards desired objectives.[7]

- Good and harmonious relationship with subordinates is an essential prerequisite for the superiors in achieving success in their directing function. This way, direction helps in improving the relationships existing among the organizational members.

- Directing helps employees to accomplish their organizational as well as personal goals. In case of conflict between organizational interest and individual interest, directing ensures that the individual interests do not interfere with the organizational interest.[8]

- Directing enables the management to initiate, conduct and complete changes in the environment. This is done by invoking thoughts and discussion among employees about such changes. Directing done through communication and motivation allows the management to achieve success in the organizational change process by generating employee awareness and willingness necessary to adapt to changes.

- Long-term stability of the organization can be ensured by the management through various elements of directing like trustworthy leadership, open and effectual communication, effective motivation and proper supervision. Conflicts that threaten the stability of the organization can be resolved by managers by resorting to direct and immediate actions.

Process of Directing

Planning function involves the determination of organizational goals for the future while organizing function involves the arrangement of the resources required to perform the jobs. Staffing function brings and maintains the necessary human resources whereas controlling function monitors and checks the employee performance towards the end. Coordinating function harmonizes the various organizational activities. But it is the directing function that actually initiates, manages and completes the activities necessary for goal accomplishment.

The process of directing may differ from one organization to another depending on the factors inherent in its environment. The following directing process has been developed keeping in mind the specific requirements of nursing management.[9] However, the basic steps in this directing process can be adopted by any organization by making necessary modifications. The steps involved in this process are as follows:

1. Motivating
2. Facilitating collaboration
3. Coordinating
4. Delegating
5. Effectively managing conflict

The eventual outcome of any directing process is the accomplishment of organizational goals, objectives and mission. In this context, it is essential to ensure that there is commitment, competency and clarity of purpose among all those involved in the directing process to ensure its success. It is also essential to evaluate the efficacy of the directing process through feedback and performance indicators since directing is a lifelong process of an organization. The results of such feedback and performance evaluation must be promptly and objectively used to improve the directing process. Further, the directing process of an organization must be flexible enough to quickly adapt itself to the emerging trends and changes in its environment.

Techniques of Directing

Managers can develop and adopt their own style to direct the activities of their employees. Any decision relating to a technique or style of directing fundamentally

depends on the characteristics of the environment. Figure 13.1 shows some general techniques of directing that are available for managers to choose from to suit the occasion and serve their purpose. We shall now look at these techniques briefly.

1. **Democratic or consultative directing**—When managers consult their subordinates and obtain their opinion before arriving at decisions, then that directing style is described as consultative directing. However, the final authority to decide on the matter on hand and issuing orders rests with the managers. The subordinates' suggestions will have no binding effect on the managers as managers will usually retain the right to accept or reject those suggestions. This form of directing normally improves the relationship between the superior and subordinates and makes the latter more responsible in their job. This method also promotes free exchange of ideas and opinions within the organization and also enhances the quality of decisions made. It also improves employee morale and job satisfaction.

   However, democratic directing is a time-consuming decision-making process. It may make the subordinates feel that they have the right to be consulted in every decision made by the managers.

2. **Autocratic or dictatorial directing**—When managers decide and issue orders on organizational matters without consulting their subordinates, it is called autocratic directing. Here, managers typically hold and exercise vast powers and expect their subordinates to merely carry out their orders. The focus of these managers is on task completion and goal achievement, and human relations get less priority in their administration. It also deprives the subordinates of learning managerial and decision-making skills. This style of directing can discourage employee initiatives, innovation and participation in decisions. However, this style of directing facilitates faster decision making by managers in a rapidly changing environment.

3. **Free-rein or *laissez-faire* directing**—When directing and decision-making powers are almost fully delegated to the subordinates by the managers, then such directing style is called free-rein directing. In this technique, the subordinates themselves develop the ideas to solve the problems and also execute them.
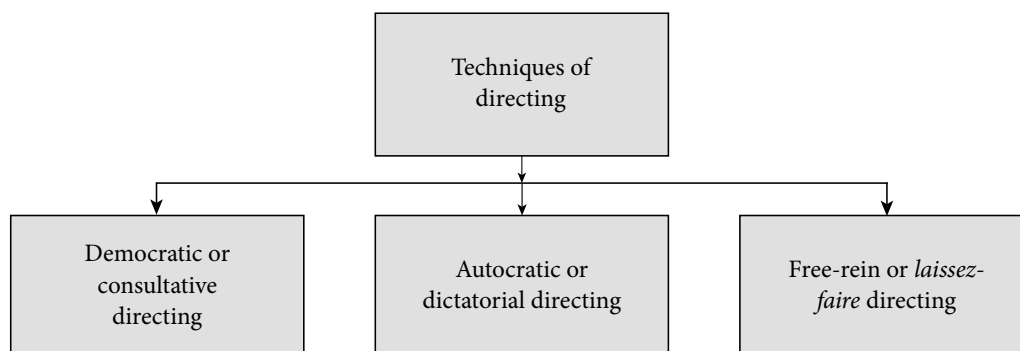

Figure 13.1

Techniques of Directing

Here, the role of the superior is predominantly that of an observer. Superiors are readily available for consultation but offer their suggestions only when explicitly asked for by their subordinates. The typical process involved in this directing style is that the superior transfers the task, explains the problem, provides a broad outline but leaves the decision and its execution to the subordinates. This method is practicable only when the subordinates are knowledgeable, skilled and possess the capability to handle the problems independently. This method may be effective only when it is combined with other techniques.[10]

Depending on the prevailing environment, nature and number of employees, and characteristics and urgency of the problem, managers may choose to adopt a specific directing technique.

Activities in Directing

Through the elements of directing like communication and motivation, managers can successfully perform diverse organizational activities. The activities generally carried out by managers through directing function are as follows:[11]

- Facilitating the accomplishment of organizational mission, vision, objectives and goals.
- Developing and using strategic and tactical plans and implementing operational plans.
- Maintaining and supplying requisite resources, including physical and human resources.
- Providing training and development programmes necessary to preserve and promote employee knowledge, skills and competency.
- Ensuring effective and faster communication for well-organized information dissemination.
- Offering guidance and motivation through leadership process.
- Maintaining and promoting interpersonal relationships among organizational members.
- Setting standards through rules, regulations, policies and procedures and also facilitating the interpretation of those rules, policies, procedures, etc.
- Keeping up and fostering employee morale.
- Providing counselling and coaching to the employees.
- Inspiring employees by emphasizing on trust, cooperation and team work among employees.
- Ensuring effective coordination among the organizational members.
- Identifying and resolving employee grievances and conflicts.
- Controlling the activities and process to maintain quality and performance.
- Guiding and counselling employees in deciding and designing their career plans.

- Facilitating the development of new methods, process and procedure for effective performance of jobs and tasks.
- Preserving and promoting group dynamics necessary for successful job performance and goal accomplishment.

Principles of Effective Directing

Principle is an accepted or perceived rule of action or conduct. The principle of directing states the rules to be followed in the case of activities concerning the directing functions. We shall now see the important principles governing the direction function of the management.

1. **Principle of harmony of objectives**—According to this principle, the effectiveness of directing depends on the degree to which the individual objectives of the employees are harmonized with the group and organizational objectives. When managers succeed in reconciling the employees' personal objectives with that of the organizational objectives, better compliance from employees can be achieved.

2. **Principle of direct supervision**—This principle insists that the managers should maintain direct and constant contact with their employees to create a sense of security and oneness among them. According to Harold Koontz,[12] "the more the direct personal contact with subordinates is, the more effective will their direction be." Direct and personalized contact with subordinates will enable managers to achieve the desired levels of employee motivation and commitment. This will enable managers to detect dissatisfaction and grievances among employee early and solve them promptly.

3. **Principle of unity of command**—This principle insists that each subordinate should report to one boss only. When an employee is accountable to a single boss for a given assignment, then he or she cannot avoid accountability and indulge in "passing the buck." Moreover, unity of command enables managers to develop supportive relationship with their subordinates and thus achieve high morale in the work environment.[13]

4. **Principle of appropriateness of direction technique**—According to this principle, the direction technique to be used by managers should be suitable for the situation, people and job or task. Organizations typically apply democratic, autocratic or free-rein technique to direct the activities of the employees. The choice of direction technique can affect the efficacy of the directing function in the organization.

5. **Principle of maximum individual contribution**—According to this principle, there should be maximum contribution from each organizational member towards goal fulfilment. Organizations should create a facilitating environment in which employees play a voluntary, spontaneous and proactive role in organizational activities.

6. **Principle of flow of information**—This principle states that the communication system must be good enough to permit free flow of information between

the superiors and the subordinates. Adherence to this principle in direction will facilitate better mutual understanding and cooperation among organizational members.

7. **Principle of leadership**—This principle emphasizes that managers should possess all the qualities of a good leader. Managers with good leadership skills can inspire, guide and counsel their employees well and also win over their trust, confidence and goodwill.

8. **Principle of strategic use of informal organization**—As per this principle, direction will be effective only when informal organizations support and supplement the role of the formal organizational structure and official relationship existing within the organization. It is essential to strengthen informal organization that allows accelerated and improved responses to unanticipated events, and enable managers to solve problems through collaboration and cooperation.

9. **Principle of follow-through**—Since directing is a continuous affair of an organization, it is essential to ascertain its efficacy through appropriate feedback and follow-up. After issuing orders and guiding subordinates, managers should find out how effective their directions are in accomplishing the goals and plans and also in achieving compliance from employees. If necessary, managers must relook and revise their directing style to make it more effective and suitable in future.

Elements of Directing

Directing is the ultimate action of managers in getting others to act after the plans and preparations are completed. Managers implement the organizational plans through the process of directing. As illustrated in Figure 13.2, the important elements of directing are motivation, communication and leadership, besides supervision. We shall now briefly discuss each of these elements.

Figure 13.2

Important Elements of Directing

Motivation

Motivation is an internal state that arouses employees to action and assists them in maintaining that arousal and action. In simple terms, motivation is the set of factors that causes people to behave in a certain way.[14] It is the process of encouraging employees to voluntarily give their best in the job so that the performance goals are achieved effectively. It involves identifying and influencing people's behaviour in a specific direction. Motivation works with the individuals' desire, energy and determination and stimulates them adequately to realize the predetermined goals. People's desire for money, success, job satisfaction, recognition and team work can be used for stimulating them. Motivating employees is an important and continuous management concern as lack of employee motivation can affect the organization's initiatives and individual's performance.

Since every individual has a different set of needs and goals, it is essential to identify and fulfil those needs through appropriate motivational techniques and tools. Basically, motivation can be classified into intrinsic motivation and extrinsic motivation. Intrinsic motivation usually comes from inside an individual without any external rewards. In contrast, extrinsic motivation usually comes from outside an individual. Increased pay, promotion, etc. are examples of extrinsic motivation while the satisfaction derived from the completion of the job can be an instance of intrinsic motivation.

Generally, the extent of effectiveness of motivation is decided by the presence of three Cs namely, collaboration, content and choice.[15] Employees are better motivated to work harder when they are encouraged to collaborate and cooperate with others. Similarly, employees are more motivated when they feel that their work adds value to the organization, society, etc. Likewise, employees are greatly motivated when they believe that they have the power to make decisions on their job. The success of motivation is determined by the direction of a person's behaviour, his or her level of effort in the job and level of persistence in the face of obstacles.[16] Chapter 16 discusses motivation in detail.

Communication

Communication is a process by which information is shared and understood by people. It is one of the major determinants of success of directing function. Effective communication is important for managers in improving interpersonal relations with others in the organization. It is important for managers to ensure that their communication practices are systematic, constant and well-connected with the organizational structure. Managers need to acquire specialization in all forms of communication to effectively manage the diverse workforce. Typically, managers should have expertise over two distinct forms of communication, namely, interpersonal communication and organizational communication. Interpersonal communication refers to the communication between two or more persons. Organizational communication includes all forms, patterns and systems of communication available within the organization.[17] Communication practices can also be classified as formal and informal, verbal and non-verbal, and oral and written communications.

Communication is essential for efficient execution of other managerial functions like planning, organizing, staffing, coordinating and controlling the organizational

resources. Effective communication enables managers to convey messages to their subordinates and others powerfully and persuasively. Managers can also get their subordinates and others act on their messages quickly and properly. Communication is thus critical for managers in performing four major functions, namely, information dissemination, control, motivation and emotional expression.[18]

Normally, managerial communication passes through formal as well as informal channels of the organization. Formal channel refers to the official organizational structure. Formal channels are frequently used to transmit orders, reports, policy, manuals, procedures, etc. Informal channels, in contrast, are those channels that remain outside the formal organizational structure. Informal channel is built around the social relationship existing among the organizational members. In fact, members use informal channels mainly for fulfilling their personal and/or emotional needs. Communication is discussed further in Chapter 14.

Leadership

Leadership is the process of influencing the behaviour of members in such a way that they work willingly and enthusiastically towards the accomplishment of goals and plans of the organization. Leadership may be defined as the process of influencing the activities of an organized group in its efforts toward goal-setting and goal achievement.[19] Effective and dynamic leadership is one major characteristic that can separate successful organizations from unsuccessful organizations. The successful leader's commands are willingly and voluntarily followed by others in an organization. Leadership usually has three dimensions, namely, the leader, the followers and the situation. Each dimension influences and gets influenced by other dimensions. The success of leadership depends on the nature, type and frequency of interactions happening among these factors. The degree of success in goal accomplishment does not depend on the personal attribute of a leader alone, but also on the needs of the followers and nature of the situation. Box 13.1 shows the initiatives of a private company in enhancing the efficacy of its directing function.

Managers become successful leaders when they possess diverse skills and abilities necessary for managing the workforce. They need to have technical qualities, initiative qualities, administrative abilities, intellectual skills, emotional control, enthusiasm, self-awareness, situation awareness, human relations skill and communication skills, besides personal qualities. This leadership is usually classified into autocratic, democratic, bureaucratic, *laissez-faire*, participative, transactional and transformational leaderships. Chapter 15 discusses leadership in detail.

Supervision

Supervisors are typically the link between the managers and the workers. They are the members of the first level of management. They directly interact with the workers to get the organizational goals accomplished. Supervisors generally spend more time on directing and less time on planning as compared to the managers belonging to higher levels. To be successful, supervisors need to focus more on their technical and human relations skills and relatively less on administrative skills.[20] Supervision is

| Box 13.1 | Enhancing the Efficacy of Directing Function—A Blue Dart Express Initiative |

After talent shortage and attrition became the burgeoning problems for today's organizations, managements tried to incorporate motivational values in their system of administration. In this regard, there is growing realization among the Indian managers that their employees cannot be continually motivated through stereotyped motivational means. They need to develop motivational techniques that fulfil the different needs of different people at different times. In this regard, the motivational initiatives of Blue Dart Express are worth mentioning.

Blue Dart Express is a premier courier and integrated express package distribution company in India. It has won the award for "Best Motivational Practice in Services" from the All India Management Association for its motivational programmes and practices. This company conducts an annual Employee Satisfaction Survey (ESS) to evaluate employee satisfaction levels across the entire organization. The satisfaction survey focuses on dimensions like immediate leadership, corporate leadership, organizational identification, work-group co-operation, job conditions, etc. The survey results provide the management with a glimpse of the extent of its workforce motivation and morale. The "People First" policy of this company focuses on internal communication systems, constant feedback, rewards and recognition and other employee support mechanisms, which ensure that its workforce remain loyal to the organization.

Source: http://www.bluedart.com/careers.html & http://www.bluedart.com/press164.html (last accessed in May 2014).

basically a process by which superiors guide their immediate subordinates in a way that benefits the organization as well as the employees. The twin aim of supervision is to ensure that subordinates make optimum use of their knowledge, skills and abilities and customers get enhanced satisfaction.

Supervisors are generally involved in the activities of: (i) issuing oral and written orders and instructions, (ii) framing time schedules for completion of work, (iii) assigning duties to the workers, (iv) checking the quality and neatness of the work done, (v) correcting the errors and mistakes and (vi) maintaining harmony among the workers. Since supervisors have to deal with the diverse workforce, it is essential that they possess a wide range of skills, qualities and competencies. These skills and competencies may include, among others, technical knowledge, interpersonal relations skills, self-motivation, problem-solving skills, stress management, loyalty and leadership skills besides good physical and mental health. Supervisors usually deal with the routine problems that arise during the course of their work. A few examples of these problems are employee absenteeism and customer complaints.

Definitions of Supervisor

Direct contact with the subordinates to supervise their day-to-day activities is the essence of many definitions of supervisors. We shall now look at a few definitions of supervisors.

"Supervisor is a manager who is in charge of, and coordinator of, the activities of a group of employees engaged in related activities within a department, section or unit of an organization."—Lester R. Bittel[21]

"A supervisor is anyone at the first level of management who has responsibility for the work of others."—Noel Harvey[22]

"Supervisor is the term used to describe the first line authority that spends the majority of his or her time of supervisory duties."—Bolton W[23]

"A supervisor is member of the most junior level of management in the organization."—David Evans[24]

Characteristics of Supervisors

Based on the definitions, the following characteristics can be listed about supervisors and supervisory jobs.

- Supervisors are the interface between the management and non-managerial workforce of the organization. They are often seen as the face of the management by the workers since supervisors are their immediate superiors.

- Supervisors make operational decisions concerning their department, division, units, etc.

- They are engaged in the process of converting the organizational resources into output. For instance, workforce, material, equipment and information are converted into output such as product, service or profit.

- Supervisors help their subordinates when the latter face problems and make mistakes in their performance.

- Supervisors perform the roles of a leader, decision maker, planner, organizer, motivator, coordinator, communicator, controller, reward administrator, change agent and trainer.[25]

- They supervise the day-to-day activities of the organization. For instance, production supervisors are in charge of the everyday production process of the organization.

- Supervisors ensure effective execution of tasks by the subordinates and also maintain the standards prescribed for each of these tasks. They are thus responsible for the work of their subordinates.

Based on the style of functioning, supervision can be classified into employee-centred supervision and job- or task-centred supervision. We shall now discuss these two kinds of supervisions.

Employee-centred supervision—In this kind of supervision, the emphasis of supervisors is on understanding the feelings and sensibilities of the subordinates. They develop a genuine concern for the well-being, i.e. the physical and mental health of their employees. They give top priority to maintaining a cordial and mutually-beneficial relationship with the workforce. In the long run, this approach can help the management to get continued support and cooperation of its employees for all its ambitious goals and plans. This approach can also minimize the employees' resistance to change programmes initiated by the management.

Job- or task-centred supervision—In this kind of supervision, the primary focus of the supervisors is on achieving the performance targets and organizational goals through subordinates. Supervisors tend to adopt a goal- or result-oriented behaviour in their dealings with the subordinates. They are also mainly concerned with the impact of subordinates' performance and productivity on organizational goals and plans.

Approaches to Supervisory Management

Even though a supervisor can develop and practice their own style and approach in dealing with the operational situations, a few universal approaches are also available. As shown in Figure 13.3, these approaches are: systematic management approach, human relations approach, quantitative approach and contingency approach.[26] We shall now briefly look at each of these approaches.

1. **Systematic management approach**—This approach insists on the proper measurement and analysis of the different activities (tasks) performed by the subordinates to complete the work assigned and achieve the organizational goals.

2. **Human relations approach**—This approach assumes that the success of supervisors lies in their ability to understand the likely behaviour of their subordinates. According to this approach, such an understanding is essential for receiving the willing cooperation and support of the subordinates for achieving performance targets and goals.

3. **Quantitative approach**—This approach provides greater importance to the science of number, namely, mathematics and statistics. This approach insists on the extensive use of mathematics and statistics in supervisory management.

4. **Contingency approach**—This approach implies that the supervisors cannot depend on any one approach to deal with all kinds of environments and problems. According to this approach, the situation alone decides the type of approach to be adopted by the supervisors. It is hence imperative for the supervisors to understand the situation and the nature of the problem prior to choosing the management approach. In a nutshell, supervisors use one or more approaches depending on the characteristics of the situation or operation.
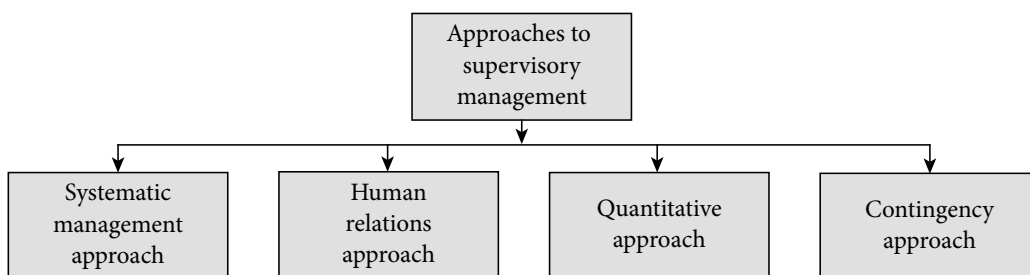

Figure 13.3

Approaches to Supervisory Management

Challenges Facing Supervisory Management

While getting the work done through their subordinates, supervisors face quite a few challenges from different sources. According to David Evans,[27] the major challenges faced by supervisors are: (i) lack of management support, (ii) lack of training, (iii) changes in technology, (iv) role confusion, (v) role overload and (vi) role conflict. We shall now discuss a few important challenges faced by supervisors in the course of their work.

- Supervisors act as representatives of the management to the workers and also deal directly with them. Consequently, they face the direct and immediate consequences of employee anger and displeasure, especially when the labour–management relations are strained.

- Supervisors are constantly under pressure to earn the trust and goodwill of both the higher-level management and the labour force. They often get caught in the middle when the demands and expectation of the management and employees are irreconcilable.

- They often experience difficulties in motivating heterogeneous workforce that has different needs, preferences, commitments and aspirations.

- Supervisors' job becomes all the more difficult in a constantly-changing and difficult environment. Frequent changes in the technology, consumer tastes and preference, workforce characteristics and management policies can create negative impact on the supervisors' job and preparedness.

- Besides their routine work, supervisors are also given the responsibility of training and motivating the employees to grow and improve in their respective fields.[28] Box 13.2 shows the efforts of a steel company to sharpen the skills and knowledge of its supervisory staff.

Essential Characteristics of Effective Supervisors

Since supervisors play a vital role in the managerial efforts to execute organizational goals, it is necessary to enhance their effectiveness constantly. Top management should concentrate on the development of the dual skills of the supervisors, namely, the behaviour-based skills and job- or task-based skills. Development of behaviour-based skills of supervisors will enable them to: (i) understand their subordinates well and build teams effectively, (ii) undertake initiatives to improve performance, (iii) clearly communicate their feelings and expectations, (iv) promote workforce diversity, (v) carry out performance evaluation objectively, (vi) settle conflicts amicably and (vii) effect changes successfully. In contrast, the fostering of job- or task-based skills will enable supervisors to: (i) improve the quality of work, (ii) identify the cost-reduction possibilities, (iii) develop and execute performance improvement plans and (iv) enhance process analysis and design.[29] However, supervisors must possess the following characteristics necessary to do the supervisory job effectively:

1. They should possess thorough knowledge of their job as this is an important prerequisite for commanding respect from their subordinates.

Box 13.2	*Manthan Ab* Shop-floor *Se* (MASS) at Tata Steel

In almost every organization, supervisors who act as the linking pins of the management and the workforce face the challenge of achieving results through the efforts of others. Since they work with and through their subordinates, they need to be aware of the supervisory functions and skills and also know how to apply modern supervisory management principles in the job situation. Given the complex nature of the supervisors' job, many organizations have undertaken specific and persistent measures to expand the knowledge and skills base of those people who perform supervisory jobs. In this regard, Tata Steel has introduced a knowledge discovery and sharing intervention programme for its supervisors. Let us look at its initiatives.

Tata Steel has launched ambitious programmes called "Aspire Knowledge *Manthan*" ("*Manthan*" means "churning of knowledge") and MASS ("*Manthan Ab* Shop-floor *Se*") for its supervisors. The objective of Aspire Knowledge *Manthan* is to instil confidence in employees and help them perform better. It aims at increasing the flow of knowledge throughout the organization by capturing tacit knowledge directly from the grass-root level and then using this across the whole organization. MASS ("*Manthan Ab* Shop-floor *Se*") is a supervisor-specific programme. It looks to promote the horizontal deployment of available knowledge assets at the plant-floor operator level. Supervisors at the shop-floor level are drawn from a variety of departments for participating in an eight-week knowledge discovery and sharing intervention. The entire programme is carried out in four phases of: (i) training and defining the scope of work, (ii) searching of knowledge assets, harvesting with shop-floor employees and experts, (iii) identifying good practices and (iv) syndication with departments and documentation.

Source: http://www.ikmagazine.com/xq/asp/sid.0/articleid.4DB81CD0-1CC8-475F-9B93-EFBC11405FBD/eTitle.Case_study_Tata_Steel/qx/display.htm (last accessed in May 2014).

2. They should remain open to the ideas, suggestions and thoughts of their subordinates. Openness, good listening and a proactive approach will enable supervisors to gain the confidence of their subordinates.

3. They should issue reasonable orders, only then can they expect compliance from their subordinates. Such orders should be compatible with the organizational objectives and the subordinates' job.[30]

4. They must learn to recognize the good work of the people and praise them when they deserve it.

5. They must be good at motivating others and themselves. They should have the capability to motivate the employees, especially when they lack confidence in their ability to perform the jobs assigned to them. They must remain cool, composed and self-assured, particularly when they face challenging situations.

6. They should provide due importance for training the subordinates in their job so that they develop their full potential and do their work professionally and effectively.

7. Supervisors should allow their subordinates to enjoy job autonomy through proper delegation of authority and responsibility. However, the subordinates must be held accountable for the results.

8. They must understand the reason behind the failure of their subordinates, if any, and make subordinates accountable, just in proportion to their role in failure.

9. Supervisors must be impartial in all their dealings with the employees, especially when there are interpersonal conflicts.

10. They should remain approachable by making themselves available to the subordinates whenever they have concerns and problems.

11. They should be ethical and disciplined, only then can they expect their subordinates to behave so.

12. Supervisors must have the ability and dynamism to adapt quickly to the changes in the environment.

Human Behaviour in an Organization —An Overview

Any study of human behaviour in an organizational situation and of the interface between human behaviour and organization is called organizational behaviour.[31] Managers need to understand the behaviour of people at different levels of the organization, especially of those who directly work under them. This is because each individual working for the organization has a unique set of personal characteristics, distinct personal background and past experience. These characteristics and experiences influence and shape their behaviour and the resulting performance. An understanding of such behaviour will enable managers to predict and manage the employee behaviour at the workplace. Moreover, most of the activities relating to directing (like motivating, leading and communicating) aim at influencing the work-related behaviour of the members. Certainly, individual behaviour is at the heart of human motivation.[32] Managers can properly determine the type of directing technique to be used in a situation only on the basis of their understanding of the subordinates' mindset.

MARS Model of Individual Behaviour

According to the MARS Model, the four factors that influence the individual behaviour of employees in an organization are: (i) motivation, (ii) ability, (iii) role perceptions and (iv) situations.

- *Motivation* refers to the forces within the persons that affect his/her direction, strength and persistence of choice of behaviour.

- *Ability* refers to the capacity of a person to do a particular job. The ability of a person generally denotes a combination of mental ability (like memory and inductive reasoning), physical ability (like stamina, body coordination and physical strength) and motor ability (like reaction time, finger dexterity, etc).

- *Role perception* refers to an individual's views or beliefs on the suitability of a specific behaviour in a given situation.

- *Situation* refers to the situational factors that positively or negatively affect the behaviour and performance of an individual.

The MARS Model states that these four factors have a collective influence on an individual's behaviour. An individual's performance is bound to decline if any of these factors get weakened.[33] Usually, the behaviours of individuals in organizations can be classified into one of the five forms, namely, task performance, organizational citizenship, counterproductive work behaviours, joining and staying with the organization and work attendance.[34] Let us discuss them briefly.

- *Task performance* means the voluntary goal-oriented behaviour of individuals which results in the production of goods or service and fulfilment of organizational goals.

- *Organizational citizenship* refers to employee performance that exceeds the standards or requirements. It is an exemplary and selfless behaviour that promotes organizational interest.

- *Counterproductive work behaviours* refer to the kind of individual behaviours (like work avoidance, work sabotage, etc.) that directly or indirectly hurt the organizational interests and goal-fulfilment initiatives.

- *Joining and staying with the organization* is a kind of behaviour that is essential for achieving positive behaviours such as task performance or organizational citizenship. If individuals do not like to stay with the organization for certain job-related reasons, they will be motivated to look for alternate employment.

- *Work attendance* refers to individuals reporting to work at scheduled time. Employees may abstain from work for reasons like work-related stress, job dissatisfaction and easy availability of leave with pay, including medical leave facilities.

Summary

1. Directing is a process in which the management tells its employees what is to be done, and ensures through guidance and supervision that it is done.

2. Features of directing are: (i) top-down approach, (ii) command function, (iii) pervasive function, (iv) continuous activity, (v) influencing human behaviour and (vi) delegated function.

3. The steps involved in the directing process are motivating, facilitating collaboration, coordinating, delegating and effectively managing conflict.

4. Techniques of directing are democratic or consultative directing, autocratic or dictatorial directing and free-rein or *laissez-faire* directing.

5. Principles governing the directing function of management are: (i) principle of harmony of objectives, (ii) principle of direct supervision, (iii) principle of unity of command, (iv) principle of appropriateness of direction technique, (v) principle of maximum individual contribution, (vi) principle of flow of information, (vii) principle of leadership, (viii) principle of strategic use of informal organization and (ix) principle of follow through.

6. Elements of directing are motivation, communication and leadership, besides supervision.

7. Supervision is a process by which superiors guide their immediate subordinates in a way that benefits the organization as well as the employees.

8. The two kinds of supervision are employee-centred supervision and job-or task-centred supervision.

9. Approaches to supervisory management are systematic management approach, human relation approach, quantitative approach and contingency approach.

10. Any study of human behaviour in an organizational situation and of the interface between human behaviour and organization is called organizational behaviour.

11. Factors influencing the individual behaviour of employees in an organization are: (i) motivation, (ii) ability, (iii) role perceptions and (iv) situations.

Review Questions

Short-answer questions

1. Define the term directing.

2. What are the characteristics of directing?

3. Briefly explain the process of directing.

4. Distinguish between democratic directing and autocratic directing.

5. Write a note on *laissez-faire* directing.

6. State the meaning of supervision.

7. What are the different kinds of supervision?

8. Explain the characteristics of supervision.

9. What are the various approaches to supervisory management?

10. State the MARS model of individual behaviour.

Essay-type questions

1. Enumerate the importance of directing as a managerial function.

2. Discuss in detail the activities usually carried out through the directing function.

3. Describe the important principles governing the directing function of management.

4. Critically evaluate the different elements of directing with appropriate examples.

5. Enumerate the challenges facing supervisory management in organizations.

6. Examine the essential characteristics of effective supervisors.

7. Explain the need for understanding human behaviour in an organization for effective directing.

8. Supervisors are the interface between the management and non-managerial workforce in organizations. Discuss.

Case Study

Production Woes at Ameen Textile Mills

Ameen Textile Mills Private Limited came into existence in 1980 as a spinning mill to provide a wide range of products and services to the textile and apparel markets. This company produces premium quality yarn in different diameters and in long and continuous lengths. The yarn produced by the company is widely used for textiles, sewing, knitting, weaving, embroidery, etc. Ameen Textile has made ambitious plans to meet the growing market demand by extending its reach to clients through quick business expansion within the country and to eventually obtain leadership position in the industry.

In its quest to become a major player in the textile field, this reasonably peaceful company began to pursue aggressive growth policies by formulating highly challenging organizational goals in terms of production and sales volume. As a part of one such measure, it asked its production managers to achieve manifold increase in production by setting new production goals and targets that test employees' production capability. Production managers were given the liberty to introduce a two-shift system for workers as against the present single shift and also involve them in overtime work for up to four hours beyond the shift timings to meet the stiff production targets.

Wasting no time, production managers issued directives to the production supervisors to implement the new measures immediately. Consequently, new measures were introduced at different levels with the promise of

Chapter 16   Being an Effective Leader

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Learning Objectives

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16.1 *Define* leader and leadership.
16.2 *Compare* and contrast early theories of leadership.
16.3 *Describe* the three major contingency theories of leadership.

16.4 *Describe* contemporary views of leadership.
16.5 *Compare* the various theories of leadership for their validity.
16.6 *Discuss* 21st-century issues affecting leadership.

What does leadership look like? When Russia invaded Ukraine in March 2022, many observers would say that Ukraine's President Volodymyr Zelenskyy demonstrated great leadership. One might not expect to find a leader in a former television actor, but Zelenskyy's response to the invasion demonstrated a leadership style that those observing from around the world admired. Despite an extreme risk of danger, he stayed rooted in the Kyiv capital to rally the morale of his brutalized country, standing up for his country's ideals. In the face of unequal odds and putting his own fear aside, he stood his ground, and his words inspired confidence in the troops that went into battle. His skillset and ability to relate to people and tap into their emotions have helped inspire his country and build global support. In response to Zelenskyy's leadership, the EU quickly placed tough financial sanctions on Russia, and tech companies, oil giants, and sporting associations shut down business with Russia.[1]

Management Myth: Leaders are born, not made.

Management Reality: Leadership is a skill that managers can build with awareness and effort.

WHO Are Leaders, and What Is Leadership?

LO16.1 Define leader and leadership.

Our definition of a **leader** is someone who can influence others and who has managerial authority. **Leadership** is a process of leading a group and influencing that group to achieve its goals. It's what leaders do.

leader
Someone who can influence others and who has managerial authority

leadership
A process of influencing a group to achieve goals

Are all managers leaders? Because leading is one of the four management functions, yes, ideally, all managers *should* be leaders. Thus, we're going to study leaders and leadership from a managerial perspective.[2] Leaders and leadership, like motivation, are organizational behavior topics that have been researched a lot. Most of that research has been aimed at answering the question: *What is an effective leader*? Let's look at some early leadership theories that attempted to answer that question.

EARLY **Leadership Theories**

LO16.2 Compare and contrast early theories of leadership.

People have been interested in leadership since they started coming together in groups to accomplish goals. However, it wasn't until the early part of the 20th century that researchers actually began to formally study leadership. These early leadership theories focused on the *leader* (leadership trait theories) and how the *leader interacted* with their group members (leadership behavior theories).

Leadership Traits

Researchers at the University of Florida and University of North Carolina reported that taller men, compared to shorter men, tended to possess higher levels of social esteem, become successful leaders, earn more money, and have greater career success.[3] What does a study of height have to do with trait theories of leadership? Well, that's also what leadership trait theories have attempted to do—identify certain traits that all leaders have.

Leadership research in the 1920s and 1930s focused on isolating leader traits—that is, characteristics—that would differentiate leaders from nonleaders. Some of the traits studied included physical stature, appearance, social class, emotional stability, fluency of speech, and sociability. Despite the best efforts of researchers, it proved impossible to identify a set of traits that would *always* differentiate a leader (the person) from a nonleader. Maybe it was a bit optimistic to think that a set of consistent and unique traits would apply universally to all effective leaders, no matter whether they were in charge of Procter & Gamble, the Moscow Ballet, the country of France, a local collegiate chapter of Alpha Chi Omega, a McDonald's franchise, or Oxford University. However, later attempts to identify traits consistently associated with *leadership* (the process of leading, not the person) were more successful. Ten traits shown to be associated with effective leadership are described briefly in **Exhibit 16-1**.

Researchers eventually recognized that traits alone were not sufficient for identifying effective leaders, because explanations based solely on traits ignored the interactions of leaders and their group members as well as situational factors. Possessing the appropriate traits only made it more likely that an individual would be an effective leader. Therefore, leadership research from the late 1940s to the mid-1960s concentrated on the preferred behavioral styles that leaders demonstrated. Researchers wondered whether something unique in what effective leaders *did*—in other words, in their *behavior*—was the key.

Leadership Behaviors

Carter Murray, CEO of the advertising agency FCB, once told a colleague, "Look, I think you're amazing, incredibly talented and you can do even more than you think in your wildest dreams. And I am not going to manage you to do that. You will determine that yourself."[4] In contrast, Elon Musk built a reputation as the CEO of Tesla and SpaceX of being harsh and unforgiving, telling workers who did not want to return to the office following the COVID-19 pandemic that they could "pretend to work someplace else."[5] These two leaders, as you can see, behaved in two very different ways. What do we know about leader behavior, and how can it help us in our understanding of what an effective leader is?

Exhibit 16-1
Ten Traits Associated with
Leadership

1. **Drive.** Leaders exhibit a high effort level. They have a relatively high desire for achievement, they are ambitious, they have a lot of energy, they are tirelessly persistent in their activities, and they show initiative.

2. **Desire to lead.** Leaders have a strong desire to influence and lead others. They demonstrate the willingness to take responsibility.

3. **Honesty and integrity.** Leaders build trusting relationships with followers by being truthful or nondeceitful and by showing high consistency between word and deed.

4. **Self-confidence.** Followers look to leaders for an absence of self-doubt. Leaders, therefore, need to show self-confidence in order to convince followers of the rightness of their goals and decisions.

5. **Intelligence.** Leaders need to be intelligent enough to gather, synthesize, and interpret large amounts of information, and they need to be able to create visions, solve problems, and make correct decisions.

6. **Job-relevant knowledge.** Effective leaders have a high degree of knowledge about the company, industry, and technical matters. In-depth knowledge allows leaders to make well-informed decisions and to understand the implications of those decisions.

7. **Extraversion.** Leaders are energetic, lively people. They are sociable, assertive, and rarely silent or withdrawn.

8. **Proneness to guilt.** Guilt proneness is positively related to leadership effectiveness because it produces a strong sense of responsibility for others.

9. **Emotional intelligence.** Empathetic leaders can sense others' needs, listen to what followers say (and don't say), and read the reactions of others.

10. **Conscientiousness.** People who are disciplined and able to keep commitments have an apparent advantage when it comes to leadership.[6]

Researchers hoped that the **behavioral theories of leadership** would provide more definitive answers about the nature of leadership than did the trait theories.[7] The four main leader behavior studies are summarized in **Exhibit 16-2**.

behavioral theories of leadership
Theories that identify behaviors that differentiate effective leaders from ineffective leaders

Exhibit 16-2
Behavioral Theories of Leadership

	Behavioral Dimension	Conclusion
University of Iowa	**Democratic style:** Involving subordinates, delegating authority, and encouraging participation **Autocratic style:** Dictating work methods, centralizing decision making, and limiting participation **Laissez-faire style:** Giving the group freedom to make decisions and complete work	The democratic style of leadership was most effective, although later studies showed mixed results.
Ohio State	**Consideration:** Being considerate of followers' ideas and feelings **Initiating structure:** Structuring work and work relationships to meet job goals	High–high leaders (high in consideration and high in initiating structure) achieved high subordinate performance and satisfaction, but not in all situations.
University of Michigan	**Employee oriented:** Emphasized interpersonal relationships and taking care of employees' needs **Production oriented:** Emphasized technical or task aspects of job	Employee-oriented leaders were associated with high group productivity and higher job satisfaction.
Managerial Grid	**Concern for people:** Measured leader's concern for subordinates on a scale of 1 to 9 (low to high) **Concern for production:** Measured leader's concern for getting the job done on a scale of 1 to 9 (low to high)	Leaders performed best with a 9,9 style (high concern for production and high concern for people).

autocratic style
A leader who dictates work methods, makes unilateral decisions, and limits employee participation

democratic style
A leader who involves employees in decision making, delegates authority, and uses feedback as an opportunity for coaching employees

laissez-faire style
A leader who lets the group make decisions and complete the work in whatever way it sees fit

initiating structure
The extent to which a leader defines their role and the roles of group members in attaining goals

consideration
The extent to which a leader has work relationships characterized by mutual trust and respect for group members' ideas and feelings

high–high leader
A leader high in both initiating structure and consideration behaviors

managerial grid
A two-dimensional grid for appraising leadership styles

Apple's former senior vice president of retail, Angela Ahrendts, is an employee-oriented leader. Her compassionate and nurturing behavior toward subordinates helps them realize their full potential, inspires them to succeed, and results in their loyalty and job satisfaction. Caring for her employees has contributed to Ahrendts's success as an entrepreneur and business leader. She has recently left Apple and is now on the board at Airbnb, where she's been charged with building community among customers.
Source: PA Images/Alamy Stock Photo

UNIVERSITY OF IOWA STUDIES   The University of Iowa studies explored three leadership styles to find which was the most effective.[8] The **autocratic style** described a leader who dictated work methods, made unilateral decisions, and limited employee participation. The **democratic style** described a leader who involved employees in decision making, delegated authority, and used feedback as an opportunity for coaching employees. Finally, the **laissez-faire style** leader let the group make decisions and complete the work in whatever way it saw fit. The researchers' results seemed to indicate that the democratic style contributed to both good quantity and quality of work.

Had the Iowa group found the answer to the question of the most effective leadership style? Unfortunately, it wasn't that simple. Later studies of the autocratic and democratic styles showed mixed results. For instance, the democratic style sometimes produced higher performance levels than the autocratic style, but at other times it didn't. However, more consistent results were found when a measure of employee satisfaction was used. Group members were more satisfied under a democratic leader than under an autocratic one.[9]

Now leaders had a dilemma. Should they focus on achieving higher performance or on achieving higher member satisfaction? This recognition of the dual nature of a leader's behavior—that is, focus on the task and focus on the people—was also a key characteristic of the other behavioral studies.

THE OHIO STATE STUDIES   The Ohio State studies identified two important dimensions of leader behavior.[10] Beginning with a list of more than 1,000 behavioral dimensions, the researchers eventually narrowed it down to just two that accounted for most of the leadership behavior described by group members. The first was called **initiating structure**, which referred to the extent to which a leader defined their role and the roles of group members in attaining goals. It included behaviors that involved attempts to organize work, work relationships, and goals. The second was called **consideration**, which was defined as the extent to which a leader had work relationships characterized by mutual trust and respect for group members' ideas and feelings. A leader who was high in consideration helped group members with personal problems, was friendly and approachable, and treated all group members as equals. They showed concern for (were considerate of) their followers' comfort, well-being, status, and satisfaction. Research found that a leader who was high in both initiating structure and consideration (a **high–high leader**) sometimes achieved high group task performance and high group member satisfaction, but not always.

UNIVERSITY OF MICHIGAN STUDIES   Leadership studies conducted at the University of Michigan at about the same time as those done at Ohio State also hoped to identify behavioral characteristics of leaders that were related to performance effectiveness. The Michigan group also came up with two dimensions of leadership behavior, which they labeled employee-oriented and production-oriented.[11] Leaders who were *employee-oriented* were described as emphasizing interpersonal relationships. The *production-oriented* leaders, in contrast, tended to emphasize the task aspects of the job. Unlike the other studies, the Michigan researchers concluded that leaders who were employee-oriented were able to get high group productivity and high group member satisfaction.

THE MANAGERIAL GRID   The behavioral dimensions from these early leadership studies provided the basis for the development of a two-dimensional grid for appraising leadership styles. This **managerial grid** used the behavioral dimensions "concern for people" (the vertical part of the grid) and "concern for production" (the horizontal part of the grid) and evaluated a leader's use of these behaviors, ranking them

on a scale from 1 (low) to 9 (high).[12] Although the grid had 81 potential categories into which a leader's behavioral style might fall, only five styles were named: impoverished management (1,1, or low concern for production, low concern for people), task management (9,1, or high concern for production, low concern for people), middle-of-the-road management (5,5, or medium concern for production, medium concern for people), country club management (1,9, or low concern for production, high concern for people), and team management (9,9, or high concern for production, high concern for people). Of these five styles, the researchers concluded that managers performed best when using a 9,9 style. Unfortunately, the grid offered no answers to the question of what made a manager an effective leader; it only provided a framework for conceptualizing leadership style. In fact, little substantive evidence supports the conclusion that a 9,9 style is most effective in all situations.[13]

Leadership researchers were discovering that predicting leadership success involved something more complex than isolating a few leader traits or preferable behaviors. They began looking at situational influences; specifically, which leadership styles might be suitable in different situations and what these different situations might be.

CONTINGENCY **Theories of Leadership**

LO16.3 Describe the three major contingency theories of leadership.

"The corporate world is filled with stories of leaders who failed to achieve greatness because they failed to understand the context they were working in."[14] In this section, we examine three contingency theories—Fiedler, Hersey-Blanchard, and path-goal—that focus on context. Each looks at defining leadership style and the situation and attempts to answer the *if-then* contingencies (that is, *if* this is the context or situation, *then* this is the best leadership style to use).

The Fiedler Model

The first comprehensive contingency model for leadership was developed by Fred Fiedler.[15] The **Fiedler contingency model** proposed that effective group performance depended on properly matching the leader's style and the amount of control and influence in the situation. The model was based on the premise that a certain leadership style would be most effective in different types of situations. The keys were to (1) define those leadership styles and the different types of situations, and then (2) identify the appropriate combinations of style and situation.

Fiedler proposed that a key factor in leadership success was an individual's basic leadership style, either task-oriented or relationship-oriented. To measure a leader's style, Fiedler developed the **least-preferred coworker (LPC) questionnaire**. This questionnaire contained 18 pairs of contrasting adjectives—for example, pleasant–unpleasant, cold–warm, boring–interesting, or friendly–unfriendly. Respondents were asked to think of all the coworkers they had ever had and to describe that one person they *least enjoyed* working with by rating them on a scale of 1 to 8 for each of the 18 sets of adjectives (the 8 always described the positive adjective out of the pair, and the 1 always described the negative adjective out of the pair).

If the leader described the least-preferred coworker in relatively positive terms (in other words, a "high" LPC score), then the respondent was primarily interested in good personal relations with coworkers and the style would be described as *relationship-oriented*. In contrast, if you saw the least-preferred coworker in relatively unfavorable terms (a low LPC score), you were primarily interested in productivity and getting the job done; thus, your style would be labeled as *task-oriented*. Fiedler did acknowledge that a small number of people might fall between these two extremes and not have a cut-and-dried leadership style. One other important point is that Fiedler

Fiedler contingency model
A leadership theory proposing that effective group performance depends on the proper match between a leader's style and the degree to which the situation allows the leader to control and influence

least-preferred coworker (LPC) questionnaire
A questionnaire that measures whether a leader is task or relationship oriented

assumed a person's leadership style was fixed and stable, regardless of the situation. In other words, if you were a relationship-oriented leader, you'd always be one, and the same would be true for being task-oriented.

After an individual's leadership style had been assessed through the LPC, it was time to evaluate the situation in order to match the leader with the situation. Fiedler's research uncovered three contingency dimensions that defined the key situational factors in leader effectiveness.
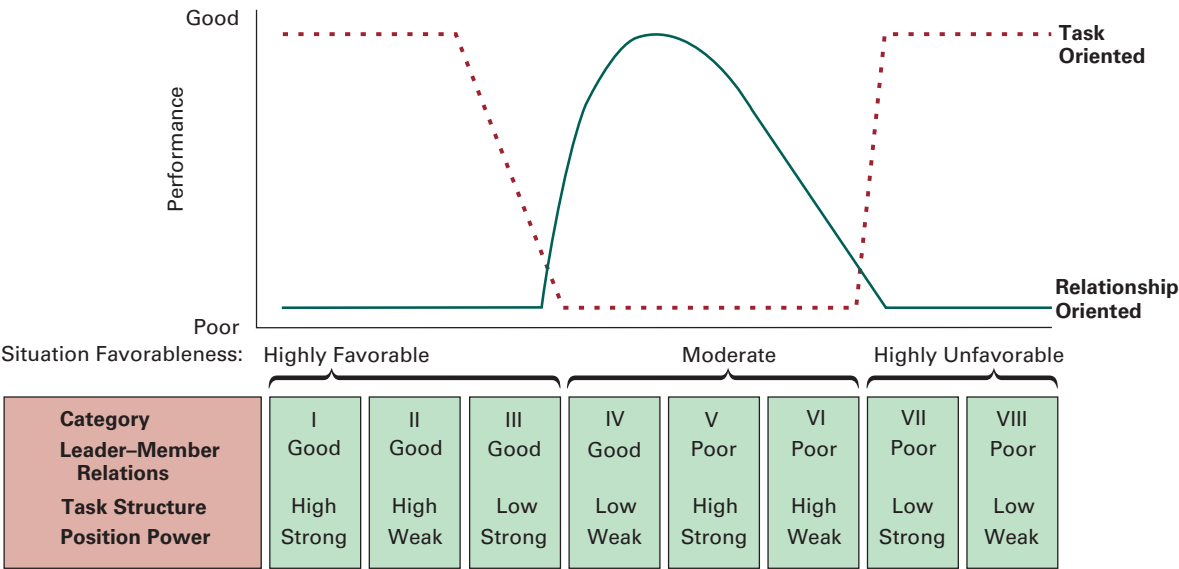
leader–member relations
One of Fiedler's situational contingencies that describes the degree of confidence, trust, and respect employees have for their leader

task structure
One of Fiedler's situational contingencies that describes the degree to which job assignments are formalized and structured

position power
One of Fiedler's situational contingencies that describes the degree of influence a leader has over activities such as hiring, firing, discipline, promotions, and salary increases

- **Leader–member relations:** The degree of confidence, trust, and respect employees have for their leader; rated as either good or poor
- **Task structure:** The degree to which job assignments are formalized and structured; rated as either high or low
- **Position power:** The degree of influence a leader has over activities such as hiring, firing, discipline, promotions, and salary increases; rated as either strong or weak

Each leadership situation was evaluated in terms of these three contingency variables, which, when combined, produced eight possible situations that were either favorable or unfavorable for the leader. (See **Exhibit 16-3**.) Categories I, II, and III were classified as highly favorable for the leader; categories IV, V, and VI were moderately favorable for the leader; and categories VII and VIII were described as highly unfavorable for the leader.

Once Fiedler had described the leader variables and the situational variables, he had everything he needed to define the specific contingencies for leadership effectiveness. To do so, he studied 1,200 groups where he compared relationship-oriented versus task-oriented leadership styles in each of the eight situational categories. He concluded that task-oriented leaders performed better in very favorable situations and in very unfavorable situations. (See the top of Exhibit 16-3, where performance is shown on the vertical axis and situation favorableness is shown on the horizontal axis.) On the other hand, relationship-oriented leaders performed better in moderately favorable situations.

Because Fiedler treated an individual's leadership style as fixed, only two ways could improve leader effectiveness. First, you could bring in a new leader whose style better fit the situation. For instance, if the group situation was highly unfavorable but was led by a relationship-oriented leader, the group's performance could be improved

Exhibit 16-3
The Fiedler Model

Category	I	II	III	IV	V	VI	VII	VIII
Leader–Member Relations	Good	Good	Good	Good	Poor	Poor	Poor	Poor
Task Structure	High	High	Low	Low	High	High	Low	Low
Position Power	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak

Situation Favorableness: Highly Favorable / Moderate / Highly Unfavorable

by replacing that person with a task-oriented leader. The second alternative was to change the situation to fit the leader. This could be done by restructuring tasks; by increasing or decreasing the power that the leader had over factors such as salary increases, promotions, and disciplinary actions; or by improving leader–member relations.

Research testing the overall validity of Fiedler's model has shown considerable evidence to support the model.[16] However, his theory wasn't without critics. The major criticism is that it's probably unrealistic to assume that a person can't change their leadership style to fit the situation. Effective leaders can, and do, change their styles. Another is that the LPC wasn't very practical. Finally, the situation variables were difficult to assess.[17] In spite of these shortcomings, the Fiedler model showed that effective leadership style needed to reflect situational factors.

Hersey and Blanchard's Situational Leadership Theory

Paul Hersey and Ken Blanchard developed a leadership theory that has gained a strong following among management development specialists.[18] This model, called **situational leadership theory (SLT)**, is a contingency theory that focuses on followers' readiness. Before we proceed, two points need clarification: why a leadership theory focuses on the followers and what is meant by the term *readiness*.

The emphasis on the followers in leadership effectiveness reflects the reality that it *is* the followers who accept or reject the leader. Regardless of what the leader does, the group's effectiveness depends on the actions of the followers. This important dimension has been overlooked or underemphasized in most leadership theories. And **readiness**, as defined by Hersey and Blanchard, refers to the extent to which people have the ability and willingness to accomplish a specific task.

SLT uses the same two leadership dimensions that Fiedler identified: task and relationship behaviors. However, Hersey and Blanchard go a step further by considering each as either high or low and then combining them into four specific leadership styles, described as follows:

- *Telling (high task–low relationship):* The leader defines roles and tells people what, how, when, and where to do various tasks.
- *Selling (high task–high relationship):* The leader provides both directive and supportive behavior.
- *Participating (low task–high relationship):* The leader and followers share in decision making; the main role of the leader is facilitating and communicating.
- *Delegating (low task–low relationship):* The leader provides little direction or support.

The final component in the model is the four stages of follower readiness:

- *R1:* People are both *unable and unwilling* to take responsibility for doing something. Followers aren't competent or confident.
- *R2:* People are *unable but willing* to do the necessary job tasks. Followers are motivated but lack the appropriate skills.
- *R3:* People are *able but unwilling* to do what the leader wants. Followers are competent, but don't want to do something.
- *R4:* People are both *able and willing* to do what is asked of them.

SLT essentially views the leader–follower relationship as being like that of a parent and a child. Just as a parent needs to relinquish control when a child becomes more mature and responsible, so, too, should leaders. As followers reach higher levels of readiness, the leader responds not only by decreasing control over their activities but also by decreasing relationship behaviors. The SLT says if followers are at R1 (*unable* and *unwilling* to do a task), the leader needs to use the telling style and give clear and specific directions; if followers are at R2 (*unable* and *willing*), the leader needs to use the selling style and display high task orientation to compensate for the followers' lack of ability and high relationship orientation to get followers to "buy

situational leadership theory (SLT)
A leadership contingency theory that focuses on followers' readiness

readiness
The extent to which people have the ability and willingness to accomplish a specific task

into" the leader's desires; if followers are at R3 (*able* and *unwilling*), the leader needs to use the participating style to gain their support; and if employees are at R4 (both *able* and *willing*), the leader doesn't need to do much and should use the delegating style.

SLT has intuitive appeal. It acknowledges the importance of followers and builds on the logic that leaders can compensate for ability and motivational limitations in their followers. However, research efforts to test and support the theory generally have been disappointing.[19] Possible explanations include internal inconsistencies in the model as well as problems with research methodology. Despite its appeal and wide popularity, we have to be cautious about any enthusiastic endorsement of SLT.

Path-Goal Model

path-goal theory
A leadership theory that says the leader's job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the goals of the group or organization

Another approach to understanding leadership is Robert House's **path-goal theory**, which states that it's the leader's job to provide followers with information, support, or other resources necessary to achieve goals. Path-goal theory takes key elements from the expectancy theory of motivation.[20] The term *path-goal* is derived from the belief that effective leaders remove the roadblocks and pitfalls so that followers have a clearer path to help them get from where they are to the achievement of their work goals.

House identified four leadership behaviors:

- *Directive leader:* Lets subordinates know what's expected of them, schedules work to be done, and gives specific guidance on how to accomplish tasks
- *Supportive leader:* Shows concern for the needs of followers and is friendly
- *Participative leader:* Consults with group members and uses their suggestions before making a decision
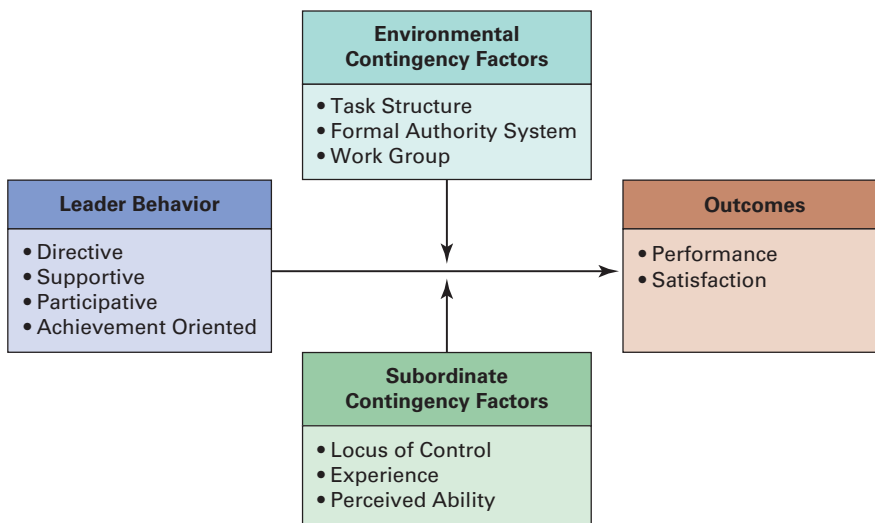- *Achievement-oriented leader:* Sets challenging goals and expects followers to perform at their highest level

In contrast to Fiedler's view that a leader couldn't change their behavior, House assumed that leaders are flexible and can display any or all of these leadership styles depending on the situation.

Dan Reynolds (left), leader of the group Imagine Dragons, uses the participative approach of the path-goal theory. His approach to songwriting is that each member writes songs constantly and works on putting together their songs as a group. Reynolds strives to create a shared environment in which band members work together as a unit.
Source: Derek Storm/Everett Collection/Alamy Stock Photo

As **Exhibit 16-4** illustrates, path-goal theory proposes two situational or contingency variables that moderate the leadership behavior–outcome relationship: those in the *environment* that are outside the control of the follower (factors including task structure, formal authority system, and the work group) and those that are part of the personal characteristics of the *follower* (including locus of control, experience, and perceived ability). Environmental factors determine the type of leader behavior required if subordinate outcomes are to be maximized; personal characteristics of the follower determine how the environment and leader behavior are interpreted. The theory proposes that a leader's behavior won't be effective if it's redundant with what the environmental structure is providing or is incongruent with follower characteristics. For example, some predictions from path-goal theory are:

- Directive leadership leads to greater satisfaction when tasks are ambiguous or stressful than when they are highly structured and well laid out. The followers aren't sure what to do, so the leader needs to give them some direction.
- Supportive leadership results in high employee performance and satisfaction when subordinates are performing structured tasks. In this situation, the leader only needs to support followers, not tell them what to do.
- Directive leadership is likely to be perceived as redundant among subordinates with high perceived ability or with considerable experience. These followers are quite capable, so they don't need a leader to tell them what to do.
- The clearer and more bureaucratic the formal authority relationships, the more leaders should exhibit supportive behavior and de-emphasize directive behavior. The organizational situation has provided the structure as far as what is expected of followers, so the leader's role is simply to support.

- Directive leadership will lead to higher employee satisfaction when there is substantive conflict within a work group. In this situation, the followers need a leader who will take charge.
- Subordinates with an internal locus of control will be more satisfied with a participative style. Because these followers believe they control what happens to them, they prefer to participate in decisions.
- Subordinates with an external locus of control will be more satisfied with a directive style. These followers believe that what happens to them is a result of the external environment, so they would prefer a leader who tells them what to do.
- Achievement-oriented leadership will increase subordinates' expectancies that effort will lead to high performance when tasks are ambiguously structured. By setting challenging goals, followers know what the expectations are.

A review of the research to test path-goal theory suggests mixed support.[21] To summarize the model, however, an employee's performance and satisfaction are likely to be positively influenced when the leader chooses a leadership style that compensates for shortcomings in either the employee or the work setting. However, if the leader spends time explaining tasks that are already clear or when the employee has the ability and experience to handle them without interference, the employee is likely to see such directive behavior as redundant or even insulting.

CONTEMPORARY Views of Leadership

LO16.4 Describe contemporary views of leadership.

What are the latest views of leadership? Given the widespread interest in the topic of leadership, you won't be surprised to learn that there are a number of new and interesting directions in leadership research. We review a number of them in the following pages.

Leader–Member Exchange (LMX) Theory

Have you ever been in a group in which the leader had "favorites" who made up their in-group? If so, that's the premise behind leader–member exchange (LMX) theory.[22] **Leader–member exchange theory (LMX)** says leaders create in-groups and out-groups, and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction.

LMX theory suggests that early on in the relationship between a leader and a given follower, a leader will implicitly categorize a follower as an "in" or an "out." That relationship tends to remain fairly stable over time. Leaders also encourage LMX

leader–member exchange theory (LMX)
The leadership theory that says leaders create in-groups and out-groups and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction

by rewarding those employees with whom they want a closer linkage and punishing those with whom they do not.[23] For the LMX relationship to remain intact, however, both the leader and the follower must invest in the relationship.

It's not exactly clear how a leader chooses who falls into each category, but evidence shows that in-group members have demographic, attitude, personality, and even gender similarities with the leader, or they have a higher level of competence than out-group members.[24] The leader does the choosing, but the follower's characteristics drive the decision.

Research on LMX has been generally supportive. It appears that leaders do differentiate among followers; that these disparities are not random; and that followers with in-group status will have higher performance ratings, engage in more helping or "citizenship" behaviors at work, and report greater satisfaction with their boss.[25]

charismatic leader
Someone to whom followers attribute heroic or extraordinary leadership abilities when they observe certain behaviors and tend to give power

Charismatic Leadership

Former prime minister of New Zealand Jacinda Ardern's service in office was a challenge as she led her country through a terrorist attack, a natural disaster, and a global pandemic. Observers suggest that it was her approach to leading that earned her the respect of the country, demonstrating empathy, authenticity, and even humor as she overcame these tough obstacles.[26] Ardern is what we call a **charismatic leader**—that is, someone to whom followers attribute heroic or extraordinary leadership abilities when they observe certain behaviors and tend to give power.[27]

Jacinda Ardern is a charismatic leader. The former prime minister of New Zealand demonstrated empathy, authenticity, and even humor as she led her country.
Source: Jeremy Sutton-Hibbert/Alamy Stock Photo

A number of authors have attempted to identify personal characteristics of the charismatic leader.[28] The most comprehensive analysis identified five such characteristics: they have a vision, the ability to articulate that vision, a willingness to take risks to achieve that vision, a sensitivity to both environmental constraints and follower needs, and behaviors that are out of the ordinary.[29]

An increasing body of evidence shows impressive correlations between charismatic leadership and high performance and satisfaction among followers.[30] Although one study found that charismatic CEOs had no impact on subsequent organizational performance, charisma is still believed to be a desirable leadership quality.[31] But we can't ignore that charisma has a potential downside. Charismatic leaders who are larger than life don't necessarily act in the best interests of their organizations.[32] Research has shown that individuals who are narcissistic are also higher in some behaviors associated with charismatic leadership. Many charismatic—but corrupt—leaders have allowed their personal goals to override the goals of their organizations. For example, Elizabeth Holmes was able to raise millions of dollars for her company Theranos by convincing investors that the technology she developed to run blood tests with a single drop of blood worked – even though she never shared any data to support her claim. She was later found guilty of fraud.[33] Hopefully the corrupt charismatic leaders such as Holmes stand out largely because they're the exceptions.

If charisma is desirable, can people learn to be charismatic leaders? Or are charismatic leaders born with their qualities? Although a small number of experts still think that charisma can't be learned, most believe that individuals can be trained to exhibit charismatic behaviors.[34] For example, researchers have succeeded in teaching undergraduate students to "be" charismatic. How? They were taught to articulate a far-reaching goal, communicate high performance expectations, exhibit confidence in the ability of subordinates to meet those expectations, and empathize with the needs of their subordinates; they learned to project a powerful, confident, and dynamic presence; and they practiced using a captivating and engaging voice tone. The researchers also trained the student leaders to use charismatic nonverbal behaviors, including leaning toward the follower when communicating, maintaining direct eye contact, and having a relaxed posture and animated facial expressions. In groups with these "trained"

charismatic leaders, members had higher task performance, higher task adjustment, and better adjustment to the leader and to the group than did group members who worked in groups led by noncharismatic leaders.

One last thing we should say about charismatic leadership is that it may not always be needed to achieve high levels of employee performance. It may be most appropriate when the follower's task has an ideological purpose or when the environment involves a high degree of stress and uncertainty.[35] This distinction may explain why, when charismatic leaders surface, it's more likely to be in politics, religion, or wartime, or when a business firm is starting up or facing a survival crisis. For example, Martin Luther King Jr. used his charisma to bring about social equality through nonviolent means, and Steve Jobs achieved unwavering loyalty and commitment from Apple's technical staff in the early 1980s by articulating a vision of personal computers that would dramatically change the way people lived.

Transformational-Transactional Leadership

Many early leadership theories viewed leaders as **transactional leaders**; that is, leaders who lead primarily by using social exchanges (or transactions). Transactional leaders guide or motivate followers to work toward established goals by exchanging rewards for their productivity.[36] But another type of leader—a **transformational leader**—stimulates and inspires (transforms) followers to achieve extraordinary outcomes. Examples include Satya Nadella at Microsoft and Jeff Bezos, former CEO of Amazon. They pay attention to the concerns and developmental needs of individual followers; they change followers' awareness of issues by helping those followers look at old problems in new ways; and they are able to excite, arouse, and inspire followers to exert extra effort to achieve group goals.

Transactional and transformational leadership shouldn't be viewed as opposing approaches to getting things done.[37] Transformational leadership develops from transactional leadership. Transformational leadership produces levels of employee effort and performance that go beyond what would occur with a transactional approach alone. Moreover, transformational leadership is more than charisma because the transformational leader attempts to instill in followers the ability to question not only established views, but also those views held by the leader.[38]

transactional leaders
Leaders who lead primarily by using social exchanges (or transactions)

transformational leaders
Leaders who stimulate and inspire (transform) followers to achieve extraordinary outcomes

Learning from
FAILURE Childhood Lessons on Failure

Sarah Blakely, founder of the shapeware company Spanx, which was valued at $1.2 billion when the Blackstone Investment Bank bought a majority stake in 2021, learned about failure as a child. Her dad regularly asked her at the dinner table, "What have you failed at this week?" And then he would celebrate when he learned she tried something and failed. This early experience of talking about and even celebrating failures helped her reframe the idea of failure as something that is expected. She learned the outcome of what you do is not what is important; it is about trying and the gift of what you learn when you fail.

She was lucky to learn this lesson early, because she experienced a lot of failure before founding Spanx. For instance, she wanted to become a lawyer, but she failed the LSAT exam twice. And then she spent seven years trying to sell fax machines before coming up with the idea for her shapewear when she had to attend an event and did not like how her white pants looked. Cutting the feet off some tights to wear under the pants, she realized that she had created something of value. Using her savings to create a prototype and making mistakes along the way, she launched Spanx in 2000. Eventually, the company took off and in 2012, she became the youngest female self-made billionaire.

Because she does not fear failure, she also has embraced a leadership style that went against advice she received early in her career. Many told her to get prepared to fight, that "business is war." She ignored the advice and chose to approach business her way, leading with empathy, intuition, and vulnerability instead.[39]

The evidence supporting the superiority of transformational leadership over transactional leadership is overwhelmingly impressive. For instance, studies that looked at managers in different settings, including the military and business, found that transformational leaders were evaluated as more effective, higher performers, more promotable than their transactional counterparts, and more interpersonally sensitive.[40] In organizations that engage in project-based work, transformational leaders have been found to be more effective due to the high level of change, uncertainty, and complexity involved in project-based work.[41] In addition, evidence indicates that transformational leadership is strongly correlated with lower turnover rates and higher levels of productivity, employee satisfaction, creativity, goal attainment, follower well-being, and corporate entrepreneurship, especially in start-up firms.[42]

Authentic Leadership

Ted Lasso is about a fictional character, but the show highlights a coach who demonstrates strong leadership characteristics. Throughout the show, the Ted Lasso character provides advice such as "doing the right thing is never wrong" and "courage is about being willing to try." As a coach in a sport he never played, Ted Lasso is honest about his shortcomings and exudes positivity, all characteristics of an authentic leader.[43]

authentic leadership
Leaders who know who they are, know what they believe in, and act on those values and beliefs openly and candidly

Authentic leadership focuses on the moral aspects of being a leader. Authentic leaders know who they are, know what they believe in, and act on those values and beliefs openly and candidly. More specifically, authentic leaders have been found to possess four qualities: they are self-aware, are transparent, openly solicit views that challenge their deeply held positions, and are guided by strong moral standards.[44] They're also typically humble.

The combination of these qualities leads followers to consider them as ethical people and trust them as a result. When leaders practice what they preach, or act on their values openly and candidly, followers tend to develop a strong affective commitment and trust in their leader and, to a lesser degree, to improve their performance and organizational citizenship behavior.[45]

Ethical Leadership

The airline industry was hit hard by the COVID-19 pandemic. With travel on hold, many airlines had to make tough decisions, including laying off workers. Delta Air Lines, however, was able to navigate the challenge with a priority of people over profits, finding other cost-cutting strategies to avoid layoffs. Delta's CEO Ed Bastian led that vision, stating that every morning during the early days of the pandemic he thought "today's decisions are going to reveal the character of this company." Bastian's actions reflect his commitment to ethical leadership, which was recognized by the Society for Human Resource Management, which named him the 2023 Ethical Leader of the Year.[46]

Ed Bastian, the CEO of Delta Air Lines, is an example of an ethical leader. In 2023 he was recognized by the Society for Human Resource Management as the Ethical Leader of the Year.
Source: Everett Collection Inc./Alamy Stock Photo

Leadership is not value-free. In assessing its effectiveness, we need to address the *means* that a leader uses to achieve goals as well the content of those goals. The role of the leader in creating the ethical expectations for all members is crucial.[47] Ethical top leadership not only influences direct followers, but also spreads all the way down the command structure, because top leaders set expectations and expect lower-level leaders to behave consistent with ethical guidelines.[48] In fact, research suggests that the ethical or unethical behavior of leaders has long-lasting effects on the moral behavior of employees by impacting the overall work environment.[49]

Leaders rated as highly ethical tend to be evaluated very positively by their subordinates, who are also more satisfied and committed to their jobs and experience less strain and turnover intentions.[50] Followers of such leaders are also more motivated,

perform better, and engage in more organizational citizenship behaviors and fewer counterproductive work behaviors.[51]

Servant Leadership

Why is Ukraine's President Zelenskyy, whom we mentioned in the chapter opener, considered a good leader? Some argue it's because he puts his people first, seeing his role as serving his country. Instead of hiding in fear, he took to the streets to reassure the public that the country was ready to defend itself against Russia.[52] In fact, he stated the importance of leaders serving others in his inaugural address, saying, "We need people in power who will serve the people. This is why I really do not want my pictures in your offices, for the president is not an icon, an idol, or a portrait. Hang your kids' photos instead and look at them each time you are making a decision."[53]

Servant leadership is an "other-oriented" approach to leadership, where the leader looks outward.[54] Servant leaders go beyond their self-interest and focus on opportunities to help followers grow and develop. What's unique about servant leadership is that relative to other approaches to leadership, it puts the needs of followers ahead of attending to one's own needs. Its specific characteristics include caring about followers' personal problems and well-being, empowering followers with responsibility and decision-making influence, helping subordinates grow and succeed, and serving as a model of integrity.[55] Servant leadership can be a challenge; some find the approach to be emotionally depleting due to devoting significant time and energy to others. However, research has shown that leaders who are skilled at seeing others' perspectives find servant leadership less depleting.[56]

One study of 71 general managers of restaurants in the United States and over 1,000 of their employees found that servant leaders tend to create a culture of service, which in turn improves restaurant performance and enhances employees' attitudes and performance by increasing employees' identification with the restaurant.[57] Another study of Chinese hairstylists found similar results, with servant leadership predicting customer satisfaction and stylists' service performance.[58]

One interesting aside is that servant leadership may be more prevalent and effective in certain cultures.[59] When asked to draw images of leaders, for example, US subjects tended to draw them in front of the group, giving orders to followers. Singaporeans, in contrast, tended to draw leaders at the back of the group, acting more to gather a group's opinions together and then unify them from the rear. This suggests that the East Asian prototype is more like a servant leader, which might mean servant leadership is more effective in these cultures.

servant leadership
Leadership that goes beyond self-interest and focuses on opportunities to help followers grow and develop

Dr. Martin Luther King Jr. provides an example of servant leadership, which is defined as leadership that goes beyond self-interest and focuses on opportunities to help followers grow and develop.
Source: GL Archive/Alamy Stock Photo

Emergent Leadership

Whereas most leadership research focuses on top-down leaders who have formal and legitimate leadership roles, the growing number of organic and flexible organizations has created opportunities to examine informal leaders. **Emergent leadership** occurs when the leader of a group or team naturally arises instead of being appointed. Emergent leaders are those who are perceived by their peers as being leaderlike and accepted as the informal leader. They lead at the team level, have not been formally appointed, and do not play a permanent role. Although theories on emergent leadership have been researched for decades, the growth of informal management and flatter organizational hierarchies has led to an increased focus on the characteristics of emerging leaders and how an organization can effectively leverage their talent.[60]

How do you recognize an emergent leader? It is the person in a group or team who is detecting and solving problems, setting meeting agendas, keeping track of deadlines, assigning tasks, and providing team members feedback. For example, when

emergent leadership
When the leader of a group or team naturally arises instead of being appointed

the COVID-19 pandemic led many workplaces to shift to remote work, formal leadership in many companies was focused on high-level strategic concerns; informal leaders emerged on teams to support workers transitioning to remote work.[61]

Followership

Here's a statement beyond debate: You can't be a leader without any followers! So leaders can only be as effective as their ability to engage followers. Research tends to prioritize the leader, but we are learning more about the role of the follower in effective leadership.[62]

The leader–follower interaction is two-way. First, it's obvious that leaders need to motivate and engage their followers to achieve end goals. But often overlooked is the fact that followers influence the attitudes, aptitudes, and behaviors of leaders.[63] The two need to work together to move the collective forward.[64] Leadership is a process that emerges from a relationship between leaders and followers who are bound together as part of the same social group. For success, followers need a set of skills that are complementary to those of the leader.[65] In fact, evidence suggests that followers are not just passive recipients of a leader's influence; rather, they actively make sense of and even shape a leader's behavior.[66]

What defines a good follower? Through most of the 20th century, the answer was unquestioned obedience and deference to a leader. However, as the nature of work has changed, requiring more cooperation and group work, the importance of followers has emerged, and a good follower can help a leader succeed.[67] Today, as leaders engage in less unilateral decision making and more collaboration, great followership is characterized by a different set of qualities:[68]

- *They can manage themselves.* Effective followers are self-directed. They are self-motivated and can work without close supervision.
- *They are strongly committed to a purpose outside themselves.* Effective followers are committed to something—a cause, a product, a work team, an idea, an organization—in addition to the cares of their own lives. Most people like working with colleagues who are emotionally, as well as physically, committed to their work.
- *They are enthusiastic.* They approach their work with a positive attitude. They "buy into" their leader's vision.
- *They build their competence and focus their efforts for maximum impact.* Effective followers master skills that will be useful to their organization, and they hold higher performance standards than their job or work group requires.
- *They are courageous, honest, and credible.* Effective followers establish themselves as independent, critical thinkers whose knowledge and judgment can be trusted. They hold high ethical standards, give credit where credit is due, and aren't afraid to admit their mistakes.

INTEGRATING **Theories of Leadership**

LO16.5 Compare the various theories of leadership for their validity.

We've introduced a number of leadership theories in this chapter. Let's try to see what commonalities might exist among these theories, how they might be complementary or overlap, and how they can be integrated to help you better understand what makes an effective leader.

Traits

Let's begin with traits. Although there is no single trait or set of traits that are unique to leaders, several traits seem to regularly appear in research studies of leaders. We noted 10 of them in Exhibit 16-1. Of these, the most powerful appear to be intelligence,

emotional intelligence, and conscientiousness.[69] But these traits may more accurately reflect the *perception* of leadership rather than actual leadership *effectiveness*. Our conclusion is that even if traits play a role in defining leaders, their role is small and dependent on situational factors.

Behaviors

The behavioral theories we discussed focused on a number of dimensions: democratic, autocratic, and laissez-faire styles; directive and participative; initiating structure and consideration; employee-oriented and production-oriented; concern for people and concern for production. Even the most cursory review of these dimensions suggests considerable overlap, if not redundancy. In addition, transitional, transformational, charismatic, and leader–member exchange theories all include leadership behaviors.

Efforts to streamline these behaviors have found that three metacategories encompass almost all of these:[70]

- *Task-oriented behavior:* This describes transactional leader behavior, initiating structure, directive behavior, and production orientation.
- *Relations-oriented behavior:* This describes leaders who care about their followers' needs, treat members equally, and are friendly and approachable. This would describe consideration, a democratic style, employee and people oriented, participative behavior, transformational leadership, and LMX's in-group.
- *Change-oriented behavior:* This leader behavior includes communicating a vision of change, encouraging innovative thinking, and risk-taking. It's a major component of both transformational and charismatic leadership.

Using these three behaviors, researchers have found that relations-oriented leadership accounted for most of the differences in both employee commitment and job performance.[71]

In terms of reducing redundancy and confusion, efforts at comparing ethical and authentic leadership with transformational leadership found considerable overlap. Specifically, it appears that transformational leadership encompasses almost all of the same variables as ethical and authentic leadership.[72] So although both authentic and ethical leadership may help in understanding a few focused employee outcomes, they don't "offer much that transformational leadership does not already provide."[73] Meanwhile, transformational leadership does appear to be related to employee commitment, trust, satisfaction, and performance.

Contingency Factors

There is no shortage of contingency factors that have been introduced to help explain when leaders are most likely to be effective. Some, however, appear to be more relevant. We'll look at four.

A follower's *experience* appears important. The more experience an employee has, the less dependent they are on a leader. It appears a leader's guidance is particularly important when an employee is new. But experienced employees don't require close supervision and are likely to find task-oriented behavior by a leader as unnecessary or even insulting.

A follower's *ability* also appears important. Like experience, high levels of ability allow employees to perform their work with minimal supervision.

Culture has consistently proven to be a highly relevant contingency variable in leadership.[74] *Organizational culture* shapes what leadership style is appropriate. Regardless of a leader's predisposition, what's defined as "appropriate" in a prison or military organization is likely to be very different than in a consulting firm or an academic department in a university. *National culture* also shapes what's appropriate and acceptable. The same relations-oriented style that's appropriate and effective in Sweden is likely to be seen as weak and ineffective in Mexico.

LEADERSHIP **Issues in the 21st Century**

LO16.6 Discuss 21st-century issues affecting leadership.

Today's leaders face some important issues. In this section, we look at several of them.

Managing Power

Where do leaders get their power—that is, their right and capacity to influence work actions or decisions? Five sources of leader power have been identified: legitimate, coercive, reward, expert, and referent.[75]

Legitimate power and authority are the same. Legitimate power represents the power a leader has as a result of their position in the organization. Although people in positions of authority are also likely to have reward and coercive power, legitimate power is broader than the power to coerce and reward.

Coercive power is the power a leader has to punish or control. Followers react to this power out of fear of the negative results that might occur if they don't comply. Managers typically have some coercive power, such as being able to suspend or demote employees or to assign them work they find unpleasant or undesirable.

Reward power is the power to give positive rewards. A reward can be anything a person values, such as money, favorable performance appraisals, promotions, interesting work assignments, friendly colleagues, and preferred work shifts or sales territories.

Expert power is power based on expertise, special skills, or knowledge. If an employee has skills, knowledge, or expertise that's critical to a work group, that person's expert power is enhanced.

Finally, **referent power** is the power that arises because of a person's desirable resources or personal traits. It develops out of admiration of another and a desire to be like that person. Referent power explains why celebrities are paid millions of dollars to endorse products in commercials. Marketing research shows that people like Ariana Grande, Kim Kardashian, and LeBron James have the power to influence your choice of beauty products and athletic shoes.

Most effective leaders rely on several different forms of power to affect the behavior and performance of their followers. For example, the commanding officer of a military submarine employs different types of power in managing their crew and equipment. They give orders to the crew (legitimate), praise them (reward), and discipline those who commit infractions (coercive). As an effective leader, they also strive to have expert power (based on their expertise and knowledge) and referent power (based on their being admired) to influence their crew.

Developing Credibility and Trust

We saw the importance trust plays in a variety of leadership theories. In fact, it's probably fair to say that a lack of credibility and trust is likely to undermine leadership. But how can leaders build credibility and trust? Let's start with making sure we know what the terms mean and why they're so important.

The main component of **credibility** is honesty. Surveys show that honesty is consistently singled out as the number one characteristic of admired leaders. "Honesty is absolutely essential to leadership. If people are going to follow someone willingly, whether it be into battle or into the boardroom, they first want to assure themselves that the person is worthy of their trust."[76] In addition to being honest, credible leaders are competent and inspiring. They are personally able to effectively communicate their confidence and enthusiasm. Thus, followers judge a leader's credibility in terms of their honesty, competence, and ability to inspire.

Trust is closely entwined with the concept of credibility; in fact, the terms are often used interchangeably. **Trust** is defined as the belief in the integrity, character, and ability of a leader. Followers who trust a leader are willing to be vulnerable to the leader's actions because they are confident that their rights and interests will not be abused.[77] Research has identified five dimensions that make up the concept of trust:[78]

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legitimate power
The power a leader has as a result of their position in the organization

coercive power
The power a leader has to punish or control

reward power
The power a leader has to give positive rewards

expert power
Power that's based on expertise, special skills, or knowledge

referent power
Power that arises because of a person's desirable resources or personal traits

credibility
The degree to which followers perceive someone as honest, competent, and able to inspire

trust
The belief in the integrity, character, and ability of a leader

WORKPLACE CONFIDENTIAL Dealing with a Micromanager

Micromanaging has been described as probably the most common complaint about a boss. What exactly is *micromanaging*, and what can you do if you find yourself working for a micromanager?

A micromanager is someone who wants to control every particular aspect, down to the smallest detail, of your work. For you, it can be very frustrating, stressful, and demoralizing. What are some signs that you are being micromanaged? Your manager checks on your progress multiple times a day, asks for frequent updates, tells you how to complete tasks, is obsessed with meaningless details, or becomes irritated if you make a decision on your own. But just monitoring your work doesn't make your boss a micromanager. Every manager has a responsibility for controlling activities for which they are responsible. And good managers are detail oriented. The difference is that micromanagers obsess on details, lose sight of priorities, and behave as if they don't trust you. Good managers, on the other hand, understand the value of delegation. Unfortunately, you might not always have one of these.

There's a long list of reasons why your boss might be micromanaging you, including insecurity, lack of trust in others, risk aversion, or lack of confidence in your ability. Additionally, other reasons might be having too little to do, thinking they are being helpful, or just being a control freak.

Self-assessment: If you feel that you are being micromanaged, the place to start is with self-assessment. Ask yourself: "Is it *me*?" Is there any reason your boss might feel the need to micromanage? For instance, have you shown up late to work? Have you missed some deadlines? Have you been distracted at work lately? Have you made mistakes that have reflected negatively on your boss? Start your assessment by making sure that your manager's behavior isn't rational and reasonable.

New to the job: The next question to ask is: Are either you or your manager new on the job? If you're new, your manager may just be temporarily monitoring your work until they are confident of your ability and you prove yourself. If your manager is new, either to the current position or in their first managerial position, be patient as they adjust. Micromanaging is not uncommon among new managers who, with little experience, are fearful of delegation and

being held accountable for results. And experienced managers, in a new position, may be overly controlling until they're confident of your abilities. So if either you or your boss is new, you might want to give it some time.

Changing conditions: A final step before you take any action should be to assess whether conditions have changed. If your boss's micromanaging behavior is a change from past behavior, consider whether it might be justified by changing conditions. Is your organization going through layoffs? Is there a major reorganization going on? Has your manager been given additional projects with pressing deadlines? Is there new upper-level leadership at the company? Any of these types of conditions can increase stress and lead your boss to micromanaging. If the conditions creating stress are temporary, the strong oversight behavior may be just short term.

Talk to your manager: If you've come to the conclusion that your manager's behavior isn't temporary and it's creating difficulties for you to do your job properly, you and your manager need to talk. It's very possible your manager is unaware that there's a problem. In a nonconfrontational voice, specifically explain how the oversight is impacting your work, creating stress, and making it harder for you to perform at your full capabilities. You want to demonstrate that you've got things under control and that you know what is expected of you.

Keep your manager updated: In addition to talking to your manager, you want to alleviate any concerns that work isn't being done correctly or that your manager might be unable to answer questions about your work progress. This is best achieved by regularly updating your manager on your work's status. No one likes surprises, especially ones that might reflect negatively on their management skills. This can best be achieved by proactively providing updates before they're requested.

Reinforce your manager's positive behaviors: When your manager leaves you alone, express gratitude about the hands-off approach. By positively reinforcing trust, you increase the probability that it will continue. Over time, when combined with your regular updates and your solid performance, you're very likely to see a decline in the micromanaging behavior.[79]

- **Integrity:** Honesty and truthfulness
- **Competence:** Technical and interpersonal knowledge and skills
- **Consistency:** Reliability, predictability, and good judgment in handling situations
- **Loyalty:** Willingness to protect a person, physically and emotionally
- **Openness:** Willingness to share ideas and information freely

Of these five dimensions, integrity seems to be the most critical when someone assesses another's trustworthiness.[80] Both integrity and competence were seen in our earlier discussion of leadership traits to be consistently associated with leadership. Workplace changes have reinforced why such leadership qualities are important. For instance, the

trends toward empowerment and self-managed work teams have reduced many of the traditional control mechanisms used to monitor employees. If a work team is free to schedule its own work, evaluate its own performance, and even make its own hiring decisions, trust becomes critical. Employees have to trust managers to treat them fairly, and managers have to trust employees to conscientiously fulfill their responsibilities.

Also, leaders have to increasingly lead others who may not be in their immediate work group or may even be physically separated—members of cross-functional or virtual teams, individuals who work for suppliers or customers, and perhaps even people who represent other organizations through strategic alliances. These situations don't allow leaders the luxury of falling back on their formal positions for influence. Many of these relationships, in fact, are fluid and fleeting, so the ability to quickly develop trust and sustain that trust is crucial to the success of the relationship. Research suggests that leaders can build trust by behaving in a way that shows compassion and also communicating with humility.[81]

Why is it important that followers trust their leaders? Research has shown that trust in leadership is significantly related to positive job outcomes, including job performance, organizational citizenship behavior, job satisfaction, and organizational commitment.[82]

Now, more than ever, managerial and leadership effectiveness depends on the ability to gain the trust of followers.[83] Downsizing, financial challenges, and the increased use of temporary employees have undermined employees' trust in their leaders and shaken the confidence of investors, suppliers, and customers. Today's leaders are faced with the challenge of rebuilding and restoring trust with employees and with other important organizational stakeholders.

Leading Virtual Teams

CEO Matt Mullenweg of tech company Automattic Inc., known for its websites including Tumblr and Wordpress, leads a remote workforce of more than 1,300 employees across 76 countries. The company's agile, empowered teams have helped grow the company to a $3 billion valuation, and Mullenweg notes, "If we make it look easy, it's because we work incredibly hard at it."[84] We discussed the growth of virtual teams in **Chapter 15** and know that many companies have at least some remote workers. Because they lack the "face-to-face" feature of other types of teams, they provide a unique challenge to managers. Specifically, how do you lead people who are physically separated and might be in different time zones, geographic locations, or residing in a different culture?

With a lack of in-person contact, many leaders find it difficult to achieve work group cohesion and to actually ensure that work is being completed. The significant increase in virtual work during the COVID-19 pandemic highlighted many of these challenges to leaders. For example, many companies attempted to replicate in-person interactions by increasing contact through video meetings, but too much video time can lead to exhaustion and burnout.[85] Leaders need to take a different approach in the virtual environment.

So what are some strategies for virtual leaders? Beyond ensuring the right technology is in place to support communication, leading virtual teams requires work establishing norms and expectations, building collaborative relationships, and establishing trust.[86] Building relationships, in particular, requires leaders to find ways to stay connected, meaning going beyond just video meetings and actually checking in on workers to make sure they have what they need. Essentially, they need to lead with empathy.[87] Further, without physical presence, virtual leaders must shift from managing time and activity to focusing on outcomes and results.[88]

Leadership Training

We know that some people have traits that make them good leaders, but evidence suggests that with effort, individuals can become better leaders.[89] Although it requires a personal commitment to develop leadership skills, many companies invest in leadership

training. In fact, organizations around the globe spend billions of dollars, yen, and euros on leadership training and development. In the United States alone, it has been estimated that companies spend more than $92 billion a year on formal training and development.[90] These efforts take many forms—from $50,000 leadership programs offered by universities such as Harvard and organizations such as Disney to sailing experiences at the Outward Bound School.

Is leadership training effective? A number of individual studies have been done on leadership effectiveness with mixed results.[91] However, a comprehensive review of over 300 studies found very encouraging results when certain conditions are met. It was found that leadership training composed of multiple sessions and combining information, demonstration, and practice methods was effective in creating real behavioral change and in positively influencing organizational and subordinate outcomes.[92]

US Naval Forces Europe-Africa Fleet Master Chief Raymond Kemp Sr. speaks to a multinational group of senior enlisted leaders during the Combined Joint Maritime Enlisted Leadership Development Program (ELDP), Back Bone University.
Source: AB Forces News Collection/Alamy Stock Photo

More specifically, there is some consensus about characteristics of effective leadership training. One is contextualization (ensuring that learning is set in the strategy and culture of the organization); another is personalization (enabling participants to seek out learning related to their aspirations).[93]

First, let's recognize the obvious: Some people don't have what it takes to be a leader. Period. For instance, evidence indicates that leadership training is more likely to be successful with individuals who are high self-monitors rather than low self-monitors. Such individuals have the flexibility to change their behavior as different situations may require. In addition, organizations may find that individuals with higher levels of a trait called "motivation to lead" are more receptive to leadership development opportunities.[94]

What kinds of things can individuals learn that might be related to being a more effective leader? It may be a bit optimistic to think that "vision creation" can be taught, but implementation skills can be taught. People can be trained to develop "an understanding about content themes critical to effective visions."[95] We can also teach skills such as trust-building and mentoring. And leaders can be taught situational analysis skills. They can learn how to evaluate situations, how to modify situations to make them fit better with their style, and how to assess which leader behaviors might be most effective in given situations.

TRAINING ON ARTIFICIAL INTELLIGENCE Throughout the text, we have discussed how AI is impacting the practice of management. Unlike some other technologies, AI does not require you to be a data scientist or IT specialist to leverage its potential, but leaders do need to become AI literate to effectively integrate AI into an organization's strategy. Leaders have increasingly become data-driven, and harnessing the power of AI to improve organizational decision making and streamline processes offers leaders an opportunity to reallocate their time to focus on leader responsibilities such as mentoring and motivating workers.

Experts suggest three paths to prepare leaders to engage with AI. First, through individual learning and self-study. There are also third-party resources for leader training programs, such as a company's IT provider. Finally, larger organizations may want to consider developing their own internal training programs. And as we discussed in **Chapter 7,** leaders need training specifically on AI ethical issues. In addition to training, organizations may consider adding a chief artificial intelligence officer to their leadership team to help optimize AI.[96]

When Leadership May Not Be Important

Despite the belief that some leadership style will always be effective regardless of the situation, leadership may not always be important! Data from numerous studies collectively demonstrate that, in many situations, whatever actions leaders exhibit are

irrelevant. Certain individual, job, and organizational variables can act as *substitutes* for leadership or *neutralize* the leader's effect to influence their followers.[97]

Neutralizers make it impossible for leader behavior to make any difference to follower outcomes. They negate the leader's influence. Substitutes, on the other hand, make a leader's influence not only impossible but also unnecessary. They act as a replacement for the leader's influence. For instance, characteristics of employees such as their experience, training, "professional" orientation, or indifference toward organizational rewards can substitute for, or neutralize the effect of, leadership. Experience and training can replace the need for a leader's support or ability to create structure and reduce task ambiguity. Jobs that are inherently unambiguous and routine or that are intrinsically satisfying may place fewer demands on the leadership variable. And organizational characteristics like explicit formalized goals, rigid rules and procedures, and cohesive work groups can also replace formal leadership.

Chapter 16 | PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO16.1 DEFINE leader and leadership.
A leader is someone who can influence others and who has managerial authority. Leadership is a process of leading a group and influencing that group to achieve its goals. Managers should be leaders because leading is one of the four management functions.

LO16.2 COMPARE and contrast early theories of leadership.
Early attempts to define leader traits were unsuccessful, although later attempts found eight traits associated with leadership.

The University of Iowa studies explored three leadership styles. The only conclusion was that group members were more satisfied under a democratic leader than under an autocratic one. The Ohio State studies identified two dimensions of leader behavior—initiating structure and consideration. A leader high in both those dimensions at times achieved high group task performance and high group member satisfaction, but not always. The University of Michigan studies looked at employee-oriented leaders and production-oriented leaders. They concluded that leaders who were employee oriented could get high group productivity and high group member satisfaction. The managerial grid looked at leaders' concern for production and concern for people, and identified five leader styles. Although it suggested that a leader who was high in concern for production and high in concern for people was the best, there was no substantive evidence for that conclusion.

As the behavioral studies showed, a leader's behavior has a dual nature: a focus on the task and a focus on the people.

LO16.3 DESCRIBE the three major contingency theories of leadership.
Fiedler's model attempted to define the best style to use in particular situations. He measured leader style—relationship oriented or task oriented—using the least-preferred coworker questionnaire. Fiedler also assumed a leader's style was fixed. He measured three contingency dimensions: leader–member relations, task structure, and position power. The model suggests that task-oriented leaders performed best in very favorable and very unfavorable situations, and relationship-oriented leaders performed best in moderately favorable situations.

Hersey and Blanchard's situational leadership theory focused on followers' readiness. They identified four leadership styles: telling (high task–low relationship), selling (high task–high relationship), participating (low task–high relationship), and delegating (low task–low relationship). They also identified four stages of readiness: unable and unwilling (use telling style), unable but willing (use selling style), able but unwilling (use participative style), and able and willing (use delegating style).

The path-goal model developed by Robert House identified four leadership behaviors: directive, supportive, participative, and achievement oriented. He assumed that a leader can and should be able to use any of these styles. The two situational contingency variables were found in the environment and in the follower. Essentially, the path-goal model says that a leader should provide direction and support as needed; that is, structure the path so the followers can achieve goals. The path-goal model proposes that a leader's behavior won't be effective if it's redundant with what the environmental structure is providing or is incongruent with follower characteristics.

LO16.4 DESCRIBE contemporary views of leadership.

Leader–member exchange theory (LMX) says that leaders create in-groups and out-groups and that those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction.

A charismatic leader is an enthusiastic and self-confident leader whose personality and actions influence people to behave in certain ways. People can learn to be charismatic.

A transactional leader exchanges rewards for productivity, while a transformational leader stimulates and inspires followers to achieve goals. Transformational leaders have been associated with better outcomes than transactional leaders.

Authentic leadership focuses on the moral aspects of being a leader. Authentic leaders also openly solicit views that challenge their own positions and are self-aware, transparent, and humble. Ethical leaders create a culture in which employees feel that they could and should do a better job. Servant leaders go beyond their self-interest and focus on opportunities to help followers grow and develop. Emergent leaders naturally arise from a group or team instead of being appointed.

Followership recognizes the role of followers in the leadership process. Not only do leaders need to motivate followers, but followers also influence the attitudes and behaviors of leaders.

LO16.5 COMPARE the various theories of leadership for their validity.

If traits play a role in defining leaders, their role is small and dependent on situational factors. In terms of behaviors, relationship-oriented leadership appears to account for most of the differences in both employee commitment and job performance. And transformational leadership encompasses almost all of the same variables as ethical and authentic leadership. Among contingency factors, the most relevant appear to be follower's experience and ability, organizational culture, and national culture.

LO16.6 DISCUSS 21st-century issues affecting leadership.

The five sources of a leader's power are legitimate (authority or position), coercive (punish or control), reward (give positive rewards), expert (special expertise, skills, or knowledge), and referent (desirable resources or traits).

Today's leaders face the issues of managing power, developing trust, leading virtual teams, and becoming an effective leader through leadership training.

REVIEW AND DISCUSSION QUESTIONS

16-1. What conclusions from the four theories on leadership behavior are most important? Are supervisors born able to initiate structure, set goals, involve subordinates, delegate authority, encourage participation, or show consideration? Explain.

16-2. According to Fiedler's contingency model of leadership, how do leaders use the least-preferred coworker (LPC) questionnaire to find the best leadership style for their situation?

16-3. If employees vary in their ability and willingness to perform tasks at work, how do leaders determine the amount of direction and support to provide each employee? Hint: consider the situational leadership and path-goal theories.

16-4. Why are the relationships between the leader and their subordinates important to the leader–member

exchange theory? Are these relationships different in the presence of a charismatic leader?

16-5. Differentiate between transactional and transformational leaders and between ethical and servant leaders.

16-6. Which source of a leader's power is most effective and why? Rank the five sources from most to least effective.

16-7. Micromanaging can make a well-intentioned leader less effective. How can the leader's followers gain more autonomy and empowerment when needed?

16-8. Why is trust between leaders and employees important? Give an example of how a leader can demonstrate credibility to employees in a face-to-face, hybrid, and remote work environment.

PREPARING FOR: My Career

ETHICS DILEMMA

Shakespeare's play *Henry V* describes how the king disguises himself as a common soldier to walk among his troops to determine the army's morale before the battle at Agincourt.[98] In a modernized spin, you can observe a similar dynamic on the show *Undercover Boss*.[99] It features a company's "boss" working undercover in their own company to determine how the organization really works. Typically, the executive works undercover for a week, and then the employees the leader has worked with are summoned to company headquarters and either rewarded

or punished for their actions. Bosses from organizations ranging from White Castle and College HUNKS Hauling Junk and Moving to NASCAR and Dippin' Dots have participated.

16-9. Do you think a credible leader would need to go undercover? Is it ethical for a leader to go undercover in their organization? Why or why not?

16-10. What ethical issues could arise? How would an authentic leader deal with those issues?

SKILLS EXERCISE Choosing an Effective Group Leadership Style Skill

About the Skill
Effective leaders are skillful at helping the individuals and groups they lead to be successful. Working one-on-one or with a group means adapting your leadership style to be consistently effective. Situational factors, including follower characteristics, are critical to evaluate as you select your leadership style for one-on-one interactions. When interacting with a group, the stage of group development, task structure, position power, leader–member relations, employees' job characteristics, organizational culture, and national culture are key situational factors to consider when determining the most appropriate leadership style.

Steps in Practicing the Skill
Use the following suggestions to choose an appropriate leadership style when leading groups:

- ***Determine the stage your group or team is operating in: forming, storming, norming, or performing.*** Because each team stage involves specific and different issues and behaviors, it is essential to know the stage your team is in. *Forming* is the first stage of group development, during which people join a group, become familiar with each other, and then help begin to define the group's purpose. *Storming* is the second stage, characterized by intragroup conflict. *Norming* is the third stage, characterized by

consistency and agreement about how work is assigned and allocated. *Performing* is the fourth stage, when the group is cohesive and performs at a high level. Each stage has certain leader behaviors that are more appropriate:

- *Forming:* Helpful leader behaviors include having all team members introduce themselves to one another, answering member questions to establish a foundation of trust and openness, modeling the behaviors you expect from the team members, and clarifying the team's goals, procedures, and expectations.

- *Storming:* These behaviors include identifying sources of conflict and directing it toward functional types of conflict. It may be necessary to adopt a mediator role, encourage a win–win philosophy, restate the team's vision and its core values and goals, encourage open discussion, encourage analysis of team processes in order to identify ways to improve, enhance team cohesion and commitment, and provide recognition to individual team members as well as the team.

- *Norming:* These behaviors should include securing yourself as the team's leader, showing consistency in how you direct the team to accomplish its goals, providing performance feedback to individual team members and the team as a whole, encouraging the team to articulate a vision for the future, and finding ways to publicly and openly communicate the team's vision.

- *Performing:* Appropriate leader behaviors for this stage include providing regular and ongoing performance feedback, fostering innovation and innovative behavior, stepping back from directing how work must be done by encouraging team members to accomplish the work in ways that capitalize on their strengths, celebrating achievements (large and small), and advocating for the

team whenever it needs additional support or resources to continue doing its work.

- ***Monitor the group for changes in behavior and adjust your leadership style accordingly.*** Because a group is not a static entity, it will go through up periods and down periods. You should adapt your leadership style to the needs of the situation. If the group appears to need more direction from you, provide it. If it is functioning at a high level, remove obstacles and provide additional resources to help it function at an even higher level.

Practicing the Skill

The following suggestions are activities you can do to practice the behaviors in choosing an effective leadership style:

1. Think of a group or team you currently belong to or have been a part of, or think of a college or professional team you follow closely. What type of leadership style did the leader of this group appear to exhibit? Give some specific examples of the leadership behaviors they used. Evaluate the leadership style. Was it appropriate for the group? Why or why not? What would you have done differently? Why?

2. Observe a sports team (either college or professional) that has consistently been highly successful and one that has consistently been a disappointment. Do different leadership styles appear to be used in these team situations? Has leadership or financial support been consistent? Give some specific examples of leadership behaviors that led to success and disappointment. To what degree do you think leadership style instead of luck or a single player influenced the team's outcomes?

WORKING TOGETHER Team Exercise

After reading about the different leadership traits and behaviors, list those you think a good leader possesses. Now reflect on your current ability to lead. What combination of skills, traits, or behaviors do you need to develop to become a better transactional leader? Which additional skills would you need to develop to become a better transformational leader? Once you have your list and thoughts on what you need to become a better transactional and transformational

leader, get together with three or four other students to brainstorm strategies to develop into better transactional and transformational leaders. Focus on developing some steps you can take while still in college. Which would help you to become a better transactional leader? A transformational leader? Each student should write a brief personal leadership development plan after your discussion.

MY TURN TO BE A MANAGER

- Think of the different organizations to which you belong. Make a table with the name of the organizations across the top and the style of leadership presented in this chapter in a column below. In rows, make a check for the style of leading (no names, please) observed in each organization. Write a short paper summarizing your

results and evaluate if the styles being used match those you hoped would be used.

- Write down three prominent leaders from your hometown, county, state, or province. Make a bulleted list of these individuals' sources of power and the characteristics they exhibit that make you think of them as leaders.

Leadership

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning of leadership
2. Define the characteristics of leadership
3. Distinguish between leadership and management
4. List the steps in the process of leadership
5. Enumerate the various theories of leadership
6. Describe the recent trends in leadership approaches
7. Understand the leadership succession planning

India's Inspirational Managers

Shiv Nadar is the founder and chairman of HCL, a leading global technology and IT enterprise with annual revenues of USD 6.3 billion. The HCL enterprise comprises two companies listed in India, HCL Technologies and HCL Infosystems. The HCL team comprises 92,000 professionals of diverse nationalities operating in 31 countries including India. *Time* magazine has referred to HCL as an "intellectual clean room where its employees could imagine endless possibilities." HCL, under Nadar's leadership, developed an uncanny ability to read ahead of any market inflexion point and adapt itself to derive maximum advantage. Consequently, HCL revolutionized Indian technology and product innovation with many world firsts to its credit. With a capacity to think strategically and build organizations, Nadar as a visionary, believes in value creation, entrepreneurial and win–win relationship-driven culture, strong organizational growth based on the spirit of partnership and mixing aggressiveness with innovation. In recognition of his pioneering role in business and philanthropy, Nadar was awarded the Padma Bhushan by the Government of India. Keeping the leadership qualities of Nadar in the background, we shall now discuss leadership.

Introduction

Leadership is the process of influencing people to work hard to accomplish their organizational, departmental and individual goals. Leadership is what a leader does. It also means something that a leader does to a follower. Leading as a managerial function involves building commitment and enthusiasm among people so that they work willingly and effectively towards the task accomplishment. The success of leadership lies in the ability of the managers to make things happen in the way they wanted it to happen. Leadership involves the use of influence to get tasks accomplished through the group members. Since leading is one of the core managerial functions of the management, typically all managers should be leaders. The effectiveness of leadership usually depends on the relationship among the leaders (say, managers), followers (subordinates), and the circumstances involved.[1] As leadership is a complex task, it needs to be developed through training, experience and analysis.

Power and influence are the terms closely associated with leadership. For instance, leaders need power to influence the activities of their group members. Here, power refers to the capability of people to influence or change the behaviour or action of members of group. Influence means any actions of the leaders that cause changes in the behaviour or attitude of an individual or group. Influence also means a kind of dynamic relationship prevailing among the people. Such influence must be multidimensional, non-coercive and reciprocal in nature. For instance, managers influence and also get influenced by the actions of their subordinates.

Definitions of Leadership

Influencing the activities of the group members is the primary focus of many definitions of leadership. We shall now look at a few definitions of leadership.

"Leadership is an influence relationship among leaders and followers who intend real changes and outcomes that reflect their shared purposes.[2]" —Richard L. Daft

"Leadership is the process of directing and influencing the task related activities of group members."[3] —James Stoner

"Leader is someone who can influence others and who has managerial authority."[4]—Stephen P. Robbins

"Leadership is an attempt to use non-coercive influence to motivate individuals to accomplish some goals."[5] —James L. Gibson

"Leadership is the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals."[6] —Harold Koontz and Heinz Weihrich

We may define leadership as a process of influencing people in such a way that they willingly contribute to the accomplishment of intended goals.

Characteristics of Leadership

Even though there are differences in the style and approaches of leaders due to differences in their characteristics, the needs of followers and the organizational situation, the basic characteristics of leadership are broadly similar. They are as follows:

1. **Goal-based activity**—Since leadership generally aims at influencing people towards the accomplishment of goals; it is a goal-based activity.

2. **Power-based activity**—The power of the leader's position has a definite influence on the employees. The greater the power, the greater the leader's influence on followers.[7]

3. **Pervasive in nature**—Leadership is needed at all levels of an organization. It cannot be confined to the top levels or to certain positions in the organization.

4. **Persuasive process**—Leadership involves the process of persuading or inducing individuals or groups to pursue organizational goals and objectives. It does not typically involve the use of non-coercive methods to influence people

5. **Interactive process**—Leadership is a dynamic and interactive process involving three dimensions, namely, the leader, the follower and the situation. Each dimension influences and gets influenced by the other dimensions.

Leadership *vs.* Management

Leadership is viewed as something different from management by many management experts.[8] According to them, management works in the system whereas leadership works on the system.[9] Generally, leadership can exist even for completely unorganized groups but managers need roles specified by organizational structure. In case of organizations, the typical role of managers in an organization is to promote stability, order and problem-solving ability all within the existing system and structure. In contrast, the leaders' role is to encourage vision, change, improvements and creativity. However, leadership cannot be a substitute for management; rather, it is only a supplement. Managers' job predominantly involves the maintenance of status quo in the organization. But leadership tends to question the status quo, so that the outdated and unproductive practices are questioned and replaced with challenging goals and tasks. In simple terms, "a manager takes care of where you are, a leader takes you to a new place."[10] Thus, good managers are essential for meeting the existing goals and objectives effectively while good leaders are important for keeping the organization moving forward.

To be effective, leaders of organizations should be proactive, creative, flexible, passionate, visionary, inspiring, courageous, innovative and experimental in nature. They should initiate changes and depend on personal power to lead others. As against this, successful managers usually need to be authoritative, analytical, rational, consulting, structured, persistence, tough-minded and stabilizing in nature. They normally adopt a problem-solving approach and use positional powers to manage others.

To be successful, managers must possess both managerial and leadership skills. Understandably, people who develop skills in leadership role and managerial functions will: (i) have long-term vision and remain futuristic (ii) look outwards towards the larger organization (iii) influence others beyond groups (iv) emphasize vision, values and motivation (v) be politically astute and (vi) think in terms of change and renewal.[11]

Process of Leadership

Leadership is viewed as a process by Jay Conger.[12] According to him, this process typically consists of four steps. They are: (i) developing a strategic vision (ii) communicating the vision to others (iii) building trust among members and (iv) showing the ways and means to achieve the vision through role-modelling, empowerment and unconventional tactics. We shall now discuss them briefly.

(i) **Developing a strategic vision**—This stage in the leadership process involves the creation of vision for the organization. Through the formulation of vision, a leader decides what an organization wants to become. A leader's vision helps in the establishment of a strong organizational identity. A well-formulated vision enables the organization to plan for its future and decide the long-term direction. It also indicates the company's desire to achieve a specific business position.

(ii) **Communicating the vision to others**—Once the vision is properly formulated, it becomes necessary for leaders to communicate it to the members of the organization. Since the vision is prepared in the present based on the past for the future, it typically acts as a bridge between the present and the future for an organization.

(iii) **Building trust among members**—No vision can be established by coercion or diktat. Leaders need to use their persuasion skills and techniques to secure the cooperation and commitment of members to vision. Leaders can gain the trust and confidence of the members through their technical expertise, risk-taking attitude, self-sacrifice and unconventional behaviour. Generally, members adopt a vision and work towards it, if they believe that such vision serves the organizational as well as their own individual interests.

(iv) **Showing the ways and means to achieve the vision**—Through role-modelling, empowerment and unconventional tactics, leaders can inspire members to work towards the fulfilment of the organizational vision. Leaders should establish motives and incentives for the members to share the vision and work in a unified manner towards the organizational success. A shared vision is capable of animating, inspiring and transforming purpose into action. Box 15.1 shows the leadership development initiatives of a private-sector organization.

Leadership Theories

Many theoretical approaches are available to the study of leadership. As seen in Figure 15.1, some of the important theoretical approaches are: (i) trait approach (ii) behavioural approach, (iii) contingency approach and (iv) other approaches. We shall now discuss these approaches in detail.

Trait Approach

Traits are the distinguishing personal characteristics of a leader. They may also be defined as the recurring regularities or trends in a person's behaviour. The trait approach to leadership was one of the first systematic efforts to study leadership. This approach is also called genetic approach as it assumes that leaders are born and not made.[13] This approach is based on the assumption that great leaders possess certain innate

Box 15.1	**Leadership Development Initiatives at Wipro**

Successful organizations develop high potential leaders to remain competitive in the market and grow over a long term. The success of any organization in developing leadership at different levels depends on its ability to make the leaders understand that their value lies not only in managing teams and organizational activities but also in inspiring others, developing purposeful goals, implementing strategic visions and fostering cultures of excellence. The leadership initiatives at Wipro are worth mentioning here.

The spirit of Wipro, which is the core of the organization, guides the actions of its leaders and their teams. The spirit of Wipro manifests itself in three important forms. They are: (i) intensity to win, (ii) act with sensitivity and (iii) unyielding integrity.

The objectives of many leadership programmes at Wipro are to gear up the managers to take up the challenge of successfully heading large and strong teams. In this regard, Wipro has developed a unique competency framework called WIBGYOR, which stands for Wipro's Career Bands Gives You Opportunities and Responsibilities. WIBGYOR defines the behavioural competencies that are to be demonstrated by organizational members in general and the leaders in particular. These competencies are usually defined role-wise and the members are evaluated on these competencies at the time of performance appraisal to stimulate role-based growth.

Source: http://careers.wipro.com/why_wipro/leaders_program.htm (last accessed in May 2014).

qualities and characteristics that differentiate them from their followers. Trait approach is also called as great person theory. This theory also maintains that people behave in a particular way because of the strengths of the traits they possess. This theory believes leaders and non-leaders could be differentiated by a universal set of traits and characteristics. During the early 20th century, several researches focused on identifying those specific traits and characteristics.

After analysing the research studies conducted between 1904 and 1947, Ralph Stogdill[14] identified the presence of eight traits in successful leaders. They are: (i) intelligence, (ii) persistence, (iii) initiative, (iv) self-confidence, (v) responsibility, (vi) insight, (vii) sociability and (viii) alertness. However, Stogdill maintained that leaders are not qualitatively different from their followers and a few characteristics such as intelligence, initiative, stress tolerance, etc. are modestly related to success. Generally, in these studies, people with exceptional follower performance, high status positions within an organization or salary levels that are higher than their peers were viewed as successful leaders.[15]

Though initial researches validated the perspectives of this approach, subsequent studies carried out in the mid-20th century questioned the fundamental premises that a specific set of traits defined leadership.[16] Consequently, attempts were made to include the impact of situations and followers on leadership. The scope of trait approach was thus widened to include the interactions between leaders and the context, besides analysing the critical traits of leaders.

Behavioural Approach

While trait approach focuses on identifying the critical leadership traits, behavioural approach concentrates on identifying behaviours that differentiate effective leaders from non-effective leaders. The primary aim of the behavioural approach is to decide what behaviours are typically associated with successful leaders. The basic premises
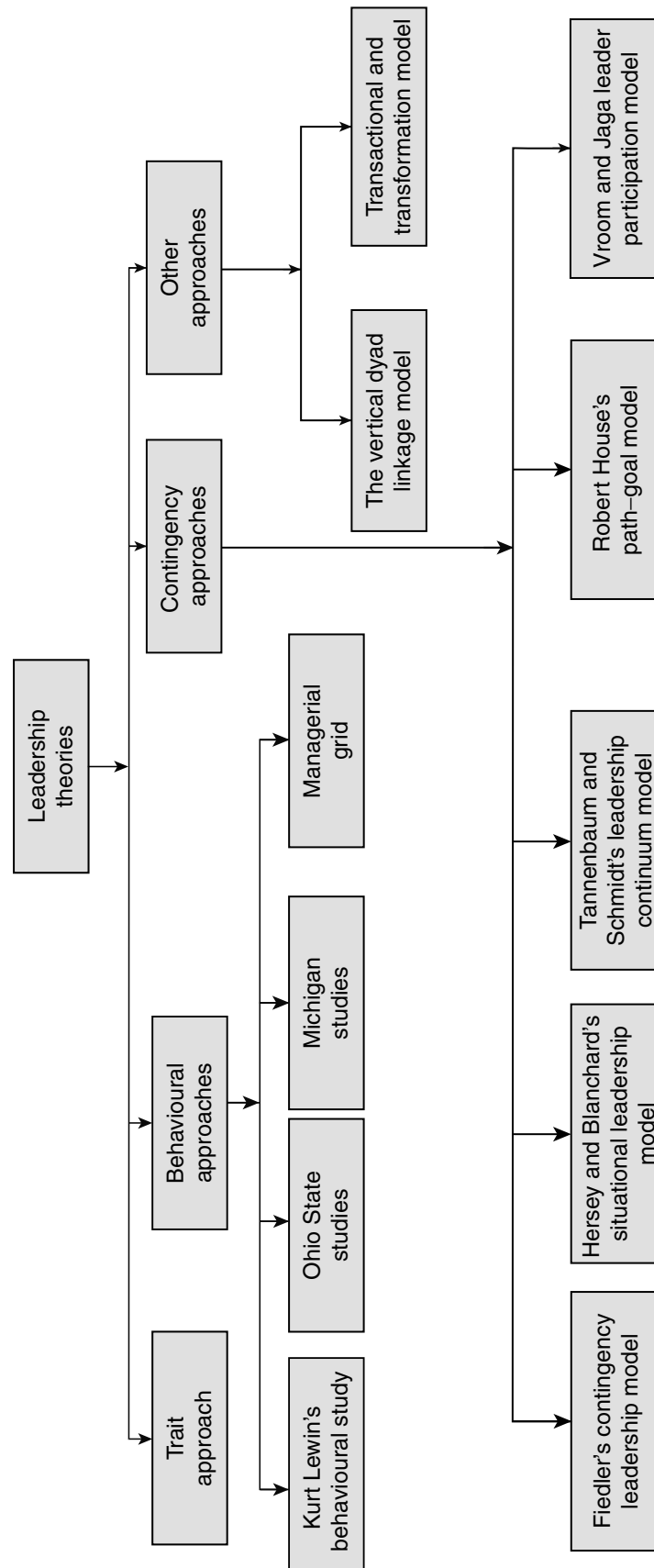
Figure 15.1

Leadership Theories

of this approach are: (i) the behaviour of effective leaders are different from that of less effective leaders and (ii) the behaviour of effective leaders will be the same or similar across all situations.[17]

While determining the behaviour of leaders, researchers generally focused on managerial aspects such as how the leaders communicate with their followers, how they do their tasks, how they delegate their tasks, and what do they do to motivate their subordinates. Behavioural approach to the study of leadership is vastly enriched by leader-behaviour studies such as the Kurt Lewin's behavioural study, Ohio State studies, the Michigan studies and the managerial grid. We shall now discuss each one of them.

Kurt Lewin's behavioural study—One of the earliest studies to identify the effect of leadership behaviour was carried out by a group of researchers led by Kurt Lewin in the 1930s. As a part of this study, different groups of children, all aged about 10 years, were exposed to three different kinds of leadership styles normally adopted by adults. These leadership styles were:

(i) **Authoritarian or autocratic leadership style**—In this case, leaders remain aloof and issue orders to the group members without consultation.

(ii) **Democratic leadership style**—In this case, leaders constantly guide the activities of the group members and encourage their active participation.

(iii) *Laissez-faire* **style**—This is also called "leave employee alone" style. In this case, leaders just provide knowledge to the group members. But they do not guide or direct the activities of the group members. Members are simply allowed to make and execute decisions without any follow-up by the leaders. They also avoid any participation in the activities of the group members.

The results of the study enabled researchers to claim that the leadership style has a direct impact on the group productivity and performance, group members' behaviour and interpersonal relationship. For instance, group members under democratic leadership style have high work morale, friendly interpersonal relationship, high level of work quality and originality and less dependence on leaders. But their productivity will not be as high as that of the group under autocratic leadership style.

Under autocratic leadership style, group members exhibit aggressive and apathetic behaviour. They are defiant and blame each other for any failures. They also continuously seek the attention of their leader. Finally, under the *laissez-faire* leadership style, group members experience low level of satisfaction and low work morale and cooperation. Productivity and quality are lowest under the *laissez-faire* leadership style. In the final analysis, democratic leadership style emerged as the most successful leadership style in the study.[18]

The Ohio State studies—In the late 1940s, researchers at Ohio State University studied the subordinates' perception of their leaders' behaviour. In this regard, they developed and administered a specific questionnaire to people in both military and industrial settings to learn about their perceptions. Initially, the Ohio Studies identified more than a thousand dimensions or forms of leadership behaviour. But then they subsequently narrowed it to just two dimensions. As shown in Figure 15.2,
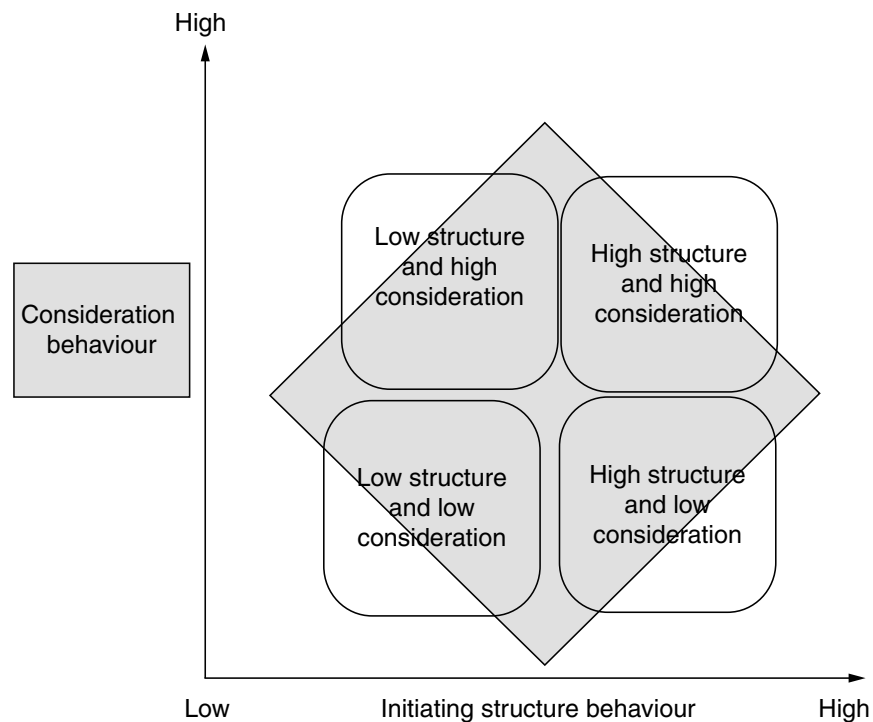
Figure 15.2

Ohio State Studies

these two dimensions are: (a) initiating structure behaviour and (b) consideration behaviour. Let's discuss them briefly.

(a) **Initiating structure behaviour**—This behaviour dimension places importance on tasks and goals. In this form of behaviour, leaders clearly define their own role as well as their group members' role in accomplishing the goals. Well-defined roles enable the subordinates to understand what is expected of them. Leaders also normally establish clear channels of communication and decide the specific methods for attaining group goals.[19]

(b) **Consideration behaviour**—In this kind, leaders' work relationship with their subordinates is characterized by mutual trust, two-way communication and respect for group members. The leaders of this method recognize that individuals have needs and require relationships. This was also called relationship behaviour. Leaders of this behaviour category generally remained friendly, approachable and also helped the group members who experienced personal problems.

The research results of the Ohio studies showed that the rates of employee turnover were lowest and employee satisfaction was highest under leaders who were high in consideration. In contrast, leaders who were high in initiating structure and low in consideration faced problems of high employee turnover and low employee satisfaction. According to this study, leaders who ranked high on both dimensions tend to influence the workforce to a higher level of satisfaction and performance. However, the weakness of this study is that it did not consider the influence of situational factors on leaders' behaviour.

The University of Michigan studies—Almost during the same period as the Ohio studies were carried out, researchers at the University of Michigan were carrying out similar studies. These studies were carried out under the direction of Renis Likert.[20] The primary purpose of these studies is to identify efficient leadership styles. They focused on two dimensions of leadership, i.e. production-centred leadership and employee-centred leadership. We shall now discuss them briefly.

- **Production-centred leaders**—These leaders focus fundamentally on the technical aspects of the job, setting rigid work standards, organizing tasks down to the last details, explaining work procedure and task accomplishment. They also firmly believe in the close supervision of their employees. Obviously, they view their employees as means and tools to accomplish the tasks. These leaders are also primarily concerned about the efficient completion of the job assignment.

- **Employee-centred leaders**—These leaders place more emphasis on developing interpersonal relations and cohesive work groups. They tend to take personal care and interest in the needs of the employees. They also encourage employees' participation in goal-setting and decision-making process. Further, they recognize the individual differences among employees with regard to performance and behaviour. The primary concern of these leaders is on the well-being of the employees and their job satisfaction.

Researchers involved in the Michigan studies found that the employee-centred leaders were able to achieve higher level of productivity than the production-centred leaders. The study also showed that the most effective leaders were actually maintaining a supportive relationship with their employees. They were inclined more towards group decision making than individual decision making. They were also in favour of allowing their employees to set their performance goals to improve their commitment and motivation.[21]

Michigan and Ohio studies have a few similarities. For instance, both studies insisted that effective leader behaviour is primarily situational, i.e. leaders' behaviour varied with the situation. Similarly, they emphasized on performance (for instance, production performance was considered in Ohio studies and goal performance in Michigan studies).

The managerial grid—The managerial grid was developed by Robert Blake and Jane Mouton.[22] During the 1960s, they re-examined the two dimensions of leaderships identified by the Ohio and Michigan studies and came up with a two almost similar leadership behaviour dimensions. These two behaviour dimensions are: (i) concern for production and (ii) concern for people. However, the managerial grid is based on the assertion that one best leadership style exists. Managerial grid helps in evaluating the existing leadership styles of the managers and trains them to adopt ideal leadership behaviour.

The two dimensions of leadership behaviour namely, "concern for production" and "concern for people," are typically measured through a questionnaire on a scale from 1 to 9. The scores for these two dimensions are plotted on a grid as shown in Figure 15.3. The horizontal axis in this grid represents concern for production whereas the vertical axis represents concern for people. Even though 81 combinations

1 Country club leader							Team or Ideal leader
2.							
3.							
4.							
5.			Middle of the road leader				
6.							
7.							
8.							
9. Impover-ished leader							Authority compliance leader or task leader
1.	2.	3.	4.	5.	6.	7.	8. 9.

Figure 15.3

The Managerial Grid

of concern for production and concern for people are possible, the managerial grid identifies five leadership styles only. These styles are: (i) impoverished at 1.1, (ii) authority compliance at 9.1, (iii) middle of the road at 5.5, (iv) country club at 1.9 and (v) team leader at 9.9. Let us now look at these leadership styles.

(i) **Impoverished leaders**—These leaders put in minimum required efforts to retain their position or job in the organization. They are usually concerned more about their own well-being and survival in the organization than about the employees under their supervision. Further, these leaders normally have low concern for production as well as for people.

(ii) **Authority compliance leaders**—The main focus of this category of leaders is to get work done through their employees. They usually tend to treat their people like machines. These leaders often exhibit autocratic behaviour while dealing with their employees. They normally have high concern for production and low concern for people. They care less for the problems of their people such as stress or conflict.

(iii) **Middle of the road leaders**—These leaders tend to balance their concern for production and concern for people. They try to get work done by the employees even while maintaining their motivation and morale at satisfactory levels. The situation factors normally decide the attitude and style of these leaders. These leaders believe that adequate organizational performance is possible through fine balancing acts. However, such balancing acts are rather difficult on a long-term basis. Moreover, it is tough to maintain an equal concern for production and for people at the same time.

(iv) **Country club leaders**—These leaders are most concerned with their employees' well-being. They make sure that the needs and aspirations of the employees are adequately met and a friendly and affable environment exists within the organization. The fundamental belief of these leaders is that by satisfying the relationship needs of the employees, a positive work tempo and pleasant work ambiance can be established. However, the major weakness of this approach is that it fails to focus on the production concerns of the organization. Understandably, this approach can also lessen the overall capacity of the employees to accomplish or exceed the organizational goals and plans.[23]

(v) **Team leaders**—These leaders are viewed as ideal leaders by Blake and Mouton. According to them, interdependence through a "common stake" in organizational goals and plans can enhance the mutual trust, confidence and respect in relationship. The primary focus of this approach is on developing a sense of purpose and sense of accomplishment in both concern for production and concern for people. Box 15.2 shows the application of managerial grid in a private-sector business organization.

The managerial grid is viewed as an effective tool to identify and develop leadership qualities among managers. Managerial grid, especially the team leader model, has enabled many organizations to determine their multiphase training as well as development programmes required to achieve specific leadership behaviour. Since there is always scope for improvement in a leader's behaviour and approach, it is difficult to attain ideal manager's position and retain it.

Box 15.2	**Nine Box Matrix for Leadership Differentiation at HUL**

Organizations adopt leadership differentiation processes to classify leaders based on their performance. In this regard, they typically use techniques like performance reviews, leadership style assessments, assessments centres, cross-project assignments, etc. to clearly differentiate individual leaders with potential to meet the future leadership requirements of organizations. For instance, the multinational giant, Siemens, USA, adopted a global performance management process to achieve more accurate differentiation among employees with the aim of identifying future leaders for organizations. The leadership differentiation process of Hindustan Unilever Limited (HUL) is a case in point.

HUL makes use of the Nine Box matrix, namely, the managerial grid technique for identifying the future leaders of the company through leadership differentiation process. In HUL, every person is plotted in appropriate groups. For instance, all general managers are plotted together. Likewise, the executives belonging to similar categories of jobs are plotted together in the nine box matrixes. The purpose behind such exercises is to identify the higher performers who have the potential to go to the next level. In HUL, an employee should have completed a minimum of three years in the company before being included in the nine box matrix for leadership differentiation. In HUL, the Nine Box matrix not only measures the performance of managers but also their efficiency as leaders.

Source: http://www.thehindubusinessline.com/features/newmanager/huls-school-for-leadership/article2465229.ece (last accessed in May 2014).

Contingency or Situational Approaches

After extensive research on the trait and behavioural aspects of leadership, several researchers have come to the view that no one trait or style (behaviour) is common or effective to all situations. They also believe that the leadership style or behaviour differs from one situation to another. They have attempted to prove that the leadership effectiveness cannot be attributed to the leader's personality alone. Consequently, they began to identify the factors in each situation that can influence the effectiveness of a specific leadership style.[24] They also attempted to develop suitable leadership styles for specific situations. However, some researchers feel that it is easier for leaders to change the situation than to change their style.[25] Research on leadership styles based on situations is categorized in contingency approach to leadership. The important contingency leadership theories are: (i) Fiedler's contingency leadership model, (ii) Hersey and Blanchard's situational leadership model, (iii) Tannenbaum and Schmidt's leadership continuum model, (iv) Robert House's path–goal model and (v) Vroom and Jaga leader participation model. We shall now discuss each of these models.

Fiedler's contingency leadership model—According to Fred E. Fiedler who developed the contingency leadership model, the leadership style of a person reflects his or her personality. Such leadership style also remains basically constant. This model states that effective group performance depends on correctly matching the leader's style and quantum of influence in the situation.[26] Simply put, effectiveness of a group depends on the suitable match between the leader's style and the demands of the situation. In this regard, Fiedler has advocated a two-step process. They are: (i) listing of the leadership styles that would be most effective for different situation and also the possible types of situations and (ii) identifying suitable combinations of leadership styles and situations.

The primary focus of this model is on determining whether a leadership style is task-oriented or relationship-oriented and also whether the situation suits the leadership style. To determine the nature of leadership style (whether it is task-oriented or relationship-oriented), Fiedler developed The Least-Preferred Co-worker (LPC) questionnaire and administered it to a group of employees. Least-preferred co-worker is a co-employee with whom a person (say, a colleague or superior) could work least well. The responses to LPC questionnaire were measured and averaged. Leaders who described their least-preferred co-worker in relatively mild and favourable manner would have high LPC scoring. This would indicate that these leaders have human relations orientation and adopt relationship-oriented style.

In contrast, leaders who described their least-preferred co-worker in an unfavourable manner would have low scores. This would indicate that these leaders adopt task-oriented leadership style. Through his model, Fiedler advocates that matching leader style to the situation can yield big dividends for the organization in the form of profit and efficiency. However, this model was criticized on the ground that it is tough for the leaders to change their style when the situational characteristics change.[27]

Hersey and Blanchard's situational leadership model—The focus of this leadership model is on understanding the characteristics of the followers while

deciding the appropriate leadership behaviour. In simple words, leaders adjust their style based on follower readiness to do the task in a given situation. Here, follower readiness refers to the ability, willingness or confidence levels of the followers to perform the specified tasks. According to this situational model, successful leadership practices are the outcome of interactions among three important dimensions. They are: (i) the quantum of guidance and direction provided by a leader, (ii) the amount of social and emotional leadership provided by a leader and (iii) task readiness of the followers. Based on the extent of guidance and direction required by the followers, a leader may respond to the situation on hand in any one of the following ways.[28]

1. **Delegating**—This is a low task and low relationship style. The leader allows the group members to take responsibility for any task decisions. This style can be suitable when the followers have the capability, willingness, commitment and confidence to do the tasks entrusted. In this style, the task responsibility and control is with the leader, especially regarding when and how the leader should be involved. This style can work well when the followers' readiness is high.

2. **Participating**—This is a low task and high relationship style. Here, the leader focuses primarily on frank and open discussions with the employees and collective decisions on task planning and accomplishment. This style is preferred when the leaders have the ability, but not the willingness and confidence to successfully complete the tasks. This style is best when the followers' readiness is low to moderate.

3. **Selling**—This is a high task and high relationship style. This style is tried out when the followers lack adequate capability, but keep high commitment and willingness to do the task entrusted. Here, the leader just explains the task direction in an encouraging and persuasive manner. This style is most suitable when the followers' readiness is moderate to high.

4. **Telling or coaching**—This is a high task and low relationship style. Here, the leader defines the followers' role, provides clear direction and also training, if necessary. They also extend personal, social and emotional support to them. Leaders tend to adopt this style when their followers are short on ability, willingness and confidence. This style can be appropriate when followers' readiness is low.

According to this model, leaders should change their leadership styles as their followers change over time. This model also believes that when appropriate styles are adopted by the leaders, especially when the followers are in low-readiness situation, then these followers will grow in maturity and readiness over a period of time. However, adequate research has not been carried out on this model even though it remains intuitively appealing.[29]

Tannenbaum and Schmidt's leadership continuum model—This model covers a range of leadership behaviours. According to this model, leadership behaviour or style could exist on a continuum (range) from boss-centred to subordinate-centred leadership. At one end of the continuum, a leader may take complete control of the situation by unilaterally making decisions and then just informing

the subordinates (boss-centred leadership). At the other end of the continuum, the leader and subordinates collectively and collaboratively make decisions in a participative manner after clearly understanding the organizational constraints. Within these two extremes of behaviours, a leader may also exercise a variety of leadership pattern to include or exclude subordinates in the decision-making process.

The variety of leadership behaviour are: (i) leader sells the decision, (ii) leader presents the ideas and calls for questions, (iii) leader makes tentative or provisional decision and invites discussion for improvement or modification and (iv) leader just explains the situation and the problems. He/She then seeks suggestions and arrives at decisions (v) leader defines the parameters and limits and lets the subordinates make all the decisions and (vi) leader just defines the limits and permits the subordinates make the decision after identifying the problems and developing the options.[30]

A leader's selection of a specific leadership pattern in a continuum is typically based on the nature and intensity of three forces. These forces are:

(a) **Leader forces**—Typically, these forces emerge as a result of a leader's own personality and preferred behavioural style. A leader's experience, expertise, values, knowledge, feeling of security and the degree of trust in the subordinates' ability, influence their selection of specific leadership styles. Personality and behaviour are the major forces that drive the leaders to become autocratic or participative in their leadership style.

(b) **Subordinate forces**—These forces emerge as a consequence of the personality, behaviour and expectations of the subordinates towards their leader. These forces typically influence the followers' preferred style for the leader. These forces influence the decisions of the leaders regarding the leadership styles. For instance, a highly participative leadership style can be tried by a leader when his followers are able, willing and motivated.

(c) **Situational forces**—These forces arise out of environmental variables like the organization, task, work group, etc. Specifically, the size, structure and climate of the organization, technology and goals, influence the selection of a specific leadership style by a leader. Further, the attitude of the superiors can also influence leadership style decisions of a leader. For instance, a low-level manager may prefer to follow the leadership style of their high-level managers.[31]

This model is viewed as another form of contingency approach to leadership as it also insists that the success of leadership depends on the match between the leader's preferred style, subordinates' expectation and behaviour and situational necessities. In any case, this model helps people to explore a range of possible leadership styles available.[32] But this model is criticized for not considering the social aspects, while deciding the leadership styles. It has also failed to unambiguously attribute different behavioural effects to different leadership styles.[33]

Robert House's path–goal model—The primary aim of the path–goal model is to find the right fit between leadership and situation. Through this theory, Robert House tries to explain how a leader's behaviour influences the satisfaction and performance of the subordinates. This theory suggests that leaders are effective only

when they enable their subordinates to accomplish their tasks. In this regard, a leader is supposed to adopt a suitable leadership behaviour, irrespective of their preferred traits and behaviour. The path–goal model recommends four distinct types of leader behaviours and suggests that the leaders can move back and forth from one type to another depending upon the subordinates and the environment. Research on the path–goal model suggests that a leader can try all these four styles under different circumstances.[34] Let us now briefly discuss each of these four leadership behaviour.

(i) **Directive leadership**—In this style, leaders let the subordinates know what is expected of them. They also tend to provide precise guidance about what is to be done and how it should be done. They schedule the work to be done. They establish and communicate clear and definite performance standards to the subordinates. Then, they coordinate the activities of the subordinates. Importantly, they explain the role of the leaders to the group members in an unambiguous manner. When task objectives and assignments are unclear, then directive leadership can help in clarifying such task objectives and the likely rewards.[35]

(ii) **Supportive leadership**—In this style, leaders adopt friendly and caring approach to the needs, status and well-being of the subordinates. These leaders make every effort to make the work environment pleasant and enjoyable. They also treat their subordinates as equals and treat them with due dignity. Supportive leadership can boost the confidence of subordinates by emphasizing individual abilities and providing customized assistance, especially when the subordinate's confidence and self-belief is low.

(iii) **Participative leadership**—In this style, subordinates are consulted by the leaders on work-related matters. Subordinates' opinion, views, suggestions and ideas are given due consideration by the leaders when they make decisions. Participative leadership will be effective to clarify individual needs and identify suitable rewards, especially when performance incentives are inadequate.

(iv) **Achievement-oriented leadership**—In this style, leaders adopt a task-oriented approach by setting challenging goals for their subordinates. These leaders normally display high confidence in the skill and ability of their subordinates in performing challenging tasks. They seek their subordinates to achieve excellence in performance. When the job does not have adequate task challenges, then achievement-oriented leadership can help in setting challenging goals and improving the performance aspiration of subordinates.

According to this model, it is possible for the leaders to alter their style or behaviour to suit the requirements of the situation. Generally, two situational factors influence the relationship between a leader behaviour and subordinate outcome. They are shown in Figure 15.4.

(a) **Subordinates' characteristics**—A leader's behaviour will be acceptable to the subordinates only to the extent that such behaviour acts as an immediate or future source of satisfaction to them. Subordinates' characteristics, such as their ability, locus of control (degree to which a subordinate views the environment as systematically responding to his behaviour),[36] needs and motives can influence a leader's behaviour.
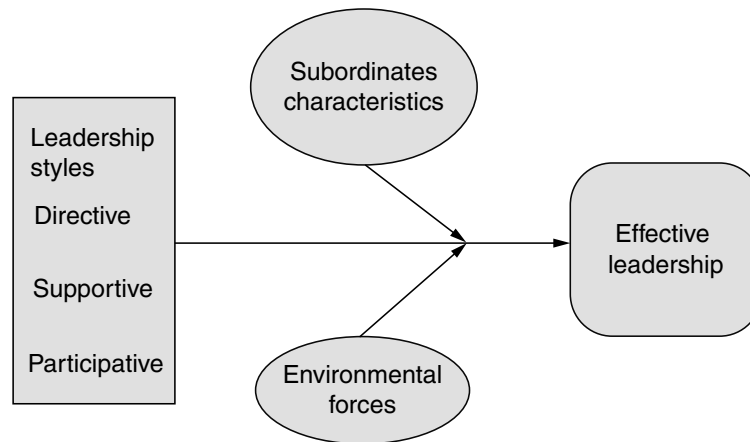
Figure 15.4

Path–Goal Model

(b) **Environmental forces**—A leader's behaviour can be motivational to the subordinates only to the extent that such behaviour makes their satisfaction dependent on their effective performance and other aspects of the work environment, including guidance, support and reward. Environment forces include the subordinates' tasks, the primary work group and the formal authority system. [37]

Though the path–goal model is seen as improvement over the trait and behaviour models, the validity of the path–goal theory has not yet been determined.[38] Occasional attempts to substantiate this model have achieved only mixed results.[39]

Vroom and Jaga leader participation model—According to this model, leaders are most effective only when the leadership style used by them best suits the problem being faced. This theory states that the degree of subordinates' involvement in the decision-making process is a major variable in leader behaviour.[40] This theory suggests that the leader's choice for making decisions typically falls under three categories. They are:

(i) **Authority decision**—In this case, the decisions are made by the leaders and then communicated to the subordinates. Obviously the views and opinions of the subordinates or others may be obtained by the leaders without disclosing the problems.

(ii) **Consultative decision**—In this case, the leaders obtain the views, advice and opinion of the subordinates while making decisions. Understandably, the decisions are made by the leaders and not by the subordinates. Consultative decision can be further classified into individual consultation and group consultation. In individual consultation, the leader discusses the problems with the subordinates individually while making decisions. In group consultation, the leader holds a group meeting for ascertaining the views of the members and making decisions.

(iii) **Group decision**—In this case, the decisions are made by the subordinates themselves. The leaders may choose to adopt any one of the two styles. For instance, the leader may act as a facilitator by conducting the meeting, defining the problems

and mentioning the limits within which the decisions are to be made. Leaders will not force their views or opinions on their subordinates and will encourage the subordinates to actively participate in the meeting and contribute to the decision-making process. In another form, leaders just let the group do everything, including problem diagnosis, alternatives (choice) development and decision making but within the limits prescribed by the leaders. Here, the leaders confine themselves to clarifying the subordinates' queries and encouraging their participation.

A leader's selection of a specific decision style is generally influenced by three vital factors. They are:

(i) **Decision quality**—This depends on the quality of source information or input, strength of the decision-making process and expertise of the decision maker.

(ii) **Decision acceptance**—This refers to the importance of subordinates' acceptance (of decisions) to the eventual success in the implementation of the decision.

(iii) **Decision time**—This refers to the sufficiency of time available for making and implementing decisions.

The factors governing the decision style of the leaders can be classified into seven categories as follows: (i) decision significance, (ii) importance of commitment, (iii) leader expertise, (iv) likelihood of commitment, (v) group support for objectives, (vi) group expertise and (vii) team competence.[41] Since each decision-making style has its advantages and disadvantages, it is imperative for the leaders to shift from one style to another depending upon the developments in the environment. This model enables managers to decide when they should make decisions and when they should let their subordinates make decisions.

Other Approaches to Leadership

In addition to the major approaches to leadership discussed, a few other approaches have also been developed. They are: (i) vertical dyad linkage model and (ii) transactional and transformation model. We shall now discuss these models briefly.

The vertical dyad linkage model—Dansereau and others developed this model based on the assumption that the leaders behave differently with different subordinates.[42] The term "vertical dyad" in the model refers to the individual relationship that exists between the leader and the subordinate. In other words, this theory states that the leaders tend to develop some special kind of relationship with a few members. Understandably, leaders develop an "in-group" and "out-group" for themselves. The in-group members are more trusted and preferentially treated by the leaders. Since these members are viewed as best performers by the leaders, they get special assignments and privileges and enjoy better access to information. These members usually enjoy high exchange relationship with their leaders. In contrast, members of out-group are generally ignored and get fewer benefits. These members normally have low exchange relationship with their leaders.[43]

This theory has been found to be more useful in describing the relationship between the leaders and their subordinates.

Transactional and transformation model—This leadership model was first developed by James M. Burns and refined by Bernard Bass.[44] According to this model, two different types of management activities are performed by leaders and each activity demands different types of skills on the part of the leaders. These two management activities are: (i) transactional leadership and (ii) transformational leadership. Let us now discuss them briefly.

(i) **Transactional leadership**—This kind of leadership is viewed as a traditional form of leadership. In this leadership kind, the leader–subordinate exchange primarily focuses on the accomplishment of pre-determined performance goals. Transactional leadership involves routing activities like allocation of tasks, making routine decisions, supervising subordinates' performance and so on. In this kind of leadership, the exchange between the leader and the subordinates has four dimensions. They are: (i) contingent rewards including wage contracts, incentive for good performance and other recognitions, (ii) management by exception (active)—looking for performance deviations and rules violations and initiating corrective actions, (iii) management by exception (passive)—interventions only in the case of apparent performance failures and (iv) *laissez-faire*, avoiding decision and abdicating responsibility.[45]

(ii) **Transformational leadership**—This kind of leadership requires the leaders to possess skills necessary for recognizing the need for change and introducing suitable course of action to achieve it. This leadership expects the leaders to influence the needs, values and beliefs of the subordinates in the desired manner. This model suggests three important ways to bring about changes in the values and beliefs of the subordinates. They are: (i) enhancing the subordinates' awareness on the significance of their task and its accomplishment, (ii) letting subordinates be aware of the importance of achieving personal growth and development and (iii) motivating subordinates to give more importance to the organizational interest over that of their own personal interest.

The leader–subordinate exchange in transformational leadership has four dimensions. They are: (i) idealized influence—leaders behaving in a way that gets them admiration, respect and trust of the followers, (ii) inspirational motivation—leader's behaviour builds enthusiasm and commitment among the subordinates, (iii) intellectual stimulation—leader's behaviour challenges the subordinates to be creative and innovative and (iv) individualized consideration—leader's behaviour enables the subordinates to reach their full potential.

According to Bass, transactional leaders are typically a hindrance to changes while transformational leaders are capable of achieving superior performance even in uncertain circumstances.[46]

Leadership and Organizational Life Cycle

In its evolution process, each organization goes through different stages and forms before it becomes matured. Each growth phase of an organization may require the managers to adopt different leadership styles. According to Clark, an organization typically goes through five phases and each phase requires the adoption of different leadership styles by the managers.[47]

In the first phase, for instance, the leaders are required to be highly individualistic, and innovative with high entrepreneurial spirit. This is primarily because this phase is often viewed as creativity phase as organizations mostly achieve growth through creativity.

In the second phase called the direction phase, leaders are expected to provide strong direction to the organizational members. Authority at this stage is largely centralized and members look to their leaders for direction and frequent guidance. At this stage, effective direction contributes to further growth of the organization.

In the third phase called delegation phase, leaders need to optimally delegate power to their subordinates so that the latter have adequate autonomy to perform their job efficiently. When the organization becomes large in size, delegation helps in faster decision making and better accountability at different levels. At this phase, effective delegation is largely responsible for the growth of the organization

In the fourth phase, organizations should seek to grow further through proper coordination. Understandably, this phase can be called coordination phase and the role of leaders is that of a "watch dog" as they assume the role of protector or guardian.

In the fifth phase, the participative approach of leadership facilitates the growth of the organization. In other words, organizations seek to grow through elaboration at this stage. Leaders should enhance their interpersonal skills and adopt team-oriented approach to achieve further organizational growth. Leaders should have to be more imaginative and ingenious in their approach.

In their further research on leadership style, Clarke and Bratt have identified four different leadership roles to be performed by managers during different phases of the organizational life cycle. These roles are: (i) the champion, who is the defender of a new business as it is fraught with numerous dangers, (ii) the tank commander, who carries the business forward to the next stages, (iii) the housekeeper, who keeps the business stable and balanced after it reaches the maturity stage and (iv) the lemon squeezer, who extracts the maximum out of the business after it shows sign of decline.

Recent Trends in Leadership Approaches

Even though many forms of leaderships are in existence, a few forms have recently gained importance due to their utility value to the managers in the present context. These leadership forms are: (i) ethical leadership, (ii) strategic leadership and (iii) cross-cultural leadership. We shall now discuss each of them.

Ethical Leadership

Ethics refers to the ethical principles that determine the behaviour of an individual or a group. The term ethics is an abstract concept and can be measured only through principles and practices adopted by the leaders in dealing with their subordinates. Of late, there is growing interest among management on ethical leadership. Organizations have begun to introduce high ethical standards for their managers to prevent any possible ethical misconduct and the consequent loss of organizational goodwill. Managers normally identify certain behaviour and motives like honesty, trustworthy, fairness and altruistic as representing ethical leadership. Value-based management, which means behaviour based on ethical principles and values, is a good formula for the long-term

health and success of every organization. In fact, the practising of ethical values in management is an essential prerequisite for both individual success and organizational efficiency. However, when individuals practise ethical values within an organization, it does not mean that the entire organization is ethical. Only when the entire organization practices fairness and justice in a systematic way can it be called an ethical organization. The foundation of ethical organizations is mutual trust and respect.

A violation of ethical principles in decision making by an organization or its leaders can have a deep impact on its members' life and character. A written statement of the policies and principles that guide the behaviour of all the persons is called the code of ethics. But the fact is that no amount of written rules can achieve ethical behaviour among the employees unless the organizational leaders conduct themselves in a fair, moral and legal manner. Ethical leadership is essential for creating an ethical workforce. The employees of an organization view their leaders as role models to determine their own behaviour. Indeed, those organizations where employees reported fair treatment by management showed proportionately less unethical behaviour.

Today, the survival and success of organizations in a globalized market depend more on the ethical standards adopted by them. In ethical organizations, people can trust one another to back up their words with action. These organizations often have contented employees and are usually identified by their high productivity and effectiveness compared to that of their competitors. We shall discuss the different types of ethics.

Types of ethics— Ethics can broadly be classified into three types, namely, descriptive ethics, normative ethics and interpersonal ethics.

- **Descriptive ethics**—It is mostly concerned with the justice and fairness of the process. It involves an empirical inquiry into the actual rules or standards of a particular group. It can also mean the understanding of the ethical reasoning process.[48] For instance, a study on the ethical standards of business leaders in India can be an example of descriptive ethics.

- **Normative ethics**—It is primarily concerned with the fairness of the end result of any decision-making process. It is concerned largely with the possibility of justification. It shows whether something is good or bad, right or wrong. Normative ethics cares about what one really ought to do and it is determined by reasoning and moral argument.[49]

- **Interpersonal ethics**—It is mainly concerned with the fairness of interpersonal relationship between the leaders and their followers. It refers to the style of the managers in carrying out their day-to-day interactions with their subordinates. The manager may treat the employees either with honour and dignity or with disdain and disrespect.

Approaches to ethical issues in organizations—Though many leaders are interested in acting in an ethical manner, they often face dilemma in determining what constitutes ethical actions. For instance, organizational politics is viewed as an unethical act by many organizations, yet it is widespread in our country. Indeed, the difficulty surrounding ethics makes it hard to distinguish right from wrong.[50] However, leaders can ensure that their policy satisfies as many persons as possible

in the organization. Similarly, they should provide for the recognition of the rights of an individual while determining the ethical proportion of organizational polices. Velasquez et al.[51] have provided a proposition for determining whether a particular policy or action is ethical or not.

- **Utilitarian approach**—In this approach, the managerial policy is based on the philosophy of utmost good for the greatest number of people. It evaluates the ethical quality of policies and practices in terms of their effects on the general well-being. For instance, decisions like lay-offs in a difficult situation for the organization are justified on the grounds that they benefit a majority of the employees.

- **Approach based on rights**—This approach is based on the principle that an organization should respect an individual's dignity and rights. Each employee is entitled to be treated with due respect and be provided with safe working conditions, a reasonable and equitable pay system, and relevant and unbiased performance evaluation. An individual's privacy and integrity should also be respected by the organization.

- **Approach based on justice**—The focus of this approach is on equal treatment, adoption of due procedure and consistency in application of policies and rules. The focal point of this approach is on fairness in ensuring a balance between the benefits and the burdens of the job, such as compensation and performance, compensation and job attendance, etc.

International business ethics—As a result of globalization, there has been a tremendous increase in the number of companies conducting business across national boundaries. Indeed, intense competition forces companies of different natures and sizes to enter global markets, in some cases with absolutely no knowledge on the diversity of business standards and practices in the host country (country of operation). Business leaders now have to learn how to adapt to diverse national cultures and socio–economic conditions, and new and diverse ways of communicating with and managing people.[52]

Guidelines for international business organizations on ethical issues—When the existing ethical standards of multinational companies are inadequate, these companies can adopt any one of the following guidelines to develop ethical standards for evaluating the decisions of their organizational members operating at global levels.

- **Human rights obligation**—This guideline is based on the fundamental human rights. The proponent of this guideline, Thomas Donaldson,[53] advocates that organizations and their leaders have an obligation to recognize and respect certain rights as fundamental international rights. These rights are: the right to freedom of physical movement; the right to ownership of property; the right to freedom from torture; the right to a fair trial; the right to non-discriminatory treatment; the right to physical security; the right to freedom of speech and association; the right to minimal participation; the right to political participation; and the right to subsistence. Donaldson declares that each company is

morally bound to discharge these fundamental rights, and any persistent failure to observe them would deprive the company of its moral right to exist.

- **Welfare obligation**—Based on moral considerations, Richard T. De George[54] proposes a few guidelines for international organizations and their leaders with the twin aims of preventing damage and providing benefits to the host countries. These guidelines are:

  - Multinational companies should desist from committing any intentional direct harm to the host countries.

  - They should ensure that they create more good than harm for the host country as a result of their operations.

  - They are morally bound to contribute to the growth and progress of the host country by their activities.

  - They must see to it that their activities are, as far as possible, in compliance with the local practices and culture. They should also strive hard to respect the human rights of their employees in the host countries.

  - They have a moral and legal responsibility to pay a fair share of taxes to the governments of these nations.

  - They should work together with the local government in developing and maintaining institutions with a just and fair background.

- **Justice obligation**—It deals with the fairness of the activities of a multinational company in the host country. Leaders of multinationals have an obligation to help in the development of the host country, in addition to their business activity. Their organizations should be not only efficient but also responsible business houses. Foreign companies often attempt to avoid the payment of proper taxes by resorting to transfer pricing, which refers to the values assigned to raw materials and unfinished products that one subsidiary of the multinational company sells to another subsidiary in another country. Since pricing is done as an internal mechanism independent of market forces, companies tend to manipulate it to show profits in counties where taxes are low. Such manipulative practices must be avoided.

Strategic Leadership

Leadership literature earlier focused on the leadership roles performed by the supervisory- and middle-level managers. Of late, the focus has shifted to the strategic leadership roles performed by the top managerial executives and teams. Strategic leadership can be defined as "the complexities of both the organization and its environment and to lead change in the organization in order to achieve and maintain superior alignment between the organization and its environment."[55] Since strategic leadership clearly relates to the role of top management, managers who are a part of this leadership actually influence the overall effectiveness of large organizations.

To effectively discharge the strategic leadership functions, managers need to have a clear, complete and critical understanding of their organization. They should be familiar with the vision, mission, ethos, history, strengths and weaknesses of their organization. Strategic leaders must also be aware of the organization's internal and external environment. They should also know the nature and kind of alignment existing between the organization and its environment. While making strategic decisions as a part of the strategic leadership, managers can adhere to certain guidelines like: (i) careful consideration of the long-term and short-term goals, objectives and priorities of the organization, (ii) evaluating the existing strengths and weaknesses, (iii) keeping the core competencies in focus, (iv) assessing the need for major changes in the strategies, (v) identifying the prospective strategies, (vi) assessing the possible outcomes of a strategy and (vii) choosing the appropriate strategy after wider consultation with other strategies.

Cross-cultural Leadership

Cultural values tend to influence and shape the perceptions, cognitions and preferences of organizational members and teams.[56] Consequently, there will be wide differences in the behavioural norms of the members across cultures. It thus becomes essential for managers to adopt cross-cultural leadership (or shared leadership) and such leadership is widely prevalent in organizations with diverse cultural settings. The advancements in communication technology and transportation have vastly increased the cross-cultural interactions within organizations. The need for the development of cross-cultural leadership has arisen due to rapid social transformation, an enhanced access to education and increased labour mobility and the changing workforce profile of country. For instance, the proportion of women, religious minorities, physically challenged and socially backward people in the workforce has increased dramatically. This is a direct challenge for managers as they have to deal with culturally and racially diverse work groups. Thus, there is growing need among organizations to develop cross-cultural leadership among their managers. Many firms are now compelled to initiate new gender-specific and target-based policies to serve the interests of different sections of the employees.

The primary challenge of cultural leadership for managers is to motivate the organizational members of culturally different groups towards the accomplishment of valued goals by understanding and appealing to the shared knowledge of the culturally diverse groups.[57]

Leadership Succession Planning

A change in executive leadership at some point of time is unavoidable for an organization. It is also a critical and tough exercise for an organization to find the right replacement for those in the top levels of the management at the right time. An effective succession plan can facilitate the organization in being prepared for planned or unplanned absence of its top managers and also in guaranteeing stability in its business operations. The purpose of a management or leadership succession plan is to ensure that, to the extent possible, the firm has a sufficient number of competent managers to meet the future business needs. Succession planning is actually a process through which an organization plans for and appoints top-level executives. It usually